

**STADIUM AUTHORITY OF THE CITY OF PITTSBURGH**  
**Pittsburgh, Pennsylvania**

**Financial Statements and Supplementary Information**

**For the Year Ended March 31, 2016**

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, 2016, 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, 2016, 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.

### **Report on Summarized Comparative Information**

We have previously audited the Stadium Authority of the City of Pittsburgh's March 31, 2015 financial statements, and our report dated July 1, 2015, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McLee Marcus & Associates, P.C.*

Pittsburgh, Pennsylvania  
July 15, 2016

# STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**MARCH 31, 2016**

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, 2016 and 2015. 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, 2016 is better than the prior year by \$3.5 million. This is as a result of paying off the 2012 PNC/Dollar variable rate loan and increased cash from parking revenues. The Authority's total cash and cash equivalents balance (Note 3) at the close of the 2016 fiscal year was \$11.3 million, representing a \$531,000 increase over the prior year-end. The liabilities of the Authority decreased \$2.7 million due to payment on outstanding debt.
- The Authority recognized \$7.5 million in restricted and unrestricted operating revenues for the calendar year 2016, the result of an increase in total parking revenues from the West General Robinson Street (**WGRS**) garage and the Authority's North Shore lots over 2015 (\$6.6 million)
- As shown on the Statements of Revenues, Expenses, and Changes in Net Position, total Authority operating revenues (\$7.5 million), net of operating expenses (\$3.8 million), resulted in a \$3.7 million operating surplus. This amount includes depreciation and amortization expenses of \$821,000.

### **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.

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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. The Option Agreement was amended in December 2008, March 2009 and November 2011 (collectively, the "**Option Agreement**"). The Authority oversees this development according to the terms of the Option Agreement. 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 Place developments were completed and opened 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. The Authority also sold land for the development of Stage AE pursuant to the Steelers lease. Until all development is completed, the remaining development parcels are used as surface parking lots.

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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.

The SEA also provides staffing and administrative services for the Authority.

### **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).

*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

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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, 2016.

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

Current assets	\$ 10,744	\$ 9,808
Capital assets	23,981	24,803
Other assets	5,376	5,072
Construction in Progress	418	-
Total Assets	<u>\$ 40,519</u>	<u>\$ 39,683</u>
	\$ 1,362	\$ 997
Current liabilities	13,374	16,439
Other long-term liabilities	<u>22,775</u>	<u>22,775</u>
Grants from the City of Pittsburgh		
Total Liabilities	<u>\$ 37,511</u>	<u>\$ 40,211</u>
Net investment in capital assets	\$ 9,929	\$ 7,562
Restricted for capital activity/ debt service	13,208	12,047
Unrestricted	<u>(20,129)</u>	<u>(20,137)</u>
Total Net Position	<u>\$ 3,008</u>	<u>\$ (528)</u>

Current assets include cash, investments, and receivables from parking operations. Current assets are \$936,000 greater than 2015. Other assets include \$2.8 million in development funds for the Steelers, Pirates and Stadium



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Authority. Steelers and Pirates development funds (\$1,356,889) are held and paid upon the development of parcels in the Option Area. An Authority development fund (\$1,453,000) 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 \$2.6 million in the debt service reserve account for the 2012 garage financing.

Liabilities decreased \$2.7 million in 2016. Current liabilities include accounts payables on capital projects including the WGRS garage and the Lot 1 garage. In September, 2015, \$2,462,000 principle balance on the PNC/Dollar bank variable rate note was repaid which reduced the outstanding balance on the fixed rate notes. Other long-term liabilities include continued principal payments.

Net Position increased from (\$528k) in 2015 to \$3,008k in 2016, a \$3.5 million increase. The Net Position reports the amount of discretionary assets that an organization has to meet its obligations and is composed of 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 (\$10.3 million). Investment in capital assets includes fixed assets net of depreciation, loans payable and construction in progress.
- Restricted for capital activity/ debt service has increased \$1,161k 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 \$20.1 million. 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 9)

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

	2016	2015
Operating Revenues	\$ 7,532	\$ 6,632
Operating Expenses		
Operating and Maintenance	2,218	2,062
General and Administrative	752	837
Depreciation	821	830
Total Operating Expenses	<u>3,791</u>	<u>3,729</u>
Operating Income (loss)	3,741	2,903
Non operating revenues (expenses):		
Capital Transferred to the SEA	(16)	211
Development Fund Expense	(189)	(253)
Total non operating revenues (expenses)	<u>(205)</u>	<u>(42)</u>
Increase/Decrease in net assets	<u>\$ 3,536</u>	<u>\$ 2,861</u>

The Authority's operating revenues are derived from parking revenues from the WGRS garage and various Authority parking lots which were \$900k greater than in 2015.

The Sports & Exhibition Authority, a related entity of the Authority, holds outstanding debt on the North Shore Garage (NSG) and the Convention Center Garage which are secured by, among other things, net revenues from the WGRS garage and various Authority lots. For the year end March 31, 2016, the SEA 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 2010/2012 SEA/Authority's PNC Bank/Dollar Bank loans described fully in Note 8.

Operating and administration expenses are primarily related to the parking operations, reimbursement to the SEA for administration expenses, 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

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\$62k more than last year due to parking tax, bank fees and other 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 2016 to actually pay debt) and payments to the teams from the development funds. The Authority's operating surplus was \$3.5 million in fiscal year 2016 (before debt service principal payment).

**Debt Administration**

Long-term debt of the Authority outstanding as of March 31, 2016 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 was calculated at 70% of LIBOR plus 195 basis points. The variable rate portion (\$2,462,500) was paid off in September 2015 leaving the balance of \$13,105,566 on the loans fixed rate.

When construction of the WGRS garage began in 2005, the Authority received a \$1,250,000 Infrastructure Development Program loan with an interest rate of 2% from the Commonwealth of Pennsylvania, Department of Community and Economic Development (DCED) to be paid over 20 years. On each March 31, 2015 and March 31, 2016, \$83,378 of principal and interest was paid in debt service.

**Economic Factors**

Certain factors were considered in preparing the Authority's budget for the 2017 fiscal year ending March 31, 2017. North Shore LRT will continue to have a positive impact on North Shore parking. North Shore Developers, L.P are to close on an additional parcel of property by December 1, 2016 per a letter agreement

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dated November 24, 2015. The Authority is undertaking the construction of Lot 1 parking garage this year to create additional parking in the North Shore.

**Future Events that will Financially Impact the Authority**

As stated previously, per the Option Agreement initially 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. one of the remaining parcels was to be taken down by May 31, 2015 however, the Board approved extensions of the May 31, 2015 deadline until December 31, 2016. Per the Option Agreement, a second remaining parcel is to be taken down by May 31, 2017. Thereafter, the remaining parcels may be taken down for development until May 31, 2021. 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 construction of a 1000 space garage will break ground in summer of 2016 and be completed in spring of 2017.

The Authority and the SEA's PNC Bank/Dollar Bank fixed 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 \$12,388,048. (see Note 8)

Subsequent to year end the Authority entered into a credit agreement of up to \$15 million for construction of the Lot 1 Garage. This loan also expires May 1, 2017 at which time it will be refinanced with the Authority and SEA PNC Bank/Dollar Bank existing debt.

WGRS garage is in its 9th 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.

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Management's Discussion and Analysis

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**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 10<sup>th</sup> Street, 2<sup>nd</sup> Floor, Pittsburgh, PA 15222.

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Statements of Net Position

March 31, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 2,215,974	\$2,627,614
Restricted – cash and cash equivalents	6,520,416	5,596,096
Receivables:		
ALCO Parking	44,897	(29,694)
Other receivable	1,951,849	1,603,730
Interest receivable	898	287
Prepaid insurance	<u>9,937</u>	<u>9,862</u>
Total Current Assets	<u>10,743,971</u>	<u>9,807,895</u>
Noncurrent Assets		
Debt service reserve/loan collateral	2,565,354	2,546,039
Development fund	2,810,232	2,526,158
Capital assets, net	23,981,440	24,802,757
Construction in progress	<u>418,455</u>	<u>0</u>
Total Noncurrent Assets	<u>29,775,481</u>	<u>29,874,954</u>
Total Assets	<u>\$40,519,452</u>	<u>\$39,682,849</u>

See the accompanying notes to the financial statements.

### Liabilities

	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 635,176	\$ 139,201
Accrued interest payable	49,192	55,946
Current portion of long-term debt	<u>677,528</u>	<u>801,793</u>
Total Current Liabilities	1,361,896	996,940
Long-term loans payable	13,374,153	16,439,225
Three Rivers Stadium Grant – City of Pittsburgh	<u>22,775,168</u>	<u>22,775,168</u>
Total Liabilities	<u>37,511,217</u>	<u>40,211,333</u>
Net Position:		
Net investment in capital assets	9,929,759	7,561,739
Restricted for capital activity and debt service	13,208,466	12,047,181
Unrestricted	<u>(20,129,990)</u>	<u>(20,137,404)</u>
Total Net Position	<u>3,008,235</u>	<u>( 528,484)</u>
Total Liabilities and Net Position	<u>\$40,519,452</u>	<u>\$39,682,849</u>

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues - restricted:		
Parking	\$7,525,307	\$6,627,282
Interest	<u>6,715</u>	<u>4,566</u>
Total operating revenues	<u>7,532,022</u>	<u>6,631,848</u>
Operating expenses:		
Salary reimbursement	47,566	47,566
Administrative	101,112	135,734
Operations and development	2,218,230	2,062,058
Insurance	39,672	39,978
Interest	563,201	613,494
Amortization and depreciation	<u>821,318</u>	<u>830,036</u>
Total operating expenses	<u>3,791,099</u>	<u>3,728,866</u>
Operating surplus (loss)	<u>3,740,923</u>	<u>2,902,982</u>
Non-operating revenues (expenses):		
Capital transferred (to) from the Sports & Exhibition Authority	( 15,602)	210,931
Development fund expenses	<u>( 188,602)</u>	<u>( 253,047)</u>
Total non-operating revenues, net	<u>( 204,204)</u>	<u>( 42,116)</u>
Change in Net Position	3,536,719	2,860,866
Net Position beginning of year	<u>( 528,484)</u>	<u>(3,389,350)</u>
Net Position end of year	<u>\$3,008,235</u>	<u>\$(- 528,484)</u>

See accompanying notes to the financial statements.



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Statement of Cash Flows

For the Years Ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Parking	\$7,450,716	\$6,554,734
Other	( 348,119)	( 393,610)
Interest	<u>6,104</u>	<u>4,502</u>
Total receipts	7,108,701	6,165,626
Salaries	( 47,566)	( 47,566)
Administrative	( 101,112)	( 135,734)
Operations and development	(1,722,258)	(2,199,450)
Insurance	<u>( 39,747)</u>	<u>( 39,447)</u>
Total cash provided by operating activities	<u>5,198,018</u>	<u>3,743,429</u>
Cash flows from capital and related financing activities:		
Principal payments of long-term debt	(3,189,335)	( 779,634)
Receipts/(payments) from/to SEA	( 15,602)	210,931
Interest paid on long-term debt	<u>( 569,955)</u>	<u>( 615,833)</u>
Net cash used in capital and related financing activities	<u>(3,774,892)</u>	<u>(1,184,536)</u>
Cash flows from investment activities:		
(Deposits) withdrawals to development funds	( 284,074)	( 124,347)
Purchase of CIP	( 418,455)	0
Proceeds from fixed asset credit	0	88,038
Other	( 188,602)	( 253,047)
(Deposits) withdrawals to reserve loans	<u>( 19,315)</u>	<u>52,271</u>
Net cash used in investment activities	<u>( 910,446)</u>	<u>( 237,085)</u>
Net increase in cash and cash equivalents	512,680	2,321,808
Cash and cash equivalents at beginning of year	<u>8,223,710</u>	<u>5,901,902</u>
Cash and cash equivalents at end of year	<u>\$8,736,390</u>	<u>\$8,223,710</u>
Total cash and cash equivalents consists of:		
Unrestricted cash and cash equivalents	\$2,215,974	\$2,627,614
Restricted cash and cash equivalents	<u>6,520,416</u>	<u>5,596,096</u>
Total cash and cash equivalents	<u>\$8,736,390</u>	<u>\$8,223,710</u>

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Statement of Cash Flows, continued

For the Years Ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Operating profit (loss)	\$3,740,923	\$2,902,982
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization/depreciation	821,318	830,036
Interest on debt	563,201	613,494
Changes in operating assets and liabilities:		
Receivable - ALCO Parking	( 74,591)	( 72,548)
Other receivables	( 348,119)	( 393,610)
Accounts payable and accrued expenses	495,975	( 137,392)
Prepaid insurance	( 78)	531
Interest receivable	( 611)	( 64)
Total cash provided by operating activities	<u>\$5,198,018</u>	<u>\$3,743,429</u>

See accompanying notes to the financial statements.

# STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

## Notes to the Financial Statements

March 31, 2016

### (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 of Pittsburgh and Allegheny County (SEA) for construction of infrastructure. The remaining land 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 a significant portion of that land. The Authority has constructed a public parking garage on a portion of the land. Pending development the 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**).

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## Notes to the Financial Statements, continued

March 31, 2016

### (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, expenses, 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 for capital activity and debt service – 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.

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Notes to the Financial Statements, continued

March 31, 2016

(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 8). 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 dated September 25, 2003.

Restricted assets also include the Capital Reserve accounts for the WGRS garage and lots, and Debt Service Reserve, and accounts relating to the WGRS garage financing.

(f) **Pending Pronouncements**

GASB has issued the following statements that will become effective in future years as shown below. Management has not yet determined the impact of these statements on the Authority's financial statements:

GASB Statement No. 72, "*Fair Value Measurement and Application*," effective for fiscal years beginning after June 15, 2015 (the Authority's financial statements for the year ending March 31, 2017). This statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 76, "*Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*," effective for fiscal years beginning after June 15, 2015 (the Authority's financial statements for the year ending March 31, 2017). This statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2016

(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, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Unrestricted cash and cash equivalents:		
Cash	\$ 635,513	\$ 40,425
Government funds	866,878	866,224
Certificate of deposit	<u>713,583</u>	<u>1,720,965</u>
Total	<u>\$2,215,974</u>	<u>\$2,627,614</u>
Restricted cash and cash equivalents:		
Cash	\$2,994,041	\$1,749,245
Money market funds	2,565,354	2,546,039
Government funds	<u>3,526,375</u>	<u>3,846,851</u>
Total	<u>\$9,085,770</u>	<u>\$8,142,135</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, 2016 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, 2016

### (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 takedown 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. No parcels were taken down in 2015 or 2016. A 172,000 square foot parcel outside the option area was sold in October 2008 for \$1.3 million for the entertainment center.

### (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 certain 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 10). \$484,112 and \$376,495 were deposited or will be deposited to the team development funds for 2016 and 2015 respectively. Based on the parcels developed, the teams received earned distributions from these accounts of \$188,602 and \$253,047 for the years ending March 31, 2016 and March 31, 2015 respectively.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2016

(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 \$1,453,363 and \$1,335,487 for the years ending March 31, 2016 and 2015 respectively. \$160,178 and \$125,734 were or will be deposited to the Authority development fund for 2016 and 2015 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

Capital assets and accumulated depreciation consist of the following:

	<u>2016</u>	<u>2015</u>
Building	\$29,182,432	\$29,182,432
HOV improvements	2,241,369	2,241,369
Machinery/equipment	43,588	43,588
Less: accumulated depreciation	<u>( 7,485,949)</u>	<u>( 6,664,632)</u>
Net fixed assets	<u>\$23,981,440</u>	<u>\$24,802,757</u>

Depreciation expense for the year ended March 31, 2016 was \$821,318 and \$830,036 for March 31, 2015.

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

	<u>March 31, 2015</u>	<u>Depreciation</u>	<u>March 31, 2016</u>
Building	\$22,059,369	\$( 732,401)	\$21,326,968
Infrastructure	<u>2,743,388</u>	<u>( 88,916)</u>	<u>2,654,472</u>
Total	<u>\$24,802,757</u>	<u>\$( 821,317)</u>	<u>\$23,981,440</u>

HOV Improvements and Chuck Noll Way were constructed by the Authority and dedicated to and accepted by the City on June 13, 2013 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.



STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2016

(7) **Construction in Progress**

Construction in Progress totaled \$418,455 as of March 31, 2016 and relates to the costs of the Lot 1 garage project.

(8) **Debt**

The WGRS garage was built and opened in 2006 in accordance with the time frame requirements of the Option Agreement. 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 from development. In 2005 the ERECT Fund, Strategic Investment Fund (SIF) and the PA 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 the \$2,872,452 outstanding of the SIF loan with note proceeds from a PNC Bank and Dollar Bank financing (**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. The variable rate note was repaid in September 2015. 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 Years 2016 and 2015.

Balances and terms of the loans/notes payable at March 31, 2016 are as follows:

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2016

(8) Debt, continued

	April 1, 2015	Principal Reductions	March 31, 2016
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%.	\$ 13,694,127	\$ (588,646)	\$ 13,105,481
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. The loan was paid off September 30, 2015.	2,537,500	(2,537,500)	-
Infrastructure Development Program (IDP) (original WGRS financing) was received as a lump sum \$1,250,000 loan from PA DCED 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.	1,009,389	(63,189)	946,200
Total loans/notes payable	<u>\$ 17,241,016</u>	<u>\$ (3,189,335)</u>	\$ 14,051,681
Less current portion			<u>(677,528)</u>
			<u>\$ 13,374,153</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.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2016

(8) **Debt, continued**

The aggregate amount of annual principal payments required on the Authority's debt for the years ending 2017 through 2028 is as follows:

3/31/2017	\$ 677,528
3/31/2018	12,558,149
3/31/2019	67,058
3/31/2020	68,399
3/31/2021 through 12/1/2028	<u>680,547</u>
	<u>\$14,051,681</u>

(9) **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.

(10) **Parking Operating System**

The Authority owns and maintains both structured and surface parking facilities on the City's North Shore. In conjunction with the Authority's parking assets, the SEA (Note 1) also owns a parking garage and several lots located on the City's North Shore. These combined facilities provide daily commuter parking as well as event parking adjacent to the SEA's public destination venues. Per Note 8, the Authority's and SEA's combined parking revenues are cross collateralized to the extent provided for in the 2010 SEA and 2012 SA Garage Financings that financed the garage facilities.

**Stadium Authority Parking**

Facility	Location	Date Opened	Number of Spaces	Management or Lease agreement; date of expiration
<b>Garage</b>				
West General Robinson Street (WGRS)	North Shore	2006	1,324 (1,256 structured and 68 surface)	Management; 12/31/2016
<b>Surface Parking</b>				
Lots 1-5	North Shore	-	2,004	Lease; 3/31/2050; Management (portions of Lot 1 and 2), 3/30/2050
Lots 7A-7J	North Shore	-	1,111	Lease; 3/31/2050
Total			4,439	

# STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

## Notes to the Financial Statements, continued

March 31, 2016

### (10) Parking Operating System, continued

#### Management Agreement for the Garage

The Authority has contracted with ALCO Parking, Inc. (ALCO) to operate its WGRS garage. The arrangement is structured as a management contract.

The Authority's management contract for WGRS garage expires December 31, 2016. ALCO is paid a set fee of \$24,000 per year to manage the WGRS garage and is eligible to receive an annual incentive fee equal to 25% of any increase in Adjusted Gross Receipts over the total Adjusted Gross Receipts of the prior year, provided that the Annual Incentive Fee shall in no event exceed the amount of \$24,000.

#### Lease Agreement for the Lots

Certain surface lots of the Authority's surface parking facilities are operated through a Lease Agreement ("Lease"). The Lease was entered into among the Authority, the SEA and ALCO. The Authority and SEA lease certain parcels of land to ALCO for use as parking lots. The Lease covers the majority of Lots 1-5 (the remaining portion of Lots 1 and 2 are spaces under a management agreement as described herein and Lots 7A through 7J, which SA leases from the Commonwealth (Note 11)). The original Lease term was a 40-year period, which began April 1, 1970 and ended March 31, 2010. ALCO 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 pays to the Authority an amount equal to the greater of (i) 50% of the Parking Residual Rent of Lots 1 through 5 and 7A through 7J or (ii) 50% of the Residual Base Period Rent of Lots 1 through 5 and 7A through 7J as defined by the Lease Agreement. For calendar years 2016 and 2015, Parking Residual Rent was greater and therefore the first option above was the basis of the payment.

#### Management Agreement for the Lots

A portion of Lots 1 and 2 of the Authority's surface parking facilities are operated through a management agreement. This management agreement was entered into between the Authority and ALCO commencing July 13, 2001 and the Agreement will expire March 30, 2050. The Authority pays to ALCO a management fee of 3.5% of Net Operating Income.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2016

(11) **PennDot Lease**

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 (Lots 7A to 7J) 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, 2016 and 2015. 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 each 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 rate adjustment). 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.

2017	\$ 70,080
2018	70,080
2019	70,080
2020	<u>70,080</u>
	<u>\$280,320</u>

(12) **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 8). Pursuant thereto, as of March 31, 2016, 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 released to the Authority in the event of "excess pledged revenue."

At the end of the SEA's fiscal year, December 31, 2015, 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, for the year 2015, \$1,558,232 is to be released to the Authority. At March 31, 2016, (\$221,372) was accrued for the first 3 months of the calendar year. An analysis is done monthly and the account reconciled December 31, 2016 (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.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2016

(13) **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, 2016, and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Capital assets, net	\$23,981,440	\$24,802,757
Less: loans/notes payable related to capital assets	<u>(14,051,681)</u>	<u>(17,241,018)</u>
Net Investment in capital assets	<u>\$ 9,929,759</u>	<u>\$ 7,561,739</u>

(14) **Subsequent Event**

Subsequent events were evaluated through the Auditor's report date, which is the date the financial statements were available to be issued.

In support of the obligations under the Option Agreement, the Authority began the process of constructing a new garage on Lot 1 on the North Shore. On December 15, 2015 the Board authorized entering into an agreement with WTW Architects to design the new parking garage and on February 25, 2016 the Board authorized hiring Massaro Corporation as the construction manager. Subsequent to year end, on April 21, 2016 the Authority entered into a \$15 million variable rate Credit Agreement with PNC Bank, National Association (\$8 million) and Dollar Bank, Federal Savings Bank (\$7 million) to provide funding for the construction of the Lot 1 project. The variable rate is 70% of one month LIBOR plus 2.0% Daily LIBOR. The construction is expected to take one year to complete and is scheduled to open May of 2017. No other subsequent events occurred.

# Sports & Exhibition Authority (SEA) and Stadium Authority (SA) Property Overview Map



- Facilities (owned by SEA)
- Parking Lots and Garages (owned by SEA or SA as indicated: #7 lots leased by PennDOT long term to SA; "WGRSG" refers to West General Roberson Street Garage owned by SA; "NSG" refers to North Shore Garage owned by SEA)
- 28 Acre Lower Hill Redevelopment area (approximately 21 acres owned by SEA; approximately 9 acres owned by URA), currently surface parking
- North Shore Option Area - remaining parcels
- North Shore Riverfront Park/Convention Center Riverfront Plaza (each owned by SEA)