

**Sports & Exhibition Authority of
Pittsburgh and Allegheny County**

Financial Statements and
Required Supplementary Information

For the Years Ended December 31, 2012 and 2011
with Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

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SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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Independent Auditor's Report

Board of Directors
Sports & Exhibition Authority of Pittsburgh
and Allegheny County

We have audited the accompanying financial statements of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), which comprise the statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2012 and 2011, and the changes in its net 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Maier Duessel

Pittsburgh, Pennsylvania
May 9, 2013

**SPORTS & EXHIBITION AUTHORITY OF
PITTSBURGH AND ALLEGHENY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2012

As management of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority as of and for the fiscal years ended December 31, 2012 and 2011. This Management's Discussion and Analysis is designed to assist the reader in focusing on the significant financial issues and activities. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets of the Authority exceeded its liabilities on December 31, 2012 by \$431 million (net position). This represents a \$25 million decrease (5.5%) compared to prior year-end net position. Net position as of December 31, 2012 is less than December 31, 2011 due to the continued depreciation on the Authority's capital assets and payment on bonds and loans outstanding.
- The Authority's total cash and cash equivalents balance at the close of the 2012 fiscal year was \$72 million, representing a \$2.45 million increase over the prior year-end. Increased cash is a result of the refinancing of the Hotel Room Excise Tax Revenue Bonds, Series of 2012, and decreased cash paid for operating expenses.
- The Authority recognized \$21.6 million in restricted and unrestricted operating revenues for the calendar year 2012, the same as 2011. While the Pirates' surcharge was \$440,000 greater than 2011, the Steelers' surcharge was down \$400,000 because there were no playoff home games. Convention Center operations revenue from rentals, event services, and ancillary services was \$8.2 million, \$245,000 or 3% behind 2011 revenues, while operating expenses increased \$252,000 or 2%. There were seven more

Management's Discussion and Analysis

events in 2012 than there were in 2011; however, the mix of events was different, requiring less in ancillary services, e.g., food and beverage, internet, etc. The David L. Lawrence Convention Center, as is the case with the vast majority of convention centers in the country, operates at a planned loss. The 2012 operating shortfall was \$2.1 million or \$517,000 more than the 2011. The shortfall is covered by payments from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund and Allegheny County's Hotel Tax revenue. Significant to the Convention Center in 2012, the US Green Building Council awarded the building a Platinum LEED-EBOM certification (Leadership in Energy and Environmental Design for Existing Building: Operations & Maintenance), making it the first convention center to achieve this LEED rating.

- As shown on the statements of revenues, expenses, and changes in net position, total Authority operating revenues (\$21.6 million), net of operating expenses (\$63.4 million), resulted in a \$41.9 million operating loss; this result, however, includes depreciation and amortization expenses of \$50.1 million.

Overview of the Financial Statements

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial report, which is comprised of a single enterprise fund.

To understand the operations and financial statements depicted, it is important to understand the primary role of the Authority. As a joint authority for the City of Pittsburgh and Allegheny County, the Authority's mission is to provide venues for sporting, entertainment, educational, cultural, civic, and social events for the benefit of the general public. The Authority began by constructing the Civic Arena in 1958 and the original convention center in 1979. In 1998, the Regional Destination Financing Plan (the Plan) was developed to construct a football stadium and baseball park, the expanded convention center, parking facilities, riverfront park development, as well as the infrastructure improvements associated with these projects. The Authority was responsible for the

complete implementation of the Plan. The combined cost of the Plan exceeded \$1 billion with monies coming from revenue bonds, state appropriations, federal funds, corporate and philanthropic funds, and sports team contributions. In 2011, the Authority completed construction of Consol Energy Center, which replaced the Civic Arena as the home of Pittsburgh's hockey franchise. The Authority began demolition of the Civic Arena in September 2011 in preparation for the Lower Hill Redevelopment project. Demolition was completed in September 2012.

The Authority now owns PNC Park, Heinz Field, the David L. Lawrence Convention Center (and connecting garage), Consol Energy Center and garage, North Shore Garage, North Shore Riverfront Park, the Benedum Center, and the Heinz History Center. The Authority leases PNC Park and Heinz Field to Pittsburgh Associates (holder of the Pittsburgh Pirates Major League Baseball Franchise) and PSSI Stadium Corp. (a related entity to the holder of the Pittsburgh Steelers National Football League Franchise), respectively, both of which operate the facilities through 2030. The Authority leases Consol Energy Center, a related entity of the Lemieux Group LP, which operates that facility through June 30, 2040. The Authority oversees management of the Convention Center including the Convention Center Garage, North Shore Garage, and North Shore Riverfront Park. The Authority's ownership of the Benedum Center and the Heinz History Center is for financing purposes only; the Authority has no significant operating or management responsibility with respect to those facilities. As of December 2012, normal close-out issues remain on the Consol Energy Center project.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statements of net position present information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued receivables).

The statements of cash flows report cash and cash equivalent activities for the year resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the calendar year.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to analyze the changing financial position of the Authority as a whole. In the case of the Authority, assets exceed liabilities by \$431 million as of December 31, 2012, a \$25 million decrease from the prior year. This is a result of several factors. The Authority issued the Hotel Room Excise Tax Revenue Bonds, Series of 2012. Proceeds from this refinancing were used to refund all of the outstanding Hotel Room Excise

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Management's Discussion and Analysis

Tax Revenue Bonds, Series of 1999 and reimburse the Authority for a portion of the purchase price of the Convention Center chiller plant. The Authority also reduced total bonds and loans payable by \$15 million. Capital Assets before depreciation/amortization increased \$7.3 million due to the completion of various construction and improvement projects for all major facilities.

Unrestricted net position reports the amount of discretionary assets that an organization has to meet its obligations. The net position summary below shows that the unrestricted portion of net position is positive by \$604,000. This is the result of several factors including reimbursement of restricted grant money previously fronted from operations, the move in 2012 of the Authority's office to the Convention Center eliminating office rent and other related administrative costs, and one time revenue received for contractual obligations. Additional information can be found in the "Economic Factors" section of the Management's Discussion and Analysis.

Condensed Summary of Net Position at December 31 (in thousands)

	<u>2012</u>	<u>2011</u>
Current assets	\$ 66,965	\$ 65,437
Capital assets	1,094,732	1,137,453
Other assets	<u>24,077</u>	<u>24,371</u>
Total assets	<u>\$ 1,185,774</u>	<u>\$ 1,227,261</u>
Accumulated decrease in fair value of hedging derivatives	<u>\$ 81,991</u>	<u>\$ 81,850</u>
Current liabilities	31,136	30,232
Bonds outstanding (net of current portion)	668,778	684,880
Other long-term liabilities	<u>136,900</u>	<u>138,083</u>
Total liabilities	<u>\$ 836,814</u>	<u>\$ 853,195</u>
Net position:		
Net capital investment	\$ 386,454	\$ 413,059
Restricted	43,892	42,824
Unrestricted	<u>604</u>	<u>33</u>
Total net position	<u><u>\$ 430,950</u></u>	<u><u>\$ 455,916</u></u>

By far, the largest portion of the Authority's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), net of related debt (\$386 million). This category comprises 90% of the total net position. Total net position also includes a restricted net position of \$43.9 million. During 2012, decreases in the Authority's net capital investment were mainly a result of paying debt service on the various bonds and loans and depreciation and amortization of fixed assets exceeding new construction activities. The Authority uses its capital assets primarily to provide public venues for baseball (PNC Park), football (Heinz Field), hockey and other arena events (Consol Energy Center), and for convention center events (David L. Lawrence Convention Center). Other major capital assets are two parking garages, and the North Shore

Riverfront Park. Consequently, these assets are not available for future spending. Almost 100% of the over \$1 billion in capital assets are capitalized and in-service.

Current assets include cash, investments, and receivables for event rentals, parking fees, surcharges, and contributions. Current assets are \$1.5 million greater than 2011 due to issuance of the Hotel Room Excise Tax Revenue Bonds, Series of 2012, receipt of various restricted revenues from the Pittsburgh Penguins, and grant receipts for design of the Lower Hill Redevelopment. Noncurrent assets include restricted cash and cash equivalents, and capital assets, and were \$43 million less in 2012 due mostly to depreciation of capital assets. Construction projects completed in 2012 include the construction of the green roof, natural ventilation system repairs, and upgrading of the water feature lighting at the Convention Center and demolition of the former Civic Arena as part of the Lower Hill Redevelopment.

The largest component of the Authority's liabilities is bonds payable, which are secured by pledged revenues as described below in debt administration. The current portion of bonds payable increased in accordance with bond payment schedules by \$1.85 million due to debt service requirements. Other long-term liabilities decreased by \$17.5 million due to debt service payments on bonds and loans.

Condensed Summary of Revenues, Expenses, and Changes in Net Position at December 31 (in thousands)

	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 21,577	\$ 21,620
Operating expenses:		
Operations and maintenance	11,638	11,920
General and administrative	1,169	1,203
Depreciation and amortization	50,566	50,328
Other expenses	78	50
Total operating expenses	<u>63,451</u>	<u>63,501</u>
Operating income (loss)	<u>(41,874)</u>	<u>(41,881)</u>
Nonoperating revenues (expenses):		
Allegheny Regional Asset District and City, County, State	26,599	25,956
Hotel rooms tax	15,513	14,680
Stadium Authority parking subsidy	864	844
Pittsburgh Casino operator	7,608	7,602
Pittsburgh Penguins	6	271
Federal grants	-	1,188
Foundation and other grants	146	866
Project administrative and development income (net of expense)	(133)	(11)
Interest expense (net of interest income)	(34,043)	(34,630)
Unrealized gain/loss on investments	-	(2)
Miscellaneous	349	268
Total nonoperating revenues (expenses)	<u>16,909</u>	<u>17,032</u>
Increase (Decrease) in net assets	<u>\$ (24,965)</u>	<u>\$ (24,849)</u>

The Authority's operating revenues are derived from ticket surcharge, team rent, parking revenues, and Convention Center income from building rental, event services, catering and concession charges, and ancillary fees such as booth cleaning, security, audio visual, and electrical usage. The Authority's unrestricted operating revenues support the administrative costs of the Authority and the operation of the Convention Center. The

restricted operating revenues related to charges/fees imposed by the Authority are pledged for debt repayment or capital maintenance reserves. Non-operating revenues are primarily composed of state and local related grants for the operations of the Convention Center, and payment of debt and costs related to capital projects. The majority of the restricted grants in 2012 were comprised of (1) \$15.5 million from Allegheny County Hotel Rooms Tax for operations of the Convention Center and debt service on the Hotel Room Excise Tax Revenue Bonds, (2) \$14.3 million from Allegheny Regional Asset District (RAD) for debt service on the RAD Sales Tax Revenue Bond Refunding Series of 2010 and RAD Refunding Series of 2005 (3) \$11.8 million from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund revenue for ongoing Convention Center operations, reimbursement and repayment of loan debt, and debt service payments and related expenses on the Commonwealth Lease Revenue Bonds Series A of 2007, (4) \$7.6 million from the Rivers Casino for debt service on the Commonwealth Lease Revenue Bonds Series A of 2007, and (5) \$6.4 million from the Pittsburgh Penguins for debt service on the Commonwealth Lease Revenue Bonds Taxable Series B of 2007, Commonwealth Lease Revenue Bonds Series 2010, and rent and parking surcharge to be restricted to the New Arena capital reserve account.

Including the depreciation and amortization expense of \$50.1 million, the Authority's operating loss was \$41.9 million. Operations, without depreciation and amortization expense, would have yielded a surplus of \$8.7 million, which is composed of restricted surcharge/rent revenue for the various facility capital reserve funds and bond debt service obligations and North Shore Garage revenue restricted to payment of garage debt.

Capital Assets

As of December 31, 2012, the Authority's investment in capital assets was \$1.1 billion (net of accumulated depreciation). Investment in capital assets includes buildings, improvements, equipment, infrastructure, and

land (which is valued at \$128 million and is not depreciated). All construction-in-progress for facilities and assets that are open and operating were capitalized.

The major expenses capitalized during 2012 included projects totaling \$2.7 million for the Lower Hill Redevelopment, \$2.6 million for the Convention Center, \$1.6 million for Heinz Field, and \$500,000 for PNC Park. Additional information on capital assets can be found in Note 4 of this report.

Debt Administration

Long-term debt of the Authority outstanding as of December 31, 2012 is comprised of nine bond issues and several loans payable.

Four bonds were originally issued to finance the Regional Destination Financing Plan: Hotel Room Excise Tax Revenue Bonds Series 1999, Regional Asset District Sales Tax Revenue Bonds Series 1999, Taxable Ticket Surcharge Revenue Bonds, Series 2000 and Parking Revenue Bonds Series A of 2001. In 2010 and 2012, three bonds were refinanced in full: (1) Hotel Room Excise Tax Revenue Bonds Series 1999, (2) Regional Asset District Sales Tax Revenue Bonds Series 1999, and (3) Parking Revenue Bonds Series A of 2001.

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Management's Discussion and Analysis

Bond Issue	Issue Date	Initial Principal Amount	Pledged Revenue Stream	Bond Ratings*	
				Standard & Poor's	Moody's
Hotel Room Excise Tax Revenue Bonds, Series of 2010	Oct-2010	\$ 146,465,000	Hotel Room Excise Tax	AAA (negative outlook)	Aa3 (negative outlook)
Hotel Room Excise Tax Revenue Bonds, Series of 2012	Aug-2012	\$ 44,160,000	Hotel Room Excise Tax	AA- (stable outlook)	Aa3 (on review for possible downgrade)
RAD Sales Tax Revenue Bonds Refunding Series 2010	Sept-2010	\$ 173,765,000	Regional Asset District 1% Sales Tax	AAA (negative outlook)	Aa3 (negative outlook)
Taxable Ticket Surcharge Revenue Bonds	Aug-2000	\$ 17,175,000	Steeler Football Ticket Surcharge	AAA	Aaa

* Ratings based on the purchase of bond insurance at time of issuance

As of December 31, 2012, the Authority has outstanding the above-listed bonds. (See PNC/Dollar Bank loan note referencing the refinancing of the Parking Revenue Bonds.) In 2012, principal payments made on the bonds were \$3,450,000, \$5,455,000, and \$320,000 totaling \$9,225,000, leaving outstanding debt of \$362,585,000 in total. (No debt was due on the Hotel Room Excise Tax Revenue Bonds, Series of 2012.)

The RAD Sales Tax Bonds, Refunding Series 2005 and Auditorium Bonds, Refunding Series A 2005 relate to the refinancing of the 1999 Auditorium Bonds that had an initial combined principal amount of \$36,550,000. Principal payments made in 2012 were \$710,000 and \$415,000, with outstanding principal amounts as of December 31, 2012 of \$4,950,000 and \$2,370,000, respectively.

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Management's Discussion and Analysis

Bond Issue	Issue Date	Initial Principal Amount	Pledged Revenue Stream	Bond Ratings *	
				Standard & Poor's	Moody's
RAD Sales Tax Bonds, Refunding Series 2005	Jan-2005	\$ 13,250,000	RAD Sales Tax proceeds	AAA	Aaa
Auditorium Bonds, Refunding Series A of 2005	Sept-2005	\$ 8,345,000	City of Pittsburgh & Allegheny County	n/a	Aaa

* Ratings based on the purchase of bond insurance at time of issuance

The Authority issued three series of bonds to finance the construction of the New Arena Project - Commonwealth Lease Revenue Bonds Series A of 2007, Commonwealth Lease Revenue Bonds Taxable Series B of 2007, and Commonwealth Lease Revenue Bonds Series of 2010. Principal payments of \$5,050,000, \$915,000, and \$250,000 were made in 2012 on the three bonds, respectively. The outstanding balance on these bonds as of December 31, 2012 is \$228,760,000, \$58,870,000, and \$16,645,000, respectively.

Bond Issue	Issue Date	Initial Principal Amount	Pledged Revenue Stream	Bond Ratings *	
				Standard & Poor's	Moody's
Commonwealth Lease Revenue Bonds Series A of 2007	Oct-2007	\$ 252,000,000	Gaming Economic Development and Tourism Fund and Casino Operator	A-1	VMIG 1
Commonwealth Lease Revenue Bonds Taxable Series B of 2007	Oct-2007	61,265,000	Pittsburgh Penguins	A-1	VMIG 1
Commonwealth Lease Revenue Bonds Taxable Series 2010	Apr-2010	17,360,000	Pittsburgh Penguins	A	Aa3

* Ratings based on the purchase of bond insurance at time of issuance

Additional information on bonds is shown in Note 6 of this report.

There are two active loans/notes outstanding at December 31, 2012. The first, a loan from the Howard Heinz Endowment and the Vira I. Heinz Endowment in the amount of \$1.5 million each, was to promote economic development and environmental initiatives by constructing improvements at the Convention Center in accordance with the Green Building Standards. In 2011, the Heinz Endowments agreed to forgive \$866,658 of the loan balance providing the Authority continues efforts at the Convention Center to work towards achieving and maintaining LEED recertification. The current balance of the combined outstanding loans is \$1,305,336.

The second loan is a PNC Bank/Dollar Bank loan in the amount of \$41,175,574. In 2010, the Authority refinanced a 2004 PNC Bank/Dollar Bank loan (\$16,751,161), which financed costs for operations and capital costs for the Convention Center, and the 2001 Parking Revenue Bonds (\$24,424,977), which were originally issued to finance the Regional Destination Financing Plan. The balance on the 2010 loan is comprised of a \$24,035,155 fixed rate note issued to PNC Bank and a \$10,074,831 fixed rate note issued to Dollar Bank. See Note 7 to the financial statements for further information.

In 2012, the Stadium Authority, a related entity of the Authority, refinanced outstanding debt on the West General Robinson Street Garage, secured by, among other things, net revenues from the North Shore Parking Garage and various Authority lots. This refinancing has helped stabilize the financing for all North Shore parking facilities.

Economic Factors

Certain factors were considered in preparing the Authority's budget for the 2013 fiscal year. Foremost was that the Convention Center would continue having an operating shortfall, as do most public facilities of this type. Although the Authority endeavors to keep the operating loss at a minimum, the overriding goal is the economic benefit that visitors bring to the region. Operating the Convention Center as a world-class facility supported by market sensitive rental pricing produces the operating shortfall. Operating revenues such as building income

from rentals, food and beverage, and other ancillary services, as well as the unrestricted portion of the hotel tax allocation and an appropriation from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund fund the operating activity and administration of the Convention Center. The Authority's 2013 operating budget is balanced; and no operating cash flow issues are present.

In accordance with Act 71 of 2004 (the Pennsylvania Race Horse Development and Gaming Act), in 2013 the Authority anticipates receiving money from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund for (a) operating costs of the Convention Center (\$1.7 million), and (b) repayment of certain Convention Center debt (\$1.7 million). Receipt of the Act 71 funding is directly dependent on the gaming revenues received by the state. While the Authority has received the 2012 payments from the fund, if in the future these moneys are not received and other revenue streams do not materialize, the Authority will have cash flow difficulties. It may then call upon the Cooperation Agreement with the City of Pittsburgh and Allegheny County. This agreement, dated January 23, 1978, approves a shared payment by the City of Pittsburgh and Allegheny County to cover the Authority's operating deficit with respect to the Convention Center.

Future Events that will Financially Impact the Authority

The Authority and the Urban Redevelopment Authority (URA) are owners of a 28-acre site where the former Civic Arena was located. The Pittsburgh Penguins have a 10-year option to develop the site. The Penguins have been working with the Authority on a master plan for a mixed-use development of the site. The plan includes a street grid system that is reminiscent of the grid that pre-dated the Civic Arena. The street grid is important to reintegrate the Hill District neighborhood with Downtown and to establish development blocks.

The Authority has contracted for engineering design services for the new roadway grid including storm sewer, sanitary sewer, waterlines, and streetscapes on the 28-acre site. Preliminary design of the roadway is expected

to be complete in April 2013. Design allows for construction to be done in phases; as funding is obtained, construction on a new phase can begin.

Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Sports & Exhibition Authority, 171 10th Street, 2nd Floor, Pittsburgh, PA 15222.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF NET POSITION

DECEMBER 31, 2012 AND 2011

	2012	2011
Assets		
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Current assets:		
Cash and cash equivalents	\$ 2,076,719	\$ 1,062,989
Restricted cash and cash equivalents	62,272,015	61,082,390
Receivables:		
Trade (no allowance for doubtful accounts necessary)	1,594,377	1,694,864
Restricted contributions and grants	245,078	1,243,185
Other	589,237	154,483
Prepaid expenses	187,435	199,227
Total current assets	66,964,861	65,437,138
Noncurrent assets:		
Restricted cash and cash equivalents	7,777,288	7,527,028
Restricted investments	1,357,295	1,359,918
Deferred lease costs	14,942,316	15,484,031
Capital assets, net	1,094,731,636	1,137,452,817
Total noncurrent assets	1,118,808,535	1,161,823,794
Total Assets	1,185,773,396	1,227,260,932
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Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	81,990,988	81,849,550
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Liabilities		
<hr/>		
Current liabilities:		
Accounts payable and accrued liabilities	2,895,235	3,789,926
Deferred revenue	694,777	559,321
Interest payable	7,817,265	8,001,488
Current portion of bonds payable	18,415,000	16,565,000
Current portion of loans/notes payable	1,313,719	1,315,890
Total current liabilities	31,135,996	30,231,625
Noncurrent liabilities:		
Accrued liabilities	2,092,789	1,848,672
Deferred revenue	990,244	1,082,546
Developer credits	14,525,000	14,525,000
Fair value of hedging derivatives	81,990,988	81,849,550
Bonds payable	668,777,781	684,879,662
Loans/notes payable	37,301,603	38,777,636
Total noncurrent liabilities	805,678,405	822,963,066
Total Liabilities	836,814,401	853,194,691
<hr/>		
Net Position		
Net investment in capital assets	386,454,057	413,058,538
Restricted for capital activity and debt service	43,891,792	42,823,715
Unrestricted	604,134	33,538
Total Net Position	\$ 430,949,983	\$ 455,915,791

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating Revenues:		
Restricted:		
Surcharges/rents	\$ 8,976,109	\$ 8,427,861
North Shore parking garage, net	1,504,764	1,299,558
Convention Center parking garage, net	1,730,792	1,725,240
Parking lot revenue, net	451,619	-
Unrestricted:		
Ticket surcharges	430,023	1,053,866
Parking lot revenue, net	-	509,654
License fees	2,957,614	2,861,389
Event service revenue	1,009,475	1,181,540
Ancillary revenue	4,153,792	4,315,711
Other revenue	363,324	245,444
Total operating revenues	21,577,512	21,620,263
Operating Expenses:		
Operations and maintenance	11,638,471	11,920,647
General and administrative	1,168,605	1,202,853
Depreciation and amortization	50,566,173	50,328,256
Other expenses	78,076	49,709
Total operating expenses	63,451,325	63,501,465
Operating Loss	(41,873,813)	(41,881,202)
Non-operating Revenues (Expenses):		
Restricted:		
Allegheny Regional Asset District	14,293,000	14,325,000
PA Gaming Economic Development & Tourism Fund	10,900,000	10,900,000
Other Commonwealth of PA Grants	855,516	221,470
Pittsburgh casino operator	7,607,751	7,601,534
Hotel rooms tax	15,512,500	14,680,183
Stadium Authority	863,593	844,223
City of Pittsburgh and Allegheny County	550,614	510,442
Federal grants	-	1,188,062
Foundation and other grants	145,900	866,658
Other revenue	319,814	493,983
Interest expense	(34,202,340)	(34,846,176)
Interest revenue	159,586	215,107
Unrestricted:		
Other revenue	157,472	162,358
Project development expense	(160,876)	(32,745)
Bank/trustee fees	(94,525)	(97,121)
Total non-operating revenues, net	16,908,005	17,032,978
Change in Net Position	(24,965,808)	(24,848,224)
Net Position:		
Beginning of year	455,915,791	480,764,015
End of year	\$ 430,949,983	\$ 455,915,791

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Cash received from operations	\$ 21,450,131	\$ 21,628,272
Cash paid for operating expenses	(7,531,482)	(9,418,103)
Cash paid to employees	(5,609,762)	(5,497,815)
Cash received from other income	363,324	245,444
Net cash provided by (used in) operating activities	8,672,211	6,957,798
Cash Flows From Non-Capital Financing Activities:		
Cash received from hotel tax distributions	2,750,000	2,367,683
Cash received from PA Gaming Economic Development & Tourism Fund	1,700,000	1,700,000
Other receipts (payments)	(210,885)	438,175
Net cash provided by (used in) non-capital financing activities	4,239,115	4,505,858
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(7,456,403)	(17,045,968)
Proceeds from issuance of bonds and notes	46,175,783	-
Refunded bonds and notes	(42,700,000)	-
Bond and note issuance costs	(866,167)	-
Interest payments on bonds, notes/loans payable, and capital lease obligations	(34,919,214)	(33,241,971)
Cash received from Allegheny Regional Asset District for bond payments	14,293,000	14,325,000
Cash received from hotel rooms tax for bond payments	12,762,500	12,312,500
Cash received from PA Gaming Economic Development & Tourism Fund for capital items and bond and loan payments	9,200,000	9,200,000
Cash received from Pittsburgh casino operator for bond payments	7,607,751	7,601,534
Cash received from City of Pittsburgh and Allegheny County for bond payments	550,614	510,442
Cash received from Stadium Authority for capital items and bond payments	863,593	844,223
Cash received from other capital related grants	1,999,523	1,734,151
Settlement proceeds	-	1,500,000
Principal payments on bonds payable	(16,565,000)	(14,991,068)
Principal payments on capital lease obligations	-	(6,172,548)
Principal payments on loans/notes payable	(1,478,204)	(2,600,218)
Net cash provided by (used in) capital and related financing activities	(10,532,224)	(26,023,923)
Cash Flows From Investing Activities:		
Interest income received	166,333	220,409
Proceeds from sales and maturities of investments	2,705	-
Purchase of investments	-	(2,702)
Bank/trustee fees paid	(94,525)	(97,121)
Net cash provided by (used in) investing activities	74,513	120,586
Net Increase (Decrease) in Cash and Cash Equivalents	2,453,615	(14,439,681)
Cash and Cash Equivalents:		
Beginning of year	69,672,407	84,112,088
End of year	\$ 72,126,022	\$ 69,672,407
Consists of:		
Restricted cash and cash equivalents	\$ 70,049,303	\$ 68,609,418
Unrestricted cash and cash equivalents	2,076,719	1,062,989
	\$ 72,126,022	\$ 69,672,407
Reconciliation of Operating Loss to Net Cash Flows Provided By (Used In) Operating Activities:		
Operating loss	\$ (41,873,813)	\$ (41,881,202)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	50,566,173	50,328,256
Change in operating assets and liabilities:		
Operating receivables	100,487	260,148
Prepaid operating expenses	11,792	(28,751)
Operating liabilities	(132,428)	(1,720,653)
Total adjustments	50,546,024	48,839,000
Net cash provided by (used in) operating activities	\$ 8,672,211	\$ 6,957,798

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. NATURE OF OPERATIONS AND REPORTING ENTITY

The Public Auditorium Authority of Pittsburgh and Allegheny County was incorporated on February 3, 1954, pursuant to the Public Auditorium Authorities Law, as a joint authority organized by the City of Pittsburgh (City) and Allegheny County (County) to provide educational, cultural, physical, civic, and social events for the benefit of the general public. Effective November 1999, the Public Auditorium Authority of Pittsburgh and Allegheny County's name was legally changed to the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority). The Public Auditorium Authorities Law was re-codified in 2000 and the Authority is now authorized and exists under the Sports and Exhibition Authority Act through March 23, 2049.

As a joint authority for the City and County, the Authority provides venues for sporting, entertainment, educational, cultural, civic, and social events for the public. The Authority owns but leases PNC Park, Heinz Field, Consol Energy Center, the Benedum Center, and the Heinz History Center property to other entities who are responsible for their operation. The Authority owns and is responsible for the operation of the David L. Lawrence Convention Center (Convention Center). The Authority also owns two parking facilities, riverfront parks, and various associated infrastructure improvements. Involvement with the Benedum Center and the Heinz History Center is limited to the initial financing structures for those facilities. The Authority has no other significant responsibility with respect to those facilities.

The Board of Directors (Board) of the Authority is a seven member group appointed by the Mayor of the City and Chief Executive of the County. Each executive appoints three members and the Mayor and County Executive jointly appoint the seventh member. The Board is responsible for the overall activities and operations of the Authority. The Board has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. For financial reporting purposes, the Authority is a stand-alone entity and is not a component unit of the City or the County. A component unit is defined as an entity that is operationally and financially accountable to a primary government.

The Stadium Authority of the City of Pittsburgh (Stadium Authority) owned Three Rivers Stadium located in the City. Three Rivers Stadium was razed in February 2001 to make way for Heinz Field and PNC Park. The Stadium Authority is now responsible for the development of the land between the newly constructed stadium and ballpark. A portion of that land was conveyed to the Authority for construction of infrastructure. The remaining land was retained by the Stadium Authority to be developed according to a master development plan. Pending development, the land is used for surface parking with a portion

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

of the revenue from the surface parking lots pledged to the debt service on the Authority's PNC Bank/Dollar Bank loan (see Note 7). The Stadium Authority has a separate board appointed by the Mayor of the City. An Administrative Services Agreement was entered into in November 2002 between the Stadium Authority and the Authority whereby the Authority staff performs all administrative services required for the Stadium Authority to fulfill its duties and obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America applicable to governmental units and promulgated by the Governmental Accounting Standards Board (GASB). The Authority is considered a special purpose government engaged in business-type activities and, as such, presents the financial statements required for enterprise funds. A summary of the Authority's more significant accounting policies applied by management in the preparation of the accompanying financial statements follows:

Basis of Accounting and Measurement Focus

The Authority's financial statements are prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred. All assets and all liabilities associated with the operations of the Authority are included on the statements of net position. The statements of revenues, expenses, and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in the Authority's net total assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Authority considers cash in bank accounts and short-term investments with original maturities of three months or less from the date of purchase as cash equivalents.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Investments

The Authority records investments at fair value in the statements of net position. Interest revenue and realized and unrealized gains and losses on investments are reflected in the statements of revenues, expenses, and changes in net position. Fair value has been determined based on quoted market prices.

Capital Assets

Capital assets are stated at cost which includes all costs during the construction period for acquisition of land, rights of way, surveys, engineering costs, roads, bridges, and other construction costs for constructed assets. Capital assets include the infrastructure network built in connection with the Authority's other capital projects. Infrastructure includes roads, sidewalks, water lines, and sewer lines. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets. No depreciation expense is recorded for land or construction-in-progress. Repairs and maintenance that do not extend the lives of the applicable assets are charged to expense as incurred.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed and amortized over the useful life of the assets. During the years ended December 31, 2012 and 2011, there was no net capitalized interest.

Capital assets includes infrastructure associated with certain development projects of the Authority including North Shore, Convention Center, and Lower Hill Redevelopment. Some of this infrastructure is dedicated to the City or accepted by Pittsburgh Water and Sewer Authority (PWSA) after the completion of the projects, mainly road, water, and sewer system infrastructure, to be maintained by the City and PWSA. The Authority, however, considers these costs an integral part of the total development cost of the projects and, accordingly, capitalizes and amortizes them over the life of the projects.

Noncurrent Accrued Liabilities

Noncurrent accrued liabilities, which represent monies held on behalf of the Stadium Authority in a development fund and payable to the Steelers and Pirates upon the development of commercial, retail, and residential facilities in the North Shore Option Area, totaled \$1,154,450 and \$910,437 at December 31, 2012 and 2011, respectively.

In addition, a Stadium Authority development fund is held to facilitate the construction and financing of parking garages on the North Shore. \$938,934 and \$938,826 were held in this fund as of December 31, 2012 and 2011, respectively.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Revenues

The Authority's operating revenues consist of excess ticket surcharges, rents, parking revenues and Convention Center revenue from building rentals, event services, and catering and concessions. Non-operating revenues consist primarily of grants and subsidies received that are restricted for capital related costs, the payment of debt service, or operation of the Convention Center. Grants and subsidies are recorded as revenue when all applicable eligibility requirements are met.

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

Surcharges/Rent

Surcharges are certain revenues derived from tickets or parking at the various facilities imposed by the Authority in accordance with the team leases. A ticket surcharge is imposed on each ticket sold for Pittsburgh Steelers football games, University of Pittsburgh Panthers football games, Pittsburgh Pirates baseball games, and other events held at Heinz Field and PNC Park. A parking surcharge is imposed on cars parked at the former Civic Arena site and the Consol Energy Center Garage. Additionally, the team leases provide that the Steelers, Pirates, and Penguins pay rent and/or other amounts to the Authority annually. See Note 14, Consol Energy Center; Note 17, PNC Park; and Note 18, Heinz Field for the specific terms of each lease as it relates to the surcharges, rents, and/or other amounts and the restricted uses of the funds.

Parking Revenues

Parking revenues are generated from parking services at the North Shore parking garage, the Convention Center parking garage, and Authority lots in both downtown and on the North Shore, net of the related expenses. Alco Parking, Inc. operates these facilities through management contracts. Currently, the net revenues of the North Shore parking garage, the Convention Center parking garage, Authority lots and revenues of certain Stadium Authority lots (Lots 1 and 7A through 7J) are fully restricted for purposes of repaying the Authority's PNC Bank/Dollar Bank 2010 bank notes and the Stadium Authority's PNC Bank/Dollar Bank 2012 bank notes described in Note 7. An affiliated entity of the owner of the Pittsburgh Penguins hockey team (such affiliated entity, as applicable, herein referred to as the Pittsburgh Penguins) operates the Consol Energy Center garage and parking at the old Civic Arena site and all net parking revenue is retained by the team.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Hotel Room Excise Tax

The County imposes a 7% hotel room tax on the temporary use or occupancy of hotel rooms within the County. The tax is composed of a 5% Basic Levy and a 2% Added Levy. From the 5% Basic Levy, the County is required to collect the tax and to distribute the funds to the appropriate entities, including the Authority, in accordance with state law (16 P.S. Section 4970.2 et seq) as follows: (1) provide the Municipality of Monroeville with 1/3 of the revenues generated in that jurisdiction, (2) fund the monthly debt service on the Authority's Hotel Room Excise Tax Revenue Bonds and reimburse the County for a collection fee of 5%, (3) make available 2/5 of the Basic Levy to the Greater Pittsburgh Convention and Visitor's Bureau and (4) remaining funds, if any, to fund Convention Center operations and regional tourist promotional activities. The 2% Added Levy is applied in accordance with State Law (53 Pa.C.S.A. Section 872i) as follows: (1) to the Municipality of Monroeville, 1/3 of the revenues generated in that jurisdiction, and (2) the remaining balance to pay debt service on the Authority's Hotel Room Excise Tax Revenue Bonds.

Casino Operator Revenue

As described in Note 6, the Authority receives semi-annual payments from the holder of the gaming license for the facility located in Pittsburgh based on a Payment Agreement which details the payment due dates. The Authority recognizes this revenue when the payments become due.

Classification of Net Position

Accounting standards requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
 - Restricted – This component of net position consists of constraints placed on net position used through external restrictions, reduced by liabilities related to those assets.
 - Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”
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SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Adoption of Accounting Pronouncements

The requirements of the following GASB Statements were adopted for the Authority's 2012 financial statements:

GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*" The Statement codifies into the GASB standards guidance located in FASB and AICPA pronouncements.

GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The primary impacts of this Statement on the Authority's 2012 financial statements related to reporting the residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources as net "position," rather than net "assets." The Authority's derivative transactions qualify for reporting as deferred inflows of resources and deferred outflows of resources. The provisions of this Statement were applied retroactively to amounts reported for 2011.

Pending Pronouncements

GASB has issued the following Statement, which will become effective in future years as shown below. Management has not yet determined the impact of this statement on the Authority's financial statements.

GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement will become effective for periods beginning after December 15, 2012.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Authority maintains all cash deposits in qualified public depositories and is authorized to invest in securities of the United States government, other instruments that are collateralized by United States government securities, repurchase agreements subject to certain restrictions, and other debt instruments set forth by the office of the State Treasurer of the Commonwealth of Pennsylvania (Commonwealth). These types of investments are held by the purchasing bank in the Authority's name. The Authority's investment activities are governed by the Commonwealth, bond covenants, trust agreements, and the Authority's investment policy.

The following is a summary of the Authority's cash and cash equivalents, and investments for the year ended December 31, 2012:

	Bond Related	Non-bond Related	Total
Cash equivalents:			
Cash	\$ -	\$ 11,527,634	\$ 11,527,634
Money market funds	33,583,240	7,887,756	41,470,996
INVEST	-	19,127,392	19,127,392
	\$ 33,583,240	\$ 38,542,782	\$ 72,126,022
Investments:			
FNMA	\$ 1,357,295	\$ -	\$ 1,357,295

Bond related cash and cash equivalents and investments relate to accounts established pursuant to the Authority's trust indentures. Non-bond related cash includes operating cash and other cash received through grant agreements, enabling legislation, or other contractual agreements. Restricted cash and cash equivalents and investments are reported as such on the statements of net position and are classified as current or noncurrent based on expected use.

The following is a description of the Authority's deposit and investment risks:

Custodial Credit Risk – Deposits. In the case of cash, this is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2012, \$8,851,522 of the Authority's cash balance of \$11,972,770 was exposed to custodial credit risk because it was uninsured and collateralized in accordance with Act 72 of the Pennsylvania state legislature,

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$11,527,634 at December 31, 2012.

The Authority's investments (INVEST and money markets) are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The fair value of these investments is the same as their carrying amount. All investments in an external investment pool that are not SEC registered are subject to oversight by the Commonwealth.

Credit Risk. The Authority has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2012, \$29 million of money markets were rated A-1, \$11.2 million of money markets and \$1.3 million of FNMA investments were rated Aaa, and the remaining \$19.1 million of investments in INVEST were rated AAA by Standard & Poor's.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of the Authority's investments. 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. The Authority's investments have maturities of less than one year.

4. CAPITAL ASSETS

Capital assets and accumulated depreciation consist of the following:

	2012	2011	Useful Lives (in years)
Land and improvements	\$ 127,916,544	\$ 125,118,629	
Infrastructure	143,686,594	143,651,372	40-50
Building and improvements	1,168,820,955	1,227,326,301	10-50
Equipment	70,263,030	76,096,728	5-10
Other assets	14,933,678	14,751,084	30
Total capital assets	1,525,620,801	1,586,944,114	
Accumulated depreciation	(430,889,165)	(449,491,297)	
Capital assets, net	<u>\$ 1,094,731,636</u>	<u>\$ 1,137,452,817</u>	

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Capital assets included above that are not being depreciated totaled \$128 million and \$125 million for the years ended December 31, 2012 and 2011, respectively.

Changes in capital assets, net of accumulated depreciation, by development project, were as follows:

	January 1, 2012	Depreciation	Additions	Deletions	December 31, 2012
Lower Hill Redevelopment	\$ 7,172,243	\$ -	\$ 2,992,325	\$ -	\$ 10,164,568
Benedum Center	11,186,423	14,255	-	-	11,172,168
John Heinz History Center	2,043,300	52,400	-	-	1,990,900
PNC Park	172,974,319	7,917,716	497,616	-	165,554,219
North Shore Garage	16,717,106	807,403	-	-	15,909,703
Heinz Field	169,981,367	8,270,862	1,607,388	-	163,317,893
Convention Center	301,846,344	13,556,824	2,571,948	-	290,861,468
Convention Center Park	9,061,347	-	-	-	9,061,347
North Shore Riverfront Park	26,019,623	59,335	282,630	-	26,242,918
Consol Energy Center	358,279,531	17,145,057	-	907,142	340,227,332
North Shore Infrastructure	49,060,906	1,582,422	-	-	47,478,484
Other	13,110,308	571,202	211,530	-	12,750,636
Total	<u>\$ 1,137,452,817</u>	<u>\$ 49,977,476</u>	<u>\$ 8,163,437</u>	<u>\$ 907,142</u>	<u>\$ 1,094,731,636</u>

The costs of the Benedum Center and the Heinz History Center are original acquisition costs by the Authority. Any costs to build and improve these properties subsequent to acquisition have been incurred and capitalized solely by the Pittsburgh Trust for Cultural Resources and the Historical Society of Western Pennsylvania.

Capital assets identified as Lower Hill Redevelopment relate to property within the Civic Arena Option Area as described in Note 13.

5. CONSTRUCTION-IN-PROGRESS

There were no amounts in construction in progress as of December 31, 2012 and 2011.

6. BONDS PAYABLE

All bonds issued by the Authority are limited obligation bonds, collateralized by supporting agreements entered into as of the date of each bond issue between the Authority, the City, the County, or other designated entity(ies), and/or some specifically identified revenue stream(s).

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	January 1, 2012	Additions (Reductions)	December 31, 2012
Allegheny Regional Asset District Sales Tax Revenue Bonds, Refunding Series 2005 of \$13,250,000, due in annual installments ranging from \$665,000 to \$2,695,000 through February 2019, interest payable semi-annually on February 15 and August 15 at rates ranging from 3% to 4.125%, issued in January 2005 to partially refinance the 1999 Series Auditorium Bonds and to fund certain costs of the Convention Center. Funding Source: Allegheny Regional Asset District Sales Tax, paid directly to the Trustee.	\$ 5,660,000	\$ (710,000)	\$ 4,950,000
Auditorium Bonds, Refunding Series A 2005 of \$8,345,000, due in annual installments ranging from \$245,000 to \$1,155,000 through December 2018, interest payable semi-annually on June 15 and December 15 at rates ranging from 3.05% to 4.00%, issued in September 2005 to partially refinance the 1999 Series Auditorium Bonds and to fund certain costs of the Convention Center. Funding Source: 1/2 each by the City and County, paid directly to the Trustee.	2,785,000	(415,000)	2,370,000
Commonwealth Lease Revenue Bonds Series A of 2007 of \$252,000,000, due in annual installments ranging from \$4,260,000 to \$13,950,000 through November 2038, interest payable semi-annually on May 1 and November 1 at synthetic fixed rate of 4.020% pursuant to a related interest rate swap, issued in October 2007 to fund the construction of a new multi-purpose arena and related facilities. Funding Source: \$7.5 million annually from Economic Development and Tourism Fund and \$7.5 million annually by casino operator, paid directly to the Trustee.	233,810,000	(5,050,000)	228,760,000
Commonwealth Lease Revenue Bonds Taxable Series B of 2007 of \$61,265,000, due in annual installments ranging from \$620,000 to \$4,095,000 through November 2039, interest payable semi-annually on May 1 and November 1 at synthetic fixed rate of 5.335% pursuant to a related interest rate swap, issued in October 2007 to fund the construction of a new multi-purpose arena and related facilities. Funding Source: Pittsburgh Penguins, paid directly to the Trustee.	59,785,000	(915,000)	58,870,000
Commonwealth Lease Revenue Bonds Taxable Series of 2010 of \$17,360,000 due in annual installments ranging from \$225,000 to \$1,300,000 through November 2039, interest payable semi-annually on May 1 and November 1 at rates ranging from 3.98% to 7.04%, issued April 28, 2010 to fund the construction of a new multi-purpose arena and related facilities. Funding Source: Pittsburgh Penguins, paid directly to the Trustee.	16,895,000	(250,000)	16,645,000
Hotel Room Excise Tax Revenue Bonds Series 1999 of \$193,375,000, partially refunded by the Hotel Room Excise Tax Revenue Bonds Series of 2010. Remaining balance refunded in 2012 by the Hotel Room Excise Tax Revenue Bonds Series of 2012.	42,700,000	(42,700,000)	-

(Continued)

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	January 1, 2012	Additions (Reductions)	December 31, 2012
Hotel Room Excise Tax Revenue Bond Series 2010 of \$146,465,000 due in annual installments ranging from \$2,680,000 to \$12,125,000 through February 2035, interest payable semi-annually on February 1 and August 1 at rates ranging from 5.00% to 5.25%, issued to refinance a portion of the Hotel Room Excise Tax Revenue Bonds, Series 1999. Funding Source: County Hotel Room Excise Tax, paid directly to the Trustee.	142,255,000	(3,450,000)	138,805,000
Hotel Room Excise Tax Revenue Bond Series 2012 of \$44,160,000 due in annual installments ranging from \$30,000 to \$9,590,000 through February 2029, interest payable semi-annually on February 1 and August 1 at rates ranging from 2.00% to 5.00%, issued to refinance all of the outstanding Hotel Room Excise Tax Revenue Bonds, Series 1999. Funding Source: County Hotel Room Excise Tax, paid directly to the Trustee.	-	44,160,000	44,160,000
Allegheny Regional Asset District Sales Tax Revenue Bonds, Refunding Series 2010 of \$173,765,000, due in annual installments ranging from \$3,420,000 to \$12,760,000 through February 2031, interest payable semi-annually on February 1 and August 1 at rates ranging from 2% to 5%, issued in September 9, 2010 to refinance the Regional Asset District Sales Tax Revenue Bonds Series of 1999. Funding Source: Allegheny Regional Asset District Sales Tax, paid directly to the Trustee.	170,345,000	(5,455,000)	164,890,000
Taxable Ticket Surcharge Revenue Bonds Series 2000 of \$17,175,000, due in annual installments ranging from \$145,000 to \$2,835,000 through July 2030, interest payable semi-annually on January 1 and July 1 at rates ranging from 7.72% to 7.92%, issued in August 2000 to finance the construction of Heinz Field. Funding Source: Steelers Ticket Surcharge, paid directly to the Trustee.	15,050,000	(320,000)	14,730,000
Total bonds payable	689,285,000	(15,105,000)	674,180,000
Deferred amounts:			
For issuance premiums	18,096,222	1,090,920	19,187,142
On refunding	(5,936,560)	(237,801)	(6,174,361)
	12,159,662	853,119	13,012,781
Bonds payable, net	\$ 701,444,662	\$ (14,251,881)	\$ 687,192,781

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The aggregate annual amount of principal and interest payments required on bonds payable is as follows:

	Total Principal	Interest	Total
2013	\$ 18,415,000	\$ 32,256,207	\$ 50,671,207
2014	18,835,000	31,411,833	50,246,833
2015	19,995,000	30,482,561	50,477,561
2016	21,055,000	29,424,734	50,479,734
2017	23,340,000	28,315,725	51,655,725
2018-2022	120,580,000	121,339,956	241,919,956
2023-2027	152,345,000	87,034,265	239,379,265
2028-2032	166,805,000	51,150,865	217,955,865
2033-2037	115,145,000	17,689,628	132,834,628
2038-2041	17,665,000	1,200,663	18,865,663
Total	\$ 674,180,000	\$ 430,306,436	\$ 1,104,486,436

Interest payments related to the Commonwealth Lease Revenue Bonds Series A and B of 2007 have been calculated using the synthetic fixed rates as described in Note 9. At December 31, 2012, the average variable rate on the Series A and B bonds approximated .237% and .288%, respectively. The 2011 variable rate on the Series A and B bonds approximated .14% and .298%, respectively.

Arbitrage

The proceeds of certain bond issues are restricted by yield limitations. The earnings on certain investments may generate arbitrage where the rate of investment earnings exceeds the yield limitations. The excess earnings, or rebatable arbitrage, is required to be computed in accordance with, and pursuant to, Section 148 of the Internal Revenue Code of 1986 (Code), and the temporary treasury regulations issued by the Internal Revenue Service on May 12, 1989, under Section 148(i) of the Code. The Internal Revenue Service requires the arbitrage computation to be performed and the amount remitted every fifth year that the bonds are outstanding. The Authority has determined there are currently no arbitrage obligations due.

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Regional Asset District Sales Tax Revenue Refunding Bonds

On January 13, 2005, the Authority issued \$13,250,000 of Sports & Exhibition Authority of Pittsburgh and Allegheny County Regional Asset District Sales Tax Revenue Bonds, Refunding Series of 2005 (RAD Refunding Bonds) with an average interest rate of 3.37% to refund a portion of each maturity of the 1999 Series Auditorium Bonds with an average interest rate of 5.52%.

The RAD Refunding Bonds are payable from and secured by payments and other revenues to be received by the Authority through 2018 under an Amended and Restated Cooperation and Support Agreement among the Authority, the City, the County, and the Allegheny County Regional Asset District (RAD). The Authority received \$893,000 and \$925,000 for each of the calendar years 2012 and 2011, respectively.

Auditorium Refunding Bonds

On September 29, 2005, the Authority issued \$8,345,000 of Sports & Exhibition Authority of Pittsburgh and Allegheny County Auditorium Bonds, Refunding Series A of 2005 (Auditorium Refunding Bonds) with an average interest rate of 3.82% to refund a portion of each maturity of the 1999 Series Auditorium Bonds with an average interest rate of 5.20%.

Pursuant to a Supporting Agreement among the Authority, the City, and the County dated September 15, 2005, the City and the County each have unconditionally agreed to pay to the Authority, on a pro-rata basis, one half of the principal and interest on these Refunding Series A Auditorium Bonds as it becomes due and payable. The Authority received \$258,555 and \$255,221 from the City and the County in 2012 and 2011, respectively.

Commonwealth Lease Revenue Bonds, Series A and Taxable Series B

On October 4, 2007, the Authority issued \$252,000,000 of variable interest rate Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Series A of 2007 (Series A Bonds) and \$61,265,000 of variable interest rate Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Taxable Series B Bonds) (collectively the New Arena Bonds) to acquire, construct, and equip a multi-purpose public auditorium and related facilities (New Arena Project). The New Arena Bonds are to be repaid from (1) rent payments due from the sublease of the new arena to the Pittsburgh Penguins, (2) annual grants from the Pennsylvania Economic Development & Tourism Fund (EDTF) created pursuant to Act 71 of 2004, and (3) annual payments from the holder of the gaming license for the facility located in the City.

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The Authority subleased the New Arena Project to the Pittsburgh Penguins (the New Arena Lease) obligating the Pittsburgh Penguins to pay the Authority thirty annual lease payments of \$4.1 million initially, increasing to \$4.3 million in 2012, with final payment on September 25, 2039, which has been pledged to support the New Arena Bonds.

The Commonwealth has appropriated \$7.5 million per year for 30 years (ending September 2036) from EDTF to support the debt service on the New Arena Bonds (Note 19).

A Payment Agreement between the Authority and Holdings Acquisition Co, LLC, (d/b/a Rivers Casino), the holder of the gaming license for the facility located in the City of Pittsburgh, was executed November 10, 2009 requiring semi-annual payments to begin October 2009 and ending October 2038 with such payment pledged to secure the New Arena Bonds. Payments in the amount of \$7.6 million were received in 2012 and 2011, respectively.

The Authority entered into interest rate swap agreements with PNC Bank, National Association (Counterparty) in connection with the New Arena Bonds. Pursuant to the swap agreements, the Authority pays a fixed rate of interest to the Counterparty and the Counterparty then pays a variable rate of interest to the bond trustee to pay debt service on the New Arena Bonds (Note 9).

The Authority has leased the New Arena Project to the Commonwealth and the Commonwealth has subleased it back to the Authority. The Commonwealth is obligated to pay rent under the lease only to the extent there is a deficiency or delay in receipt of any amounts needed to pay debt service. The Commonwealth paid the Authority \$544,684 in 2012 and \$96,470 in 2011 pursuant to the Commonwealth lease.

Subsequent to year-end, Moody's Investors Service announced on January 23, 2013 that due to its downgrade of Assured Guaranty Municipal Corp's., long-term rating and the existence of a provision in the Standby Bond Purchase Agreement that would result in an automatic termination of that document with certain further downgrades of the bond insurer it revised its ratings of the bonds. The resulting effect was a downgrade in the Authority's Commonwealth Lease Revenue Bonds Series A and B of 2007 long-term rating from Aa3 to A1 and short-term rating from VMIG1 to VMIG 3. Thereafter, the Authority entered into a First Amendment to Standby Bond Purchase Agreement with PNC Bank, National Association, which removed the automatic termination provision, resulting in Moody's reinstating the short-term rating back to VMIG 1.

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Commonwealth Lease Revenue Bonds, Taxable Series of 2010

In 2010, the Authority issued \$17,360,000 of fixed rate Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Taxable Series of 2010 to pay costs to complete the acquisition, construction, and equipping of Consol Energy Center. The Series 2010 Bonds are to be repaid from increased rent payments (\$1.36 million per year) due from the Pittsburgh Penguins per the Second Amendment to the New Arena Lease.

Hotel Room Excise Tax Revenue Bonds

On May 26, 1999, the Authority issued \$193,375,000 of Public Auditorium Authority of Pittsburgh and Allegheny County Hotel Room Excise Tax Revenue Bonds, Series 1999 (1999 Hotel Bonds). In connection with the issuance of the Hotel Bonds, the Authority entered into a support agreement with the County, the County Treasurer, and the County Controller dated May 1, 1999, which requires the County, solely through the use of funds provided by the Hotel Room Excise Tax, to provide payment sufficient to service the Hotel Bonds through 2035.

On October 13, 2010, the Authority issued \$146,465,000 in Hotel Room Excise Tax Revenue Bonds, Series of 2010 (2010 Hotel Bonds) to (a) redeem on October 18, 2010 the portion of the Hotel Room Excise Tax Revenue Bonds, Series 1999 being refunded; (b) prepay on November 1, 2010 the PNC/Dollar Variable Rate note (see Note 7); and (c) pay a portion of the purchase price of the cooling system in the Convention Center. The bonds have an average interest rate of 4.60% and were issued at an original issue premium of \$9.1 million, which is being amortized over the life of the bonds.

On June 6, 2012, the Authority issued \$44,160,000 in Hotel Room Excise Tax Revenue Bonds, Refunding Series of 2012 (2012 Hotel Bonds) to (a) refund the Authority's remaining Hotel Room Excise Tax Revenue Bonds, Series of 1999 and (b) reimburse the Authority for a portion of the purchase price of a cooling system in the David L. Lawrence Convention Center. The bonds have an average interest rate of 4.08% and were issued at an original issue premium of \$2 million, which is being amortized over the life of the bonds.

The 2012 refunding resulted in a deferred refunding loss of \$636,000 due to the fact that the original issue costs were not fully amortized at the time of the refinancing. This deferred refunding loss is being amortized over the life of the 2012 Hotel Bonds. The Authority completed the refunding to obtain an economic gain of \$1.9 million, which was received at the time of issuance and used for the purposes listed in (b) above. The debt service requirements of the 2012 Hotel Bonds is substantially the same as what the debt service

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requirements would have been on the remaining 1999 Bonds if there had been no refunding.

The Authority received Hotel Room Excise Tax Revenues in the amount of \$12,762,500 and \$12,312,500 for each of the calendar years 2012 and 2011, respectively, for payment of indebtedness on the 2010 and 2012 bonds.

Regional Asset District Sales Tax Revenue Bonds, Series of 2010

On September 8, 2010, the Authority issued \$173,765,000 of Allegheny County Regional Asset District (RAD) Sales Tax Revenue Bonds, Series of 2010 (2010 RAD Bonds). Pursuant to the Second Amendment to the Cooperation and Support Agreement with the Authority, the City, the County, and the RAD dated August 1, 2010, RAD agreed to provide financial support to the Authority for the 2010 RAD Bonds through 2030. The bond proceeds were used to: (a) redeem on September 9, 2010 all of the Authority's Regional Asset District Sales Tax Revenue Bonds, Series of 1999; and (b) provide funds for capital projects to the Convention Center.

The Authority received \$13,400,000 from RAD for each of the calendar years 2012 and 2011 for payment of indebtedness on the 2010 RAD Bonds.

Taxable Ticket Surcharge Revenue Bonds

In September 2000, the Authority issued \$17,175,000 of Sports & Exhibition Authority of Pittsburgh and Allegheny County Taxable Ticket Surcharge Revenue Bonds, Series 2000 (Ticket Surcharge Bonds). In connection with the issuance of the Ticket Surcharge Bonds, the Authority entered into a Security, Pledge, and Assignment Agreement with the Pittsburgh Steelers Sports, Inc. (PSSI) to facilitate the collection and receipt of a 5% ticket surcharge (not to exceed \$3 per ticket) on each ticket sold for all exhibition, regular season, and post-season National Football League (NFL) games in which PSSI's NFL franchise is designated to be the "home team" by the rules of the NFL. For each football season beginning with the 2002 NFL season, the first \$1,400,000 of total ticket surcharge monies collected for these NFL events will be made available for payments of principal and interest on these bonds.

7. LOANS/NOTES PAYABLE

Terms of the loans and notes payable are as follows:

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	January 1, 2012	Reductions	December 31, 2012
Loan from Heinz Endowments in the amount of \$3,000,000, issued December 2002, 1% interest, deferred until December 31, 2010, annual payments through December 2022.	\$ 1,533,342	\$ (228,006)	\$ 1,305,336
Loan from Allegheny County in the amount of \$3,100,000, issued October 1991, 0% interest, no stated repayment terms.	3,100,000	-	3,100,000
Loan from Allegheny County in the amount of \$50,000, issued pre-1982, 0% interest, no stated repayment terms.	50,000	-	50,000
Loan from the City of Pittsburgh in the amount of \$50,000, issued pre-1982, 0% interest, no stated repayment terms.	50,000	-	50,000
(Fixed) Note from PNC Bank and Dollar Bank in the amount of \$37,176,138 issued April 18, 2010, seven-year term with 20-year amortization, 4.5% fixed interest, paid monthly.	35,360,851	(1,250,865)	34,109,986
Total loans/notes payable	\$ 40,094,193	\$ (1,478,871)	\$ 38,615,322

The aggregate amount of principal and interest payments required on loans and notes payable are as follows:

Year:	Principal	Interest	Total Debt Service
2013	\$ 1,313,719	\$ 1,529,008	\$ 2,842,727
2014	1,480,256	1,487,134	2,967,390
2015	1,572,320	1,421,074	2,993,394
2016	1,635,517	1,355,878	2,991,395
2017	28,613,502	546,078	29,159,580
2018-2022	666,675	36,667	703,342
2023-2027	133,333	1,333	134,666
No Maturity	3,200,000	-	3,200,000
Total	\$ 38,615,322	\$ 6,377,172	\$ 44,992,494

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PNC Bank/Dollar Bank 2010 Loan

On April 18, 2010, the Authority closed on a \$41,176,138 loan transaction with PNC Bank and Dollar Bank. A \$26,194,462 fixed rate note and a \$4 million variable rate note were issued to PNC Bank and a \$10,981,676 fixed rate note was issued to Dollar Bank. The \$4 million variable rate note was prepaid on November 1, 2010 with proceeds of the 2010 Hotel Tax Refunding Bonds (see Note 6).

The loan refinanced (1) a 2004 PNC Bank/Dollar Bank Loan which financed costs for operations and capital costs for the Convention Center and (2) the 2001 Parking Revenue Bonds. Of the total \$41 million loan, \$16,751,161 was to refinance the 2004 loan and \$24,424,977 was to refinance the 2001 Parking Revenue Bonds. Security for this loan is (1) residual/discretionary Hotel Tax (restricted to Convention Center portion), (2) revenues from Convention Center garage, (3) grants from the Pennsylvania EDTF (restricted to the Convention Center portion), (4) revenues from North Shore garage, and (5) revenues from Stadium Authority Lots 1 and 7A through 7J (restricted to the North Shore garage portion.)

Stadium Authority

On February 14, 2012 the Stadium Authority refinanced a \$19 million loan for its West General Robinson Street garage with a loan from PNC Bank/Dollar Bank. In connection with this Stadium Authority loan, the Authority amended the documents related to its 2010 PNC/Dollar Bank loan to extend the pledge of certain collateral (North Shore garage, Convention Center garage and Authority surface lot revenues) to the Stadium Authority loan.

Heinz Endowment Loans

In 2001, the Howard Heinz Endowments and the Vira I. Heinz Endowments (Endowments) provided a \$3 million in loans to the Authority to support the green building features of the Convention Center. The Endowments forgave the first year's payment of \$115,000 in principal for each loan and deferred the interest in 2009. Additionally the Endowments approved the delay of the second payment until December 31, 2010. On December 21, 2011, the Endowments amended the loan to forgive \$33,333 of principal for each loan each year, reducing the principal payments by one-third and allowing for prepayment of principal, without penalty. In 2012 and 2011, \$66,000 and \$133,333 of principal was due and paid and \$161,338 and \$67,333, respectively, was prepaid on the loans, leaving a principal balance total of \$1,305,328.

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8. NET INVESTMENT IN CAPITAL ASSETS

Total net position includes net investment in capital assets. The calculations for the years ending 2012 and 2011 are as follows:

	2012	2011
Capital assets, net	\$ 1,094,731,636	\$ 1,137,452,817
Lease acquisition costs, net	417,316	959,030
Less bonds payable related to capital assets	(687,192,781)	(701,444,662)
Less loans/notes payable related to capital assets	(38,615,322)	(40,093,526)
Plus net unspent bond proceeds	17,113,208	16,184,879
Net investment in capital assets	\$ 386,454,057	\$ 413,058,538

9. DERIVATIVE FINANCIAL INSTRUMENTS - INTEREST RATE SWAPS

The Authority had the following interest rate swaps as of December 31, 2012 and 2011:

	Notional Amount	Effective Date	Maturity Date	Interest Rate Paid	Interest Rate Received	Counterparty Credit Rating	Underlying Bonds
Hedging Derivatives							
Cash flow hedges							
Receive variable - pay fixed							
Interest rate swaps	\$ 59,785,000	10/4/2007	11/1/2039	5.335%	1M LIBOR	A2	2007 Series B
	233,810,000	10/4/2007	11/1/2038	4.020%	SIFMA	A2	2007 Series A

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	Notional Amount	12/31/2010 Market Value *	Change in Market Value	12/31/2011 Market Value *	Change in Market Value	12/31/2012 Market Value *
Hedging Derivatives						
Cash flow hedges						
Receive variable - pay fixed						
Interest rate swaps	\$ 59,785,000	\$ (12,409,919)	\$ (13,337,304)	\$ (25,747,223)	\$ 1,258,739	\$ (24,488,484)
	233,810,000	<u>(22,317,710)</u>	<u>(33,784,617)</u>	<u>(56,102,327)</u>	<u>(1,400,177)</u>	<u>(57,502,504)</u>
Total		<u>\$ (34,727,629)</u>	<u>\$ (47,121,921)</u>	<u>\$ (81,849,550)</u>	<u>\$ (141,438)</u>	<u>\$ (81,990,988)</u>

* The market value is an estimated net present value of the expected cash flows calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation.

Objective of the Interest Rate Swaps

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance of its variable rate New Arena Bonds, the Authority entered into pay-fixed, receive-variable interest rate swap agreements with PNC Bank, National Association (Counterparty). The intention of the swaps was to effectively change the Authority's variable interest rates on the New Arena Bonds to synthetic fixed rates of 4.020% (Series A) and 5.335% (Taxable Series B).

Terms

The swap agreements were entered into at the same time the New Arena Bonds were issued (October 2007). The swap agreements expire on November 1, 2038 (Series A) and November 1, 2039 (Taxable Series B), consistent with the final maturity of each series of bonds.

The interest payments on the interest rate swaps are calculated based on notional amounts, all of which began reducing in 2008, so that the notional amounts approximate the principal outstanding on the respective bonds. The swap's original notional amounts were \$252,000,000 (Series A) and \$61,265,000 (Series B). The interest rate swaps expire consistent with the final maturity of the respective bonds.

Pursuant to the swap contracts, the Authority pays the Counterparty semi-annually on each November 1 and May 1, and the Counterparty pays the Authority monthly on the first of each month. For the year ended December 31, 2012, the Authority paid \$9,320,587 fixed and received \$299,583 variable with respect to the swap on the Series A Bonds, and paid

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\$3,167,322 fixed and received \$123,822 variable with respect to the swap on the Taxable Series B Bonds. At December 31, 2012, the SIFMA Municipal Swap Index and 1M LIBOR rates were .1330% and .2105%, respectively.

Accounting and Risk Disclosures

As noted in the tables above, current period changes in market value for the interest rate swaps that are accounted for as hedges are recorded on the statements of net position as deferred outflows. The cumulative fair market value of the outstanding interest rate swaps of December 31, 2012 and 2011 are reported on the statements of net position as a swap liability.

The Authority has the ability to early terminate the interest rate swaps and to cash settle the transaction on any business day by providing at least two business days written notice to the counterparty. Evidence that the Authority has sufficient funds available to pay any amount payable to the counterparty must be provided at the time notice is given. At early termination, the Authority will be required to pay or receive a settlement amount which is comprised of the market value of the terminated transaction(s) based on market quotations and any amounts accrued under the contract(s).

Through the use of derivative instruments such as interest rate swaps, the Authority is exposed to a variety of risks, including credit risk, remarketing/interest rate/basis risk and termination risk.

- Credit risk is the risk that the counterparty will not fulfill its obligations. The credit ratings by Moody's Investors Service, Inc., a nationally recognized statistical rating organization for the respective counterparties are listed in the table above. If the counterparty fails to perform according to the terms of the interest rate swap agreements, there is some risk of loss to the Authority; if the Authority would need to replace the swaps, it would likely cost the Authority the then fair market values. Because the swaps have negative fair market values, there is no current credit risk to the Authority. This risk includes the potential for the counterparty to fail to make periodic variable rate payments to the Authority and the counterparty to fail to make termination payments to the Authority, if the swaps are terminated and a termination payment is due from the counterparty.

The Authority has not entered into master netting arrangements with its Counterparty; as such each derivative instrument should be evaluated on an individual basis for credit risk.

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Concentration of credit risk: The Authority currently has one counterparty for both of their interest rate swaps. Total fair market value of interest rate swaps held with this counterparty is (\$81,990,987) at December 31, 2012.

The Authority had an agreement with the counterparty that required the counterparty to post collateral if certain circumstances existed in a specific period of the swap agreement. This provision expired on May 1, 2010. Currently, there are terms if the Counterparty's credit rating falls below A- by Standard & Poor's or A3 by Moody's Investors Services, Inc., then there would be an automatic termination event under the swap as required by the swap insurer. As of year-end, the Counterparty had not and was not required to post collateral for these transactions, nor had a termination event occurred.

Remarketing/interest rate/basis risk is the risk that arises when variable interest rates on a derivative and associated bond are based on different indexes. The Authority is subject to remarketing/interest rate/basis risk as the interest index on the variable rate arm of the swaps is based on the SIFMA Municipal Swap Index (Series A Bonds) or 1M LIBOR (Taxable Series B Bonds), as previously discussed, and the variable interest rate on the New Arena Bonds is based on a trading spread to the index based on current market conditions as determined by the remarketing agent. Although expected to correlate over the long-term, the short-term relationships between the SIFMA Municipal Swap Index and the weekly tax exempt rate, and the 1M LIBOR and the weekly taxable rate may vary. The variance could adversely affect the Authority's calculated payments, and synthetic interest rates may not be realized. This risk has been minimized, however, because the swap indexes are directly related to the markets for the bonds and the variance over the long-term are expected to be minimal.

Termination risk is the risk that the swap will end before the final maturity of the New Arena Bonds. The stated term of the swaps is equal to the term of the bonds. There are instances, however, when the swaps could be terminated earlier. The swaps use the International Swaps and Derivatives Association Master Agreement, which includes standard termination events, such as rating downgrades, covenant violations, bankruptcy, or swap payment default by either the Authority or the Counterparty. The Authority or the Counterparty may terminate the swaps if the other party fails to perform under the terms of the contract. Additional termination events include provisions such as if the underlying bonds were converted to fixed rate, if the indenture or Commonwealth lease is amended or supplemented in a manner that adversely affects the counterparty without the counterparty's prior approval, or in the event of a natural or man-made disaster, armed conflict, act of terrorism, riot, etc.,

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beyond the control of the parties that would occur that would prevent a party from performing under the terms of the contract. If the swaps are terminated, the variable-rate bonds would no longer carry a synthetic fixed interest rate.

- Rollover risk is the risk that a derivative associated with the Authority's debt does not extend to the maturity of that debt. When the derivative terminates, the associated debt will no longer have the benefit of the derivative. The Authority is not exposed to rollover risk as the swap agreements terminate on the same day the last payment is due on the respective bonds.

10. EMPLOYEE BENEFIT PLANS

The Authority has a defined contribution retirement plan (plan) covering substantially all of its full-time employees. None of its employees are subject to collective bargaining agreements. Participation in the plan requires an employee to have completed six months of service. Employees are required to make mandatory contributions to the plan equal to 5% of their base compensation, on a pre-tax basis. The Authority annually contributes 7% of eligible employee compensation to the plan. Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the remainder of a participant's account is based on years of continuous service. A participant is 100% vested after five years of service. The Authority contributed \$47,163 and \$67,714 to the plan for the years ended December 31, 2012 and 2011, respectively. In 2000, the Authority established a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code of 1986. Under the deferred compensation plan, employees may voluntarily contribute additional pre-tax monies up to allowable federal limits. Eligibility for the deferred compensation plan is consistent with the defined contribution retirement plan and employees are 100% vested in any contributions and earnings thereon. The Authority does not make matching contributions to the deferred compensation plan.

11. OPERATION OF DAVID L. LAWRENCE CONVENTION CENTER

By agreement dated January 1, 2002, the Authority entered into a management agreement with SMG, a Pennsylvania general partnership, to provide management services for the Convention Center. A new agreement was entered into on January 1, 2011 for a five-year term. SMG is paid a fixed fee as base compensation for providing the management services and may be entitled to an annual incentive fee based on the gross income in excess of the average of the gross income for the prior three years. The incentive fee is capped at 20% of total fees.

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The Convention Center generates revenue through rental contracts and various ancillary services charged directly to the customer. The largest component of ancillary services is food and beverage (F & B), which generated 36% of the Center's revenue in 2012. The Authority entered into a contract with Levy Premium Food Service L.P. (Levy) on June 1, 2003 to manage the F & B services at the Convention Center. The original contract expired on December 31, 2010, at which time a new contract was entered into for a three-year term with a two-year renewal option. Levy earns a fee based on 2% of F & B gross receipts up to \$3 million, 4% from \$3 - \$5 million, and 6% over \$5 million and a fee based on 3% of F & B profit. Total fees are capped at \$250,000, with a CPI increase capped at 4%.

12. CIVIC ARENA AUDITORIUM

The New Arena Lease (Note 14) commenced on August 1, 2010, at which time the Authority assumed day-to-day operations and maintenance of the Civic Arena. The Authority entered into a building management agreement with Oxford Development Company that lasted until the building was turned over to Noralco Corporation, the demolition contractor. Demolition of the exterior of the structure began in September 2011 and was completed in September 2012. The surface has been paved to be used for parking until the property is developed. Pending the redevelopment of the Civic Arena site, The Pittsburgh Penguins manage, operate, maintain, and receive all net revenue from the parking spaces located on the Civic Arena site (subject to the \$400,000 parking surcharge described in Note 6).

In 2012, the Authority entered into a Cooperation Agreement with the City and the Urban Redevelopment Authority of Pittsburgh (URA), whereby an amount equal to the City parking tax generated from the new parking created from the demolition of the Civic Arena is split jointly between the Authority and the URA. The use of this grant is restricted to the design and construction of roads and infrastructure and is capped at \$2 million (\$1 million for each entity) and terminates December 31, 2016. The Authority began receiving monthly payments under this arrangement in December 2012.

13. CIVIC ARENA OPTION AREA

Pursuant to the Option Agreement dated September 18, 2007 as amended, between the Authority, the URA, and the Pittsburgh Penguins, the Pittsburgh Penguins are given rights to develop the Civic Arena site (approximately 28 acres, 2/3 of which is owned by the Authority and 1/3 is owned by the URA), on certain terms and conditions. Upon identifying a parcel it wishes to develop, the Pittsburgh Penguins are to purchase the parcel from the Authority or the URA at fair market value, as determined by an appraisal. The Pittsburgh

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Penguins were entitled to an aggregate of \$15 million of credits to be applied to the purchase prices. At the termination of the Option Agreement, if the Pittsburgh Penguins have not received the full \$15 million of credits, the Authority is obligated to pay the difference in cash. The URA and the Redevelopment Authority of Allegheny County have agreed to loan such amounts to the Authority if needed.

One parcel of land valued at \$475,000 was sold in 2009, using \$475,000 of credits. No parcels were purchased in 2012 or 2011. At December 31, 2012 and 2011, the balance of credits as reported on the statements of net position totaled \$14.525 million.

The deferred lease costs are to be amortized over the term of the New Arena Lease and will be adjusted upon each purchase by the Pittsburgh Penguins based on the value of credits used and the book value of land sold. For the land transaction in 2009, the Authority's cost basis of the land exceeded the credits used by \$1.25 million. At December 31, 2012 and 2011, the balance of deferred lease costs as reported on the statements of net position totaled \$14.9 and \$15.5 million, respectively.

14. CONSOL ENERGY CENTER OPERATING LEASE

Pursuant to the New Arena Development Agreement dated September 30, 2007, as amended and a long-term sublease agreement dated September 18, 2007, as amended (the New Arena Lease) the Authority agreed to issue debt to finance the development and construction of the New Arena (including an attached parking garage) and Pittsburgh Penguins agreed to lease and play professional hockey at the New Arena for an initial term beginning on August 1, 2010, and ending on June 30, 2040. Under the terms of the original New Arena Lease, the rent amount due from the Pittsburgh Penguins is (a) \$4.1 million per year and (b) \$200,000 for each lease year in which certain additional parking spaces are delivered by the Authority. (The additional parking spaces were delivered in 2012.) This rent is to be used to pay the debt service on Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Note 6).

Under the terms of the New Arena Lease, parking surcharge in the amount of \$400,000 is due from the Pittsburgh Penguins each year. The Pittsburgh Penguins collect and retain any parking surcharge collected above this amount. Upon occupancy of the New Arena (August 1, 2010), the Authority deposited \$3,000,000 into the Capital Reserve Fund for the New Arena. Pursuant to the New Arena Lease, the Authority deposits the \$400,000 annual parking surcharge received from the Pittsburgh Penguins in this account. The Capital Reserve Fund balance held \$4,285,912 and \$3,584,853, respectively, as of December 31, 2012 and 2011.

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FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

On February 16, 2010, the Authority and the Pittsburgh Penguins entered into the Second Amendment to the New Arena Lease, whereby the team agreed to pay an additional rent payment of \$1,360,000 per year, which amount is used to pay the debt service on the Commonwealth Lease Revenue Bonds, Taxable Series of 2010 (Note 6).

The Authority and the Pittsburgh Penguins entered into the Third Amendment to the New Arena Lease effective August 1, 2010, whereby the Penguins agreed to pay the Authority an additional \$100,000 per year in rent in connection with the expanded service yard and the Authority agreed to deposit this additional rent payment into the Capital Reserve fund. All rent and surcharge payments due from the Pittsburgh Penguins were received and deposited in 2012.

Under the conditions of this New Arena Lease, the Pittsburgh Penguins are granted the exclusive right to any naming and advertising rights pertaining to the New Arena. The Pittsburgh Penguins are obligated to pay all expenses in connection with the maintenance, use, repair, and occupancy of the New Arena necessary to keep and maintain the New Arena in first-class condition, reasonably consistent with other comparable facilities, subject to certain limited exclusions. Since the opening of the facility, the Pittsburgh Penguins have paid for \$2.1 million of leasehold improvements and furniture, fixtures, and equipment. Although these fixed asset purchases would remain with the building as property of the Authority upon termination of the lease, these assets are not capitalized by the Authority.

15. BENEDUM CENTER OPERATING LEASE

On June 15, 1984, the Authority acquired certain property and entered into an agreement to lease the property to the Allegheny International Realty Development Corporation (AIRDC). AIRDC subsequently assigned the lease to the Pittsburgh Trust for Cultural Resources (Trust) for purposes of constructing and operating the Benedum Center. The lease agreement provides for annual rentals of one dollar and requires the Trust to pay for improvements, maintenance, utilities, and insurance. The lease is for a period of fifty years and is due to expire in June 2034, with an option to renew the lease for an additional thirty years.

16. HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA OPERATING LEASE

On October 22, 1991, the Authority acquired the former Chautauqua Ice Company property and entered into an agreement to lease the property to the Historical Society of Western Pennsylvania (Society). The Society has established The Heinz History Center and supporting facilities that operate as a museum, research center, and cultural facility for the benefit of the general public. The lease agreement provides for annual rental of one dollar

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

and requires the Society to pay for improvements, maintenance, utilities, and insurance. The lease is for a period of 25 years and is due to expire in October 2016. The Society has the option to renew the lease for three consecutive periods of 25 years each at an annual rental mutually agreed to by the parties. The Society has obtained a mortgage loan to finance construction on the property. The Authority has consented to the use of the building as collateral on the loan.

17. PNC PARK OPERATING LEASE

The Authority has entered into a lease agreement with Pittsburgh Associates (Pirates) with an initial term of 29.5 years, commencing in March 2001. Obligated payments to the Authority include the following components: (a) Base Rent of \$100,000 per year, (b) Excess Gate Revenues which are (i) 5% of gate revenues over \$44.5 million up to and including \$52 million (ii) 10% of gate revenues over \$52 million increased annually by the percentage increase in the Average Ticket Price, (c) Excess Concession Revenue, which is the sum of (i) should the Pirates arrangement with the concessionaire(s) selected by the team entitle the team to receive more than 42% of the aggregate gross concession revenues, the Pirates shall pay the Authority 5% of the excess over the 42%, but less than 45%, and 10% of the excess above 45% and (ii) 5% of gross food and beverage revenues in excess of \$9.00 per capita (adjusted annually by CPI increases) and (d) Ticket Surcharges - the team shall receive and retain the first \$1,500,000 of ticket surcharges each year, with the next \$375,000 (adjusted annually by CPI increases) paid to the Authority for deposit into the Capital Reserve Fund, and the next \$250,000 paid directly to the Authority. The Pirates shall retain any ticket surcharges collected above these amounts. In fiscal year 2012, the Authority recognized \$100,000 in Base Rent, \$624,308 in ticket surcharges, and \$0 for Excess Gate and/or Concession Revenues.

Under the conditions of this operating lease, the Pirates are granted the exclusive right to any naming, advertising, broadcasting, and telecommunications rights pertaining to PNC Park. The Pirates are obligated to pay all expenses in connection with the maintenance, use, repair, and occupancy of PNC Park necessary to keep and maintain PNC Park in a first-class condition, reasonably consistent with other comparable facilities, subject to certain limited exclusions. Since the opening of the facility, the Pirates have paid for \$13.8 million of leasehold improvements and furniture, fixtures, and equipment. Although these fixed asset purchases would remain with the building as property of the Authority upon termination of the lease, these assets are not capitalized by the Authority.

The lease also provides for the creation of a Capital Reserve Fund, which is to be funded from ticket surcharges from Major League Baseball games and concerts, rent, excess

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FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

concession, gate revenues, and other funding. The Capital Reserve Fund for PNC Park held \$7,621,062 and \$7,000,154, respectively, as of December 31, 2012 and 2011.

18. HEINZ FIELD OPERATING LEASE

The Authority has entered into a lease agreement with PSSI Stadium Corporation (PSSI) with an initial term of 29.5 years, commencing in August 2001. PSSI (a related entity to the Steelers) subleases the facility to Pittsburgh Steelers Sports, Inc. (Steelers) and the University of Pittsburgh. Obligated payments to the Authority include the following components (a) Non-Sporting Event Revenues (15% of net revenues from non-sporting events); and (b) Ticket Surcharge Revenues (5% ticket surcharge is imposed by the Authority on all NFL Events tickets sold at Heinz Field (capped at \$3), with the first \$1.4 million of total ticket surcharge monies collected restricted to pay principal and interest on the Ticket Surcharge Revenue Bonds and surcharge proceeds over \$1.4 million paid to the Authority for deposit into the Capital Reserve Fund; all surcharge monies collected for non-NFL events are paid directly to the Authority). In fiscal year 2012, the Authority recognized \$137,720 in Non-Sporting Event Revenue and \$499,228 in Ticket Surcharge Revenues.

Under the conditions of this operating lease, PSSI is granted the exclusive right to any naming, advertising, broadcasting, and telecommunications rights pertaining to Heinz Field. PSSI is obligated to pay all expenses in connection with the maintenance, use, repair, and occupancy of Heinz Field necessary to keep and maintain Heinz Field in a first-class condition, reasonably consistent with other comparable facilities, subject to certain limited exclusions. Since the opening of the facility, PSSI has paid for \$30 million of leasehold improvements and furniture, fixtures, and equipment. Although these fixed asset purchases would remain with the building as property of the Authority upon termination of the lease, these assets are not capitalized by the Authority.

The lease also provides for the creation of a Capital Reserve Fund, which is to be funded from ticket surcharges from National Football League games, college football games, and concerts, the Authority's share of Non-Sporting Event Revenues, and other funding. The Capital Reserve Fund for Heinz Field held \$5,010,242 and \$6,042,442, respectively, as of December 31, 2012 and 2011.

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FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

19. PENNSYLVANIA GAMING ECONOMIC DEVELOPMENT & TOURISM FUND (EDTF)

Section 14.07 of Act 71 of 2004 (PA Race Horse Development and Gaming Act) provided for the creation of the EDTF. Act 53 of 2007, known as the Capital Budget Itemization Act of 2007, authorized recurring funding to the Authority for certain projects from the EDTF. The Authority receives the following:

1. \$20,000,000 - for the retirement of indebtedness of the Convention Center. The allocated amount is disbursed in increments of at least \$1.7 million over ten years with the remaining balance being disbursed within the following two years. The fourth and fifth increments of \$1.7 million were received and recognized as non-operating revenue in 2011 and 2012.
2. \$20,000,000 - for the payment of the operating deficit of the Convention Center. The allocated amount is disbursed in increments of at least \$1.7 million over ten years, with the remaining balance being disbursed within the following two years. The amount cannot exceed the operating deficit of the Convention Center. The fourth and fifth increments of \$1.7 million were received and recognized as non-operating revenue in 2011 and 2012.
3. \$225,000,000 - for the construction of the New Arena Project. The allocated amount is disbursed in increments of \$7.5 million for thirty years or the retirement of the debt, whichever is less. The fifth and sixth increments in the amount of \$7.5 million have been received and recognized as non-operating revenue in 2011 and 2012. The remaining increments of \$7.5 million are to be paid in 2013 through 2036.

20. SEGMENT INFORMATION

The operating segment captures the operation of the Convention Center, its parking garage, and the Authority's administrative office.

The capital development segment includes the Authority's bond issues and loans, pledged revenues and expenses related to capital development projects including PNC Park, Heinz Field, Consol Energy Center, the Convention Center and its garage, the North Shore Parking Garage, Lower Hill Redevelopment and all related infrastructure. Investors in the bonds rely solely on the revenues pledged for the projects for repayment.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Statement of Net Position - 2012

	Operating	Capital Development	Total
Current assets	\$ 5,907,719	\$ 62,835,992	\$ 68,743,711
Capital assets, net	2,212,221	1,092,519,415	1,094,731,636
Noncurrent assets	-	24,076,899	24,076,899
Total Assets	8,119,940	1,179,432,306	1,187,552,246
Deferred Outflows of Resources	-	81,990,988	81,990,988
Current liabilities	3,191,166	29,723,680	32,914,846
Noncurrent liabilities	4,189,648	801,488,757	805,678,405
Total Liabilities	7,380,814	831,212,437	838,593,251
Net investment in capital assets	(987,780)	387,441,837	386,454,057
Net assets restricted	1,122,772	42,769,020	43,891,792
Net assets unrestricted	604,134	-	604,134
Total Net Position	\$ 739,126	\$ 430,210,857	\$ 430,949,983

Statement of Revenues, Expenses, and Changes in Net Position - 2012

	Operating	Capital Development	Total
Restricted operating revenues	\$ 2,182,411	\$ 10,480,873	\$ 12,663,284
Unrestricted operating revenues	8,568,816	345,412	8,914,228
Less: operating expenses	(12,384,555)	(500,597)	(12,885,152)
Less: depreciation/amortization	(111,454)	(50,454,719)	(50,566,173)
Operating Loss	(1,744,782)	(40,129,031)	(41,873,813)
Restricted nonoperating revenues	6,150,195	45,058,079	51,208,274
Unrestricted nonoperating revenues (expenses)	60,657	(158,586)	(97,929)
Interest expense	-	(34,202,340)	(34,202,340)
Transfers	(5,404,102)	5,404,102	-
Change in Net Position	(938,032)	(24,027,776)	(24,965,808)
Beginning Net Position	1,677,158	454,238,633	455,915,791
Ending Net Position	\$ 739,126	\$ 430,210,857	\$ 430,949,983

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Statement of Cash Flows - 2012

	Operating	Capital Development	Total
Cash flows from operating activities	\$ (1,825,936)	\$ 10,498,147	\$ 8,672,211
Cash flows from non-capital financing activities	(1,282,979)	5,522,094	4,239,115
Cash flows from capital and related financing activities	1,571,828	(12,104,052)	(10,532,224)
Cash flows from investing activities	(67,144)	141,657	74,513
Increase (decrease) in cash and cash equivalents	(1,604,231)	4,057,846	2,453,615
Cash and Cash Equivalents, Beginning	6,869,122	62,803,285	69,672,407
Cash and Cash Equivalents, Ending	\$ 5,264,891	\$ 66,861,131	\$ 72,126,022
Consists of:			
Restricted cash and cash equivalents	\$ 3,188,172	\$ 66,861,131	\$ 70,049,303
Unrestricted cash and cash equivalents	2,076,719	-	2,076,719
	\$ 5,264,891	\$ 66,861,131	\$ 72,126,022

Note: This segment information includes inter-segment receivables/payables.

Statement of Net Position - 2011

	Operating	Capital Development	Total
Current assets	\$ 8,430,328	\$ 61,004,640	\$ 69,434,968
Capital assets, net	2,195,503	1,135,257,314	1,137,452,817
Noncurrent assets	-	24,370,977	24,370,977
Total Assets	10,625,831	1,220,632,931	1,231,258,762
Deferred Outflows of Resources	-	81,849,550	81,849,550
Current liabilities	4,666,718	29,562,737	34,229,455
Noncurrent liabilities	4,281,955	818,681,111	822,963,066
Total Liabilities	8,948,673	848,243,848	857,192,521
Net investment in capital assets	(1,004,497)	414,063,035	413,058,538
Net assets restricted	2,648,117	40,175,598	42,823,715
Net assets unrestricted	33,538	-	33,538
Total Net Position	\$ 1,677,158	\$ 454,238,633	\$ 455,915,791

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Statement of Revenues, Expenses, and Changes in Net Position - 2011

	Operating	Capital Development	Total
Restricted operating revenues	\$ 1,725,240	\$ 9,727,419	\$ 11,452,659
Unrestricted operating revenues	9,663,368	504,236	10,167,604
Less: operating expenses	(12,495,930)	(677,279)	(13,173,209)
Less: depreciation/amortization	(87,524)	(50,240,732)	(50,328,256)
Operating Loss	(1,194,846)	(40,686,356)	(41,881,202)
Restricted nonoperating revenues	5,768,036	46,078,626	51,846,662
Unrestricted nonoperating revenues (expenses)	19,181	13,311	32,492
Interest expense	-	(34,846,176)	(34,846,176)
Transfers	(3,176,045)	3,176,045	-
Change in Net Position	1,416,326	(26,264,550)	(24,848,224)
Beginning Net Position	260,832	480,503,183	480,764,015
Ending Net Position	\$ 1,677,158	\$ 454,238,633	\$ 455,915,791

Statement of Cash Flows - 2011

	Operating	Capital Development	Total
Cash flows from operating activities	\$ (1,349,685)	\$ 8,307,483	\$ 6,957,798
Cash flows from non-capital financing activities	1,075,836	3,430,022	4,505,858
Cash flows from capital and related financing activities	1,675,989	(27,699,912)	(26,023,923)
Cash flows from investing activities	(70,991)	191,577	120,586
Increase (decrease) in cash and cash equivalents	1,331,149	(15,770,830)	(14,439,681)
Cash and Cash Equivalents, Beginning	5,537,973	78,574,115	84,112,088
Cash and Cash Equivalents, Ending	\$ 6,869,122	\$ 62,803,285	\$ 69,672,407
Consists of:			
Restricted cash and cash equivalents	\$ 5,806,133	\$ 62,803,285	\$ 68,609,418
Unrestricted cash and cash equivalents	1,062,989	-	1,062,989
	\$ 6,869,122	\$ 62,803,285	\$ 69,672,407

Note: This segment information includes inter-segment receivables/payables.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

21. COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is involved in claims and legal actions arising from construction and in the normal course of operations. In October 2011, the Board approved a settlement with various parties involving the design, construction and installation of flat roof areas and related waterproofing at the Convention Center. Additionally, there are multiple claims resulting from the operation of SEA facilities; Convention Center, Heinz Field, PNC Park, and Consol Energy Center, and parking garages for which in some cases the respective tenants or management companies have indemnified the Authority, the range of potential loss and the outcomes of these cases cannot be determined. In the opinion of management, the ultimate disposition of these matters, considering indemnification agreements, insurance, and Authority defenses will not have a material adverse effect on the Authority's financial position.

PSSI Stadium LLC initiated a lawsuit by Praecipe for Writ of Summons on October 30, 2012 and then filed a Complaint against the Authority on December 14, 2012 claiming that, pursuant to the terms of the lease for Heinz Field, the Authority is obligated to pay for certain modifications to the stadium in an estimated amount of approximately \$30 million. The Authority believes it has meritorious defenses against the suit and accordingly no provision has been made in the financial statements for its ultimate resolution.

**Sports & Exhibition Authority of
Pittsburgh and Allegheny County**

Independent Auditor's Report
in Accordance with
Government Auditing Standards

For the Year Ended December 31, 2012

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Sports & Exhibition Authority of Pittsburgh
and Allegheny County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), which comprise the statement of net position as of December 31, 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 9, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express

Board of Directors
Sports & Exhibition Authority of Pittsburgh
and Allegheny County
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Pittsburgh, Pennsylvania

May 9, 2013