

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH
Pittsburgh, Pennsylvania

Financial Statements and Supplementary Information

For the Year Ended March 31, 2015

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of the
Stadium Authority of the City of Pittsburgh
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the Stadium Authority of the City of Pittsburgh (Authority), which comprise the statement of net position as of March 31, 2015, 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.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 March 31, 2015, and the changes in its net position and its cash flows for the year 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Stadium Authority of the City of Pittsburgh. The Parking Facilities-North Shore Map on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Parking Facilities-North Shore Map has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited the Stadium Authority of the City of Pittsburgh's March 31, 2014 financial statements, and our report dated July 15, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Pittsburgh, Pennsylvania
July 1, 2015

McLure Marwan & Associates, P.C.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2015

As management of the Stadium Authority of the City of Pittsburgh (**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 March 31, 2015 and 2014. This Management's Discussion and Analysis is designed to assist the reader in focusing on 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

- Net position as of March 31, 2015 is better than the prior year by \$2.9 million (an 84% increase). This is as a result of increased cash from parking revenues. The Authority's total cash and cash equivalents balance (Note 3) at the close of the 2015 fiscal year was \$10.8 million, representing a \$3 million increase over the prior year-end. The liabilities of the Authority decreased \$801,748 due to payment on outstanding debt.
- The Authority recognized \$6.6 million in restricted and unrestricted operating revenues for the calendar year 2015, the result of an increase in total parking revenues of \$266,000 from the West General Robinson Street (**WGRS**) garage and the Authority's North Shore lots over 2014. Operating expenses increased \$16,000.
- As shown on the Statements of Revenues, Expenses, and Changes in Net Position, total Authority operating revenues (\$6.6 million), net of operating expenses (\$3.7 million), resulted in a \$2.9 million operating surplus. This amount includes depreciation and amortization expenses of \$830,000.

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. The following is a brief history of the Stadium Authority of the City of Pittsburgh and its role today in the development of the North Shore.

STADIUM AUTHORITY
OF THE CITY OF PITTSBURGH

Management's Discussion and Analysis

The Authority was formed by the City of Pittsburgh (**City**) on March 9, 1964 pursuant to the provisions of the Public Auditorium Authorities Law of the Commonwealth of Pennsylvania approved July 29, 1953, P.L. 1034, as amended (recodified as the Sports and Exhibition Authority Act 16 P.S. Section 5502-A et seq.). The Authority was originally responsible for the construction and management of Three Rivers Stadium and related parking facilities. Three Rivers Stadium, which was used for baseball, football and various concert events, opened on July 16, 1970 and was demolished in February 2001. The Sports & Exhibition Authority of Pittsburgh and Allegheny County (**SEA**) constructed Heinz Field, which is leased to the Pittsburgh Steelers, and PNC Park, which is leased to the Pittsburgh Pirates, to replace Three Rivers Stadium. The Authority remains responsible for the development of the land between the football stadium and the baseball park (which area is called the **Option Area**). In 2003 the Authority entered into an agreement with the North Shore Developers, L.P., a joint venture of the Steelers and Pirates, for the development of the Option Area (as amended, the **Option Agreement**). The Option Agreement was amended in December 2008 and November 2011 (collectively, the "Option Agreement"). The Authority oversees this development according to the terms of the Option Agreement, as amended.

The Option Area contains 12 development parcels of various sizes. The North Shore Developers, L.P. have taken down six parcels; the Equitable Resources building, the Del Monte building (2 parcels), the Hyatt Place Hotel, North Shore Place I and North Shore Place II. The North Shore developments are under construction and are expected to be completed in the second quarter of 2015. Six development parcels remain.

As part of the Option Area development, the Authority built the West General Robinson Street garage which opened in 2006, to provide parking for the stadium and ballpark and to replace parking that was or will be eliminated with the development. Until all development is completed, the remaining development parcels are used as surface parking lots.

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Management's Discussion and Analysis

Pursuant to the team leases for Heinz Field and PNC Park and the Option Agreement, the teams earn certain surface parking lot revenue related to Heinz Field and PNC Park events. The teams receive certain game day revenues annually and certain of the game day parking revenues are placed in development funds and paid to the teams as development of the Option Area occurs.

The Authority leases additional land from the Commonwealth of Pennsylvania that is also used for surface parking. The WGRS garage and all surface lots are managed by or leased to ALCO Parking Corporation (ALCO). The lease and management agreements with ALCO with respect to the parking lots run through 2050. The management agreement for WGRS garage runs through December 31, 2016. Attached to this report as Exhibit A is a map of development parcels, parking lots and parking garages referenced throughout this document.

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 presents 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).

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Management's Discussion and Analysis

The *statements of cash flows* reports 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 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

Below is a summary of the net position of the Authority as of March 31, 2015.

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Management's Discussion and Analysis

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

	<u>2015</u>	<u>2014</u>
Current assets	\$ 9,808	\$ 7,020
Capital assets	24,803	25,721
Other assets	<u>5,072</u>	<u>5,000</u>
Total Assets	<u>\$ 39,683</u>	<u>\$ 37,741</u>
Current liabilities	\$ 997	\$ 1,115
Other long-term liabilities	16,439	17,241
Grants from the City of Pittsburgh	<u>22,775</u>	<u>22,775</u>
Total Liabilities	<u>\$ 40,211</u>	<u>\$ 41,131</u>
Net Position:		
Net investment in capital assets	\$ 7,562	\$ 7,700
Restricted for capital activity/ debt service	12,047	8,580
Unrestricted	<u>(20,137)</u>	<u>(19,670)</u>
Total Net Position	<u>\$ (528)</u>	<u>\$ (3,390)</u>

Current assets include cash, investments, and receivables from parking operations. Current assets are \$2.8 million greater than 2014. Other assets include \$2.5 million in development funds for the Steelers, Pirates and Stadium Authority. Steelers and Pirates development funds (\$814,100) are held and paid upon the development of parcels in the Option Area. An Authority development fund (\$1,335,000) is held to facilitate the construction and financing of parking garages on the North Shore. (Collectively referred to herein as the **Development Funds**.) Other assets also include \$2.5 million in the debt service reserve account for the 2012 garage financing.

Liabilities decreased \$919,000 in 2015. Current liabilities include payables on capital projects at the WGRS garage. Other long-term liabilities include continued principal payments which reduced the outstanding balance on the fixed and variable rate notes.

Net Position increased from (\$3,390k) in 2014 to (\$528k) in 2015, a \$2.9 million increase. The Net Position reports the amount of discretionary assets that an organization has to meet its obligations and is composed of

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Management's Discussion and Analysis

Net Investment in Capital Assets, Restricted for Capital Activity and Debt Service and Unrestricted (discretionary revenues).

- Net investment in capital assets reflects the Authority's capital assets net of related debt (\$7.6 million). During 2015, capital assets included completion of the lighting replacement project in the WGRS garage. The lighting project will reduce electricity costs and has a 4 year return on investment.
- Restricted for capital activity/ debt service has increased \$3.4 million over last year and includes pledged parking revenues for loans, debt service reserve for loans, and development funds for the Authority and teams.
- The unrestricted portion of net position has a deficit of \$20m. This is a direct result of recording almost \$23 million in grants payable to the City from 1965 to 1994 for operation of Three Rivers Stadium, a payable unlikely to ever be repaid.(see Note 8)

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

	2015	2014
Operating Revenues	\$ 6,632	\$ 6,366
Operating Expenses		
Operating and Maintenance	2,763	2,766
General and Administrative	136	111
Depreciation	830	836
Total Operating Expenses	3,729	3,713
Operating Income (loss)	2,903	2,653
Non operating revenues (expenses):		
Capital Transferred to the SEA	211	(348)
Development Fund Expense	(253)	(620)
Gain on Sale of Land	0	1,100
Total non operating revenues (expenses)	(42)	132
Increase/Decrease in net assets	\$ 2,861	\$ 2,785

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Management's Discussion and Analysis

The Authority's operating revenues are derived from parking revenues from the WGRS garage and various Authority parking lots which were \$265k greater than in 2014. The Port Authority of Allegheny County constructed the North Shore Connector, a 1.2 mile extension of its existing light rail transit system (LRT). The LRT's North Side station is integral to the WGRS garage. Since the opening of the LRT in April 2012, an increased number of people working in the downtown area of the city have been parking at the less expensive Authority lots and WGRS garage on the North Shore and taking advantage of the free LRT connection to town resulting in increased parking revenue for the Authority.

The Sports and Exhibition Authority, a related entity of the Authority, refinanced outstanding debt on the North Shore Garage (NSG) and the Convention Center Garage which were secured by, among other things, net revenues from the garages and various Authority lots. For the year end March 31, 2015, the NSG was able to cover the debt service on the SEA loans (reducing demand for the Authority parking revenues).

All parking revenues are fully restricted for purposes of repaying the Authority's PNC Bank/Dollar Bank 2012 bank notes and the SEA's PNC Bank/Dollar Bank 2010 bank notes described in Note 7.

Operating expenses are primarily related to the parking operations, reimbursement to the SEA for administration expenses, payment of insurance, consulting expenses relating to the take down of the Option Area parcels, amortization and depreciation and interest expense on the SA garage financing. Operating expenses are \$16k more than last year due to parking tax and parking expenses related to increased parking at WGRS garage and stadium lots, increased depreciation, and increased professional fees.

Non-operating revenues (expenses) are primarily money transferred to/from the SEA in accordance with the pledge to support debt service per the PNC/Dollar loan agreements, none of which was needed in fiscal 2015 to actually pay debt, and payments to the teams from the development funds. The Authority's operating surplus was \$2.9 million in fiscal year 2015.

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Management's Discussion and Analysis

Debt Administration

Long-term debt of the Authority outstanding as of March 31, 2015 is comprised of various loans payable. The Authority issued the PNC Bank/Dollar Bank fixed and variable rate loans in February, 2012 to refinance the ERECT Fund and Strategic Investment Fund (SIF) loans originally obtained to fund the construction of the WGRS garage. At the time of the refinancing, the ERECT Fund loan interest rate was 7% and the SIF fund interest rate was 6.5%. The PNC/Dollar fixed rate loans have a 3.8% interest rate and the PNC Bank Variable Rate Loan interest is calculated at 70% of LIBOR plus 195 basis points (averaging 2.07% in 2015). This refinancing reduced annual debt service payments from \$1.8 million to \$1.3 million.

When construction of the WGRS garage began in 2005, the Authority received a \$1,250,000 loan with an interest rate of 2% from the Commonwealth of Pennsylvania, Department of Community and Economic Development to be paid over 20 years. On March 31, 2014 and 2015, \$83,378 was paid in debt service.

Economic Factors

Certain factors were considered in preparing the Authority's budget for the 2016 fiscal year ending March 31, 2016. North Shore LRT will continue to have a positive impact on North Shore parking. North Shore Developers, L.P are expected to close on an additional parcel of property in the 2016 fiscal year. The Authority anticipates undertaking various parking garage related work this year in preparation for the construction of additional parking in the North Shore.

Future Events that will Financially Impact the Authority

As stated previously, per the Option Agreement there were twelve parcels of property to be developed on the North Shore with six remaining to be developed. Per the Amendment Agreement with the North Shore Developers, L.P. two of the remaining parcels are to be taken down by May 31, 2015 and May 31, 2017 respectively. Thereafter, the then remaining parcels must be taken down for development by May 31, 2021. On

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Management's Discussion and Analysis

May 4, 2015 the Board approved an extension of the May 31, 2015 deadline until July 31, 2015. With each take down of property, the amount of surface parking will decrease which will have an impact on the amount of Authority parking revenues. In order for the development to continue, under the Option Agreement, the Authority has certain obligations to provide an additional parking structure for which planning has begun.

The PNC Bank/Dollar Bank fixed and variable rate loans have a 20 year amortization and a 63 month term. In May 2017 (the end of the term), the principal outstanding on these loans will be \$14,600,542.

WGRS garage is in its 8th year of operations. ALCO has provided a 10 year capital project budget identifying \$2 million in capital projects over that time period. The Authority continues to plan for funding these future capital projects as the facility ages.

Contacting the Authority's Financial Management

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.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statements of Net Position

March 31, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 2,627,614	\$ 3,094,610
Restricted -- cash and cash equivalents	5,596,096	2,807,292
Receivable – AICO Parking	(29,694)	(102,242)
Other receivable	1,603,730	1,210,120
Interest receivable	287	223
Prepaid insurance	<u>9,862</u>	<u>10,393</u>
Total current assets	<u>9,807,895</u>	<u>7,020,396</u>
Fixed assets:		
Building	29,182,432	29,270,470
HOV improvements	2,241,369	2,241,369
Machinery/equipment	43,588	43,588
Less: accumulated depreciation	<u>(6,664,632)</u>	<u>(5,834,596)</u>
Net fixed assets	<u>24,802,757</u>	<u>25,720,831</u>
Restricted assets:		
Development fund	2,526,158	2,401,811
Debt service reserve/loan collateral	<u>2,546,039</u>	<u>2,598,310</u>
Total restricted assets	<u>5,072,197</u>	<u>5,000,121</u>
Total assets	<u>\$39,682,849</u>	<u>\$37,741,348</u>

See the accompanying notes to the financial statements.

Liabilities

	<u>2015</u>	<u>2014</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 139,201	\$ 276,593
Accrued interest payable	55,946	58,285
Current portion of long-term debt	<u>801,793</u>	<u>779,679</u>
Total current liabilities	996,940	1,114,557
Long-term loans payable	16,439,225	17,240,973
Three Rivers Stadium Grant – City of Pittsburgh	<u>22,775,168</u>	<u>22,775,168</u>
Total Liabilities	<u>40,211,333</u>	<u>41,130,698</u>
Net Position:		
Net investment in capital assets	7,561,739	7,700,179
Restricted for capital activity and debt service	12,047,181	8,580,415
Unrestricted	<u>(20,137,404)</u>	<u>(19,669,944)</u>
Total Net Position	<u>(528,484)</u>	<u>(3,389,350)</u>
Total Liabilities and Net Position	<u>\$39,682,849</u>	<u>\$37,741,348</u>

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues - restricted:		
Parking	\$ 6,627,282	\$ 6,361,506
Interest	<u>4,566</u>	<u>4,636</u>
Total operating revenues	<u>6,631,848</u>	<u>6,366,142</u>
Operating expenses:		
Salary reimbursement	47,566	47,566
Administrative	135,734	111,572
Operations and development	2,062,058	2,037,430
Insurance	39,978	40,912
Interest	613,494	639,512
Amortization and depreciation	<u>830,036</u>	<u>836,324</u>
Total operating expenses	<u>3,728,866</u>	<u>3,713,316</u>
Operating profit	<u>2,902,982</u>	<u>2,652,826</u>
Non-operating unrestricted revenues (expenses):		
Capital transferred (to) from the Sports & Exhibition Authority	210,931	(348,014)
Gain on sale of land	0	1,100,000
Development fund expense	<u>(253,047)</u>	<u>(619,660)</u>
Total non-operating revenues, net	<u>(42,116)</u>	<u>132,326</u>
Change in Net Position	2,860,866	2,785,152
Net Position beginning of year	<u>(3,389,350)</u>	<u>(6,174,502)</u>
Net Position end of year	<u>\$ (528,484)</u>	<u>\$ (3,389,350)</u>

See accompanying notes to the financial statements.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statement of Cash Flows

For the Years Ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Parking	\$ 6,554,734	\$ 6,602,831
Other	(393,610)	(137,116)
Interest	<u>4,502</u>	<u>4,583</u>
Total receipts	6,165,626	6,470,298
Salaries	(47,566)	(47,566)
Administrative	(135,734)	(111,572)
Operations and development	(2,199,450)	(1,886,781)
Insurance	<u>(39,447)</u>	<u>(41,579)</u>
Total cash provided by operating activities	<u>3,743,429</u>	<u>4,382,800</u>
Cash flows from capital and related financing activities:		
Principal payments of long-term debt	(779,634)	(757,002)
Receipts/(payments) from/to SEA	210,931	(348,014)
Interest paid on long-term debt	<u>(615,833)</u>	<u>(642,519)</u>
Net cash used in capital and related financing activities	<u>(1,184,536)</u>	<u>(1,747,535)</u>
Cash flows from investment activities:		
(Deposits) withdrawals to development funds	(124,347)	113,465
Purchase of fixed assets	0	(755,473)
Proceeds from fixed asset credit	88,038	0
Other	(253,047)	480,340
(Deposits) withdrawals to non-routine maintenance	0	20,367
(Deposits) withdrawals to reserve loans	<u>52,271</u>	<u>(1,156,039)</u>
Net cash provided (used) in investment activities	<u>(237,085)</u>	<u>(1,297,340)</u>
Net increase (decrease) in cash and cash equivalents	2,321,808	1,337,925
Cash and cash equivalents at beginning of year	<u>5,901,902</u>	<u>4,563,977</u>
Cash and cash equivalents at end of year	<u>\$ 8,223,710</u>	<u>\$ 5,901,902</u>
Total cash and cash equivalents consists of:		
Unrestricted cash and cash equivalents	\$ 2,627,614	\$ 3,094,610
Restricted cash and cash equivalents	<u>5,596,096</u>	<u>2,807,292</u>
Total cash and cash equivalents	<u>\$ 8,223,710</u>	<u>\$ 5,901,902</u>

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Statement of Cash Flows, continued

For the Years Ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Operating profit (loss)	\$ 2,902,982	\$ 2,652,826
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization/depreciation	830,036	836,324
Interest on debt	613,494	639,512
Changes in operating assets and liabilities:		
Receivable - ALCO Parking	(72,548)	241,325
Other receivables	(393,610)	(137,116)
Accounts payable and accrued expenses	(137,392)	150,649
Prepaid insurance	531	(667)
Interest receivable	(64)	(53)
Total cash provided by operating activities	<u>\$ 3,743,429</u>	<u>\$ 4,382,800</u>

See accompanying notes to the financial statements.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements

March 31, 2015

(1) Organization

The Authority was formed by the City of Pittsburgh on March 9, 1964 pursuant to the provisions of the Public Auditorium Authorities Law of the Commonwealth of Pennsylvania approved July 29, 1953, P.L. 1034, as amended (recodified as the Sports and Exhibition Authority Act 16 P.S. Section 5502-A et seq.) to provide increased commerce and prosperity, and to promote educational, cultural, physical, civic, social and moral welfare to the general public. Current documentation provides for the term of the Authority to run to December 31, 2028.

The Authority was responsible for the management of Three Rivers Stadium located in the City of Pittsburgh. Three Rivers Stadium was home to the Pittsburgh Pirates (**Pirates**) and Pittsburgh Steelers (**Steelers**) professional sports teams and was also utilized for various concerts and other events until it was razed in February 2001. Subsequent to the razing of Three Rivers Stadium, the Authority has been responsible for the development of the land between the newly constructed stadium and ballpark (See Note 5). A portion of that land was conveyed to the Sports & Exhibition Authority (SEA) for construction of infrastructure. The remaining land (the Option Area) was retained by the Authority to be developed according to a master development plan. The Authority entered into the Option Agreement with a joint venture of the Steelers and Pirates for the development of the Option Area. The Authority has constructed a public parking garage on a portion of the land. Pending development the remaining land is used for surface parking.

The Authority is reported as a discretely presented component unit in the City's financial statements. The Authority's component unit status is due to the City's appointment of Authority Board members. The board of directors (**Board**) of the Authority is appointed by the Mayor of the City. The Board is responsible for all the activities and operations of the Authority.

An Administrative Services Agreement was entered into in November 2002 between the Authority and the SEA whereby the SEA staff performs all administrative services required for the Authority to fulfill its duties and obligations. The Authority reimburses the SEA certain expenses on a year-by-year basis. The SEA has a separate board appointed by the Mayor of the City of Pittsburgh and the County Executive of Allegheny County.

(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**).

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(2) Summary of Significant Accounting Policies, continued

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:

(a) 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, expense, and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in the Authority's net total assets.

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, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- Restricted – This component of net position consists of net position that has constraints on use from external restrictions, reducing liabilities related to those assets.
- Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted for capital activity and debt service” or “net investment in capital assets.”

(b) Management Estimates

The presentation of financial statements in conformity with generally accepted accounting principles 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.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(2) **Summary of Significant Accounting Policies, continued**

(c) **Revenues**

The Authority's operating revenues consist of parking revenues from the WGRS garage and various Authority parking lots. Non-operating revenues consist primarily of funds transferred to/from the SEA per the various loan agreements (note 7) and gain on the sale of land. When both restricted and unrestricted resources are available, the Authority's policy is to use restricted resources first, then unrestricted as needed.

(d) **Cash and Cash Equivalents**

The Authority considers all investments acquired with an original maturity of 180 days or less to be cash equivalents.

(e) **Restricted Assets**

Restricted assets include the portion of the Development Funds that are from net parking revenue deposits which can only be used for certain eligible expenses as outlined in the Option Agreement and the Agreement Regarding Parking Revenues dated January 15, 2001.

Restricted assets also include \$2,546,039 for 2015 and \$2,598,310 for 2014 of debt service reserves relating to the West General Robinson Street (WGRS) garage financing.

(f) **Adoption of Accounting Pronouncements**

The requirements of the following GASB Statements were adopted for the Authority's 2015 financial statements:

GASB Statement No. 70, "*Accounting and Financial Reporting for Non-exchange Financial Guarantees.*" This statement specifies the information required to be disclosed by governments that extend non-exchange financial guarantees, and requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on a guarantee.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(3) **Cash and Cash Equivalents**

The Authority's policy is to maintain 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. 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 of Pennsylvania.

The following is a summary of the fair value of the Authority's cash and cash equivalents at March 31, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Unrestricted cash and cash equivalents:		
Cash	\$ 40,425	\$ 58,869
Government funds	866,224	865,791
Certificate of deposit	<u>1,720,965</u>	<u>2,169,950</u>
	<u>\$2,627,614</u>	<u>\$3,094,610</u>
Restricted cash and cash equivalents:		
Cash	1,749,245	1,266,014
Money market funds	2,546,039	2,598,310
Government funds	<u>3,846,851</u>	<u>1,541,278</u>
	<u>\$8,142,135</u>	<u>\$5,405,602</u>

Interest Rate Risk – Although the Authority does not have a formal investment policy, it limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All Authority investments have short term maturities.

Credit Risk – The Authority is subject to credit risk on investments. The maximum amount of loss the Authority would incur, if any, if the parties failed to perform on their obligation is limited to the amount recorded in the financial statements. The Authority does not hold any type of collateral on these investments.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one institution. Currently the Authority maintains its cash and cash equivalent balances at three financial institutions; two are FDIC insured banks and the third is at PA Invest (a Commonwealth of Pennsylvania program that provides highly rated investment pools designed specifically for local government and nonprofit groups). At FDIC insured banks, accounts are fully insured up to \$250,000 per institution which constitutes federally insured funds. The excess funds are secured with a pledge of collateral from the bank. Therefore at March 31, 2015 all of the Authority's cash and cash equivalent deposits were either insured under federal insurance programs or collateralized.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(4) Land

The Authority's balance sheet does not include any value for land owned by the Authority because its land was conveyed to the Authority for the construction of Three Rivers Stadium by the Urban Redevelopment Authority of Pittsburgh (URA) at no cost.

Pursuant to the Option Agreement approximately 400,000 square feet of land between the ballpark and the stadium (the Option Area) has been or is being developed. The land was originally divided into 12 development parcels. Per the original Option Agreement the agreed sale price per square foot ranged from \$8 to \$15, for a total approximate agreed sales price value of \$4 million. The Authority sold one parcel for approximately \$500,000 in September 2003, a second and third parcel for a combined total of \$455,000 in June 2004 and a fourth parcel (plus certain additional land) for a total price of approximately \$1.2 million in December 2008. In December 2008 adjustments to the parcels were made resulting in the number of parcels being decreased from 12 to 11. In November 2011 an Amendment Agreement was signed (a) adjusting the parcels back to 12, (b) defining a take down schedule for the remaining 8 parcels (c) providing for parking revenues to be earned on certain parcels to be used by the Authority to support the development of additional parking structures and in the absence of additional parking structures, applied to pay debt service on the WGRS garage or the SEA's North Shore Garage, and (d) providing that the sale price of the remaining land is to be based on an appraised value considering the intended use of the property. In July 2013, the fifth and sixth parcels were taken down at a combined purchase price of \$1.1 million.

(5) Development Funds

In accordance with the Option Agreement (Note 4), the Authority deposits certain game day parking revenues in team development funds maintained by the SEA. The team development funds are on the SEA books because the various funding vehicles over the years (bonds and loans) required the parking revenues to be deposited with the SEA to cover debt service payments. Pursuant to the Option Agreement, these funds are transferred to the teams as development occurs.

Timing of these deposits is based on receipts from ALCO Parking (Note 9). \$376,495 and \$506,076 were deposited or will be deposited to the team development funds for 2015 and 2014 respectively. Based on the parcels developed, the teams received earned distributions from these accounts of \$188,602 and \$253,047 for the years endings March 31, 2015 and March 31, 2014 respectively.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(5) **Development Funds, continued**

Per Note 4, revenues earned from certain parcels are now deposited into the Authority development fund to be used per the November 2011 Amendment Agreement. This development fund "Option Area Garages" had a balance of \$1,335,487 and \$1,166,598 for the years ending March 31, 2015 and 2014 respectively. \$125,734 and \$168,698 were or will be deposited to the Authority development fund for 2015 and 2014 respectively.

(6) **Building**

Property and equipment is recorded at cost. Repair and maintenance costs which do not increase the useful lives of the assets are charged to operations as incurred. Depreciation is computed on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10, 15, and 40 years
Machinery and Equipment	5 years

Depreciation expense for the year ended March 31, 2015 was \$830,036 and \$836,324 for March 31, 2014.

Changes in capital assets, net of accumulated were as follows:

	<u>March 31, 2014</u>	<u>Depreciation</u>	<u>Additions/(Deletions)</u>	<u>March 31, 2015</u>
Building	\$22,886,411	\$(739,005)	\$(88,037)	\$22,059,369
Infrastructure	2,825,702	(82,313)	0	2,743,388
Machinery/equipment	<u>8,718</u>	<u>(8,718)</u>	<u>0</u>	<u>0</u>
Total	<u>\$25,720,831</u>	<u>\$(830,036)</u>	<u>\$(88,037)</u>	<u>\$24,802,757</u>

HOV Improvements and Chuck Noll Way were dedicated to and accepted by the City as city responsibilities but continue to be reflected as Authority assets because these costs are considered an integral part of the development cost of the Option Area and, accordingly, are capitalized over the life of the projects. Therefore, these assets are not available for future spending.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(7) **Debt**

The WGRS garage was built and opened in 2006 in accordance with the time frame requirements of the Option Agreement (Note 4). It was recognized that the garage was needed to allow for future economic development and to compensate for the reduction in supply of surface parking spaces that would result. In 2005 the ERECT Fund, Strategic Investment Fund (SIF) and the Infrastructure Development Fund loaned the Authority a total of \$21,450,000 to fund the construction of the WGRS garage. On February 14, 2012 the Authority refinanced and paid in full the \$15,319,326 outstanding of the ERECT loan and \$2,872,452 outstanding of the SIF loan with notes from PNC Bank and Dollar Bank (2012 SA Garage Financing). A \$10,400,000 fixed rate note was issued to PNC Bank, a \$5,000,000 fixed rate note was issued to Dollar Bank, and a \$3,000,000 variable rate note was issued to PNC Bank. Outstanding balances and interest rates on each of the notes are detailed in the chart below.

The SEA also holds a 2010 PNC Bank/Dollar Bank Loan (2010 SEA Garage Financing). The Authority entered into a Collateral Assignment of Parking Revenue Agreement with the SEA in 2010 that pledged certain parking revenues from Lots 1 and 7A through 7J to help secure the 2010 SEA Garage Financing. The Authority and the SEA amended the documents related to the 2010 SEA Garage Financing to extend the pledge of certain collateral to the 2012 SA Garage Financing. As a result, the security for the two loans (2010 SEA Garage Financing and 2012 SA Garage Financing) includes the assignment of net revenues from (1) the WGRS garage, (2) Lots 7A to 7J, (3) Lots 1 through 5, (4) the Convention Center Garage, (5) the North Shore Garage, and (6) SEA surface lots revenue. The 2012 SA Garage Financing requires that pledged revenues at least provide 1.2 coverage of garage expenses and debt service. This covenant was met in Fiscal 2015 and 2014.

Balances and terms of the loans/notes payable at March 31, 2015 are as follows:

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(7) Debt, continued

	<u>April 1, 2014</u>	<u>Reductions</u>	<u>March 31, 2015</u>
PNC Bank/Dollar Bank Fixed Rate Loan (2012 SA Garage Financing) has a 20 year amortization and a 63 month term*. Principal was due on the loan beginning March 2012; interest is payable at a rate of 3.8%.	\$14,261,811	\$ (567,684)	\$ 13,694,127
PNC Bank Variable Rate Loan (2012 SA Garage Financing)for \$3,000,000 has a 20 year amortization and a 63 month term. Principal was due on the loan beginning March 2012; interest is based on the sum of (A) 70% of LIBOR plus (B) 195 basis points (1.95%) for the applicable LIBOR Interest Period.	2,687,500	(150,000)	2,537,500
Infrastructure Development Program (IDP) (original WGRS garage financing)was received as a lump sum \$1,250,000 loan on August 22, 2005. It has a term of 20 years with a 2% interest rate. Interest payments are made semi-annually on June 1 and December 1 beginning in 2009. The first principal payment was made December 1, 2011 and will be made annually thereafter. The last payment will be December 1, 2028.	<u>1,071,341</u>	<u>(61,952)</u>	<u>1,009,389</u>
Total loans/notes payable	<u>\$18,020,652</u>	<u>\$ (779,636)</u>	<u>\$ 17,241,016</u>
Less current portion			<u>(801,793)</u>
			<u>\$ 16,439,225</u>

* The balloon principal payment on the fixed rate 2012 SA Garage Financing at the end of the 63 month term (May 1, 2017) will be \$12,388,042 and the variable rate portion will be \$2,212,500.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(7) **Debt, continued**

The aggregate amount of annual principal payments required on the Authority's debt is as follows:

3/31/2016	801,793
3/31/2017	827,528
3/31/2018	14,795,691
3/31/2019	67,058
3/31/2020 through 12/1/2028	<u>748,947</u>
	<u>\$17,241,016</u>

(8) **Grants from the City of Pittsburgh**

Under the terms of an agreement dated July 1, 1965, and amended on various dates through June 17, 1992, the City made total grants of \$22,775,168 to the Authority to cover the excess of the aggregate costs of operations and maintenance of Three Rivers Stadium and debt service on its bonds over the total funds available to the Authority for those purposes, to be repaid if funds are available. The City does not include the \$22,775,168 as a receivable on its audited financial statements, due to the unlikelihood of collection.

(9) **Leases**

On March 23, 1989, the Authority entered into an agreement with the Commonwealth of Pennsylvania (**PennDOT**) to lease certain property near Heinz Field and PNC Park to be used for public parking. The term of the lease was 21 years. At the end of the first term (March 31, 2010) the Authority exercised its option to renew the lease for four (4) ten year terms, extending the term of the lease to March 31, 2050. The Authority expensed \$70,080 related to this agreement for each of the years ended March 31, 2015 and 2014. The rate of \$70,080 began August 2010 and PennDot has the ability to adjust the rate after two years on the basis of a fair market rental appraisal with subsequent adjustments two years thereafter. No notification of a rate increase has been received.

Future minimum expected lease payments due from the Authority to PennDOT are as follows (assuming no adjustment rate). Because both parties have the ability to terminate the lease by mutual consent at any time, lease requirements are identified only through the end of the first 10 year extension.

2016	70,080
2017	70,080
2018	70,080
2019	70,080
2020	<u>70,080</u>
	<u>\$350,400</u>

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(9) **Leases, continued**

The Authority entered into a lease agreement with ALCO Parking for certain parcels of land controlled by the Authority to be used for parking lots. The original lease term was a 40-year period, which began April 1, 1970 and ended March 31, 2010. ALCO Parking has exercised its option to extend the term of the lease for four consecutive additional periods of 10 years each, to March 31, 2050.

ALCO Parking pays to the Authority an amount equal to the greater of (i) 50% of the Parking Residual Rent Income or (ii) 50% of the Residual Base Period Rent. For fiscal years 2015 and 2014 Parking Residual Rent was greater and therefore (i) was the basis of the calculation.

(10) **Conditional Receivable**

Pursuant to the Collateral Assignment of Parking Revenues dated April 19, 2010 between the Authority and PNC Bank and Dollar Bank, and prior thereto pursuant to the Agreement Regarding Parking Revenues certain of the Authority's parking lot revenues are pledged for debt service on the 2010 SEA Garage Financing (Note 7). Pursuant thereto, as of March 31, 2015, a total of \$9,389,782 of Authority funds were so used to pay debt service on the SEA Garage Financings. These revenues are to be re-paid to the Authority in the event of "excess pledged revenue."

At the end of the SEA's fiscal year, December 31, 2014, the SEA determined that pledged revenue from Lots 1 and 7A to 7J was not needed for the 2010 SEA Garage Financing debt service. As such, \$1,240,971 is to be repaid to the Authority. At March 31, 2015, \$200,857 was accrued for the first 3 months of the calendar year. An analysis is done monthly and the account reconciled December 31, 2015 (SEA fiscal year) to determine the excess pledged revenues, if any, to be released to the Authority after the payment of debt service for the North Shore garage.

(11) **Investment in Capital Assets, Net of Related Debt**

Total net assets include an amount for investment in capital assets, net of related debt. The calculations for the years ending March 31, 2014, and 2013 are as follows:

	<u>2015</u>	<u>2014</u>
Capital assets, net	\$24,802,757	\$25,720,831
Less: loans/notes payable related to capital assets	<u>(17,241,018)</u>	<u>(18,020,652)</u>
Net Investment in capital assets	<u>\$ 7,561,739</u>	<u>\$ 7,700,179</u>

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2015

(12) **Subsequent Event**

Subsequent events were evaluated through the Auditor's report date, which is the date the financial statements were available to be issued. On May 4, 2015 the Board approved a 60 day forbearance period to the North Shore Developers, authorizing an extension of the May 31, 2015 date for the next takedown until July 31, 2015.

Parking Facilities – North Shore

- Stadium Authority Lots / Garages
- SEA Lots / Garages

