

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

Financial Statements and
Required Supplementary Information

For the Years Ended December 31, 2018 and 2017
with Independent Auditor's Reports

MaherDuessel

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SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

The Authority and Stadium Authority Property 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over

financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mahe Duessel

Pittsburgh, Pennsylvania
April 12, 2019

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

As management of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority as of and for the fiscal years ended December 31, 2018 and 2017. This Management's Discussion and Analysis is designed to assist the reader in focusing on the significant financial issues and activities. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities on December 31, 2018 by \$361 million (net position). This represents a \$9.2 million decrease compared to prior year-end net position.
- The Authority's total cash and cash equivalents balance at the close of the 2018 fiscal year was \$83.8 million, representing a \$2 million increase from the prior year-end. Cash and cash equivalents represents the money on deposit with the multiple bond trustees to meet the indenture and debt service requirements, money for the various Authority construction programs, and funds to cover operations.
- The Authority recognized \$29.7 million in restricted and unrestricted operating revenues for the calendar year 2018, \$2.3 million more than 2017. In 2018, the Convention Center had its highest gross revenues in any year since the center opened in 2003. Convention Center revenues come from rentals, event services, and ancillary services such as food and beverage, audio visual services, and equipment rental. Convention Center total net revenues were \$11.4 million in 2018, an increase of \$2.4 million from prior year-end revenues; and Convention Center total net operating expenses were \$13.5 million,

an increase of \$1.6 million from 2017. The Convention Center operates at a planned loss, as is the case with the vast majority of convention centers in the country. The 2018 operating shortfall was \$2.1 million. The shortfall is covered by payments from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund and Allegheny County's Hotel Tax revenue.

- As shown on the statements of revenues, expenses, and changes in net position, total Authority operating revenues (\$29.7 million), net of operating expenses (\$64.7 million), resulted in a \$35 million operating loss; this result, however, includes depreciation and amortization expenses of \$48.2 million.

Overview of the Financial Statements

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

To understand the operations and financial statements depicted, it is important to understand the primary role of the Authority. As a joint authority for the City of Pittsburgh and Allegheny County, the Authority's purpose is to provide venues for large public assemblies, including facilities incident thereto, for the benefit of the general public. In 1998, the Authority undertook and implemented the Regional Destination Financing Plan (Plan) to develop and construct a football stadium, a baseball park, an expanded convention center, parking facilities, riverfront park development, as well as the infrastructure improvements associated with these projects. The combined cost of the Plan exceeded \$1 billion with monies coming from revenue bonds, state appropriations, federal funds, corporate and philanthropic funds, and sports team contributions.

In 2010, the Authority completed construction of a new arena, which replaced the Civic Arena as the home of Pittsburgh's hockey franchise. The Authority completed the demolition of the Civic Arena in September 2012 in preparation for the Lower Hill redevelopment project.

Management's Discussion and Analysis

The Authority owns PNC Park, Heinz Field, the Convention Center (including the Garage and Riverfront Plaza), PPG Paints Arena and Garage, North Shore Garage, North Shore Riverfront Park, the Benedum Center, the Heinz History Center, and 19 acres of land that constitutes the Lower Hill project. The Authority leases PNC Park and Heinz Field to Pittsburgh Associates (holder of the Pittsburgh Pirates Major League Baseball Franchise) and PSSI Stadium LLC. (a related entity to the holder of the Pittsburgh Steelers National Football League Franchise), respectively, both of which operate the facilities through 2030. The Authority leases PPG Paints Arena to the Pittsburgh Arena Operating L.P. (a related entity to the holder of the Pittsburgh Penguins National Hockey League Franchise), which operates that facility through June 30, 2040. The Authority oversees management of the Convention Center, (including Garage and Riverfront Plaza), and the North Shore Garage. The Authority manages the North Shore Riverfront Park. The Authority also owns the Benedum Center and the Heinz History Center, but its ownership is for financing purposes only; the Authority has no significant operating or management responsibility with respect to those facilities.

Financial Statements

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

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

The *statements of revenues, expenses and changes in net position* present information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related

cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued receivables).

The *statements of cash flows* report cash and cash equivalent activities for the year resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

The net result of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the calendar year.

Notes to Financial Statements

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

Financial Analysis

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to analyze the changing financial position of the Authority as a whole. In the case of the Authority, assets and deferred outflows of resources exceed liabilities by \$361 million as of December 31, 2018, a \$9.2 million or 2% decrease from the prior year. This is a result of several factors:

- Assets in total decreased \$38.9 million. Most of *this is due to capital assets that decreased \$42.2 million, while construction in progress increased \$3.4 million*. The deferred outflows of resources decreased \$10.2 million related primarily to the accumulated decrease in fair value of hedging derivatives related to the Commonwealth Lease Revenue Bonds, Series A of 2007. The accumulated decrease in the fair value of hedging derivatives is offset by a corresponding decrease in liabilities.

Management's Discussion and Analysis

- Liabilities, net of the fair value of hedging derivatives, decreased \$40 million. In addition to the previously stated fair value of hedging derivatives, \$26.9 million was due to a decrease in Bonds Payable.

The Condensed Summary of Net Position reports the amount of discretionary (unrestricted) assets that the organization has to meet its obligations. The net position summary below shows that the unrestricted portion of net position is positive by \$1.3 million. This is composed of ticket surcharge money from non-NFL events and surplus funds from the Convention Center garage operations. Ticket surcharge money will be used to either fund capital reserve projects or pay other project costs of the Authority. In November 2017, when the Authority issued the Parking System Revenue Bonds, Convention Center garage revenues (which were previously restricted to Convention Center financings) were no longer restricted. These funds are used to pay Authority operating costs, cover deficit of the Convention Center, if needed, and fund the Authority's many major projects, which may span several years.

Additional information can be found in the "Economic Factors" section of the Management's Discussion and Analysis.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 83,266	\$ 82,269	\$ 77,598
Capital assets	871,749	913,950	955,754
Other assets	<u>50,024</u>	<u>47,744</u>	<u>34,087</u>
Total assets	<u>1,005,039</u>	<u>1,043,963</u>	<u>1,067,439</u>
Deferred outflows of resources	<u>50,797</u>	<u>61,027</u>	<u>61,540</u>
Current liabilities	38,259	40,343	65,776
Bonds and loans outstanding (net of current portion)	608,325	636,200	614,189
Other long-term liabilities	<u>48,337</u>	<u>58,311</u>	<u>73,170</u>
Total liabilities	<u>694,921</u>	<u>734,854</u>	<u>753,135</u>
Net position:			
Net capital investment	286,581	300,541	308,856
Restricted	73,014	68,590	66,281
Unrestricted	<u>1,320</u>	<u>1,005</u>	<u>707</u>
Total net position	<u>\$ 360,915</u>	<u>\$ 370,136</u>	<u>\$ 375,844</u>

By far, the largest portion of the Authority's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), net of related debt (\$286 million). This category comprises 78% of the total net position. Total net position also includes a restricted net position of \$73 million. During 2018, a decrease in the Authority's net investment in capital assets was mainly a result of depreciation and amortization of fixed assets exceeding the amount expended for new construction. The Authority uses its capital assets primarily to provide public venues for baseball (PNC Park), football (Heinz Field), hockey and other arena events (PPG Paints Arena), and for convention center events (Convention Center). Other major capital assets are parking garages, and the North Shore Riverfront Park. Consequently, these assets are not available for

Management's Discussion and Analysis

future spending. All but \$22 million of the Authority's capital assets are capitalized and in service. Amounts allocable to construction-in-progress mainly related to the Lower Hill redevelopment infrastructure project, I-579 Cap project, and various Convention Center projects. Infrastructure associated with the Lower Hill redevelopment and I-579 CAP project was planned to be dedicated to the City upon project completion. Subsequent to year-end, the City did accept dedication of the Lower Hill redevelopment infrastructure road grid.

Current assets include cash and receivables such as for event rentals, parking fees, surcharges, and contributions. Current assets are \$1 million more than 2017. Other assets include noncurrent restricted cash and cash equivalents, receivables, capital assets, and construction-in-progress. A long-term receivable with a December 31, 2018 balance of \$22.7 million was recorded on the Statements of Net Position. This is the portion of the outstanding principal of the Authority's Parking System Revenue Bonds, Series of 2017 that is allocated to the Stadium Authority of the City of Pittsburgh (Stadium Authority). The bonds are payable from and are secured by revenues of specific parking facilities of both the Authority and the Stadium Authority.

The largest component of the Authority's liabilities is bonds payable, which are secured by pledged revenues as described in the debt administration section. Bonds payable total more than \$631 million and decreased \$26.9 million in 2018.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 29,719	\$ 27,374	\$ 25,543
Operating expenses:			
Operations and maintenance	15,132	13,291	13,210
General and administrative	1,392	1,316	1,359
Depreciation and amortization	48,193	47,297	47,018
Other expenses	<u>1</u>	<u>1</u>	<u>1</u>
Total operating expenses	<u>64,718</u>	<u>61,905</u>	<u>61,588</u>
Operating income (loss)	<u>(34,999)</u>	<u>(34,531)</u>	<u>(36,045)</u>
Nonoperating revenues (expenses):			
Allegheny Regional Asset District and City, County, State	26,635	29,812	30,396
Hotel rooms excise tax	18,280	17,780	16,780
Stadium Authority parking subsidy	-	(249)	161
Pittsburgh Casino operator	7,638	7,632	7,627
Federal grants	224	1,915	597
Foundation and other grants	561	900	1,350
Interest expense (net of interest income)	(27,911)	(29,290)	(31,097)
Debt issue costs	-	(327)	-
Other revenue (expense)	<u>351</u>	<u>650</u>	<u>281</u>
Total nonoperating revenues (expenses)	<u>25,778</u>	<u>28,823</u>	<u>26,095</u>
Increase (decrease) in net position	<u>\$ (9,221)</u>	<u>\$ (5,708)</u>	<u>\$ (9,950)</u>

The Authority's operating revenues are derived from ticket surcharges, team rent, parking revenues, and Convention Center income from building rental, event services, catering and concession charges, and ancillary fees such as booth cleaning, security, audio visual, and electrical usage. The Authority's unrestricted operating revenues support the administrative costs of the Authority and the operation of the Convention Center. The restricted operating revenues are related to certain surcharges/parking revenues/team rent that are pledged for debt repayment or capital maintenance reserves. Heinz Field ticket surcharge and rent increased from \$6.1 million in 2017 to \$6.3 million in 2018 and includes surcharge from Steelers home games, Pitt Panthers games,

Management's Discussion and Analysis

and concerts. Rent and parking surcharge related to the New Arena was the same in 2018 and 2017 at \$6.1 million. The PNC Park ticket surcharge and rent was the same in 2018 and 2017 at \$880,000.

Non-operating revenues are primarily composed of state and local grants and other agreements for the operations of the Convention Center, payment of debt, and costs related to capital projects. The majority of the restricted revenues in 2018 were comprised of (1) \$18.28 million from Allegheny County hotel rooms tax for operations of the Convention Center and debt service on the Hotel Room Excise Tax Revenue Bonds, Refunding Series of 2010 and 2012 (2) \$14.1 million from Allegheny Regional Asset District (RAD) for debt service on the RAD Sales Tax Revenue Bond, Refunding Series of 2010, and RAD Sales Tax Revenue Bonds, Refunding Series of 2005 (3) \$10.9 million in grants from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund for ongoing Convention Center operations, reimbursement and repayment of loan debt, debt service payments, and rent expenses related to the Commonwealth Lease Revenue Bonds, Series A and B of 2007, (4) \$7.6 million from the Rivers Casino for debt service on the Commonwealth Lease Revenue Bonds, Series A of 2007, and (5) \$641,000 from the Commonwealth of Pennsylvania's Redevelopment Assistance Capital Program for construction of Lower Hill infrastructure .

Including the depreciation and amortization expense of \$48.2 million, the Authority's operating loss was \$35 million. Operations, without depreciation and amortization expense, would have yielded a surplus of \$13.2 million, which is composed of restricted revenue for the various facility capital reserve funds and debt service obligations.

Capital Assets

As of December 31, 2018, the Authority's investment in capital assets was almost \$872 million (net of accumulated depreciation/amortization). Investment in capital assets includes buildings, improvements, equipment, infrastructure, and land (which is valued at \$126 million and is not depreciated). The major projects capitalized during 2018 included expenses totaling \$4.1 million for replacement of Heinz Field scoreboards and \$1.2 million for various Convention Center projects. Additional information on capital assets can be found in Note 4 of this report.

Debt Administration

Long-term debt of the Authority outstanding as of December 31, 2018 is comprised of 10 bond issues and an active loan from the Heinz Endowments.

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

In 2014, the Authority issued its Guaranteed Revenue Bonds, Taxable Series of 2014 in the principal amount of \$23,300,000 to finance the South Plaza Expansion project at of Heinz Field. As of December 31, 2018, the outstanding bonds related to the Regional Destination Financing Plan and South Plaza Expansion project at Heinz Field are as follows:

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Management's Discussion and Analysis

Bond Issue	Issue Date	Maturity Date	Outstanding Principal Amount	Bond Ratings*	
				Standard & Poor's	Moody's
Hotel Room Excise Tax Revenue Bonds, Series of 2010	Oct-2010	Feb-2035	\$ 107,265,000	AAA (negative outlook)	Aa3 (negative outlook)
Hotel Room Excise Tax Revenue Bonds, Refunding Series of 2012	Aug-2012	Feb-2029	\$ 43,285,000	AA- (stable outlook)	Aa3 (on review for possible downgrade)
RAD Sales Tax Revenue Bonds, Refunding Series 2010	Sept-2010	Feb-2031	\$ 127,045,000	AAA (negative outlook)	Aa3 (negative outlook)
Taxable Ticket Surcharge Revenue Bonds, Series of 2000	Aug-2000	Jul-2030	\$ 12,185,000	AAA	Aaa
Guaranteed Revenue Bonds, Taxable Series of 2014	Oct-2014	Jun-2029	\$ 19,420,000	A+ (stable outlook)	A1

* Ratings at time of issuance, based upon credit support provided by bond insurance or RAD Guarantee. The rating may or may not have changed since initial issue date.

In 2018, principal payments totaling \$15,095,000 were made (\$6,200,000, \$35,000, \$7,040,000, \$510,000, and \$1,310,000, respectively), leaving outstanding debt of \$309,200,000.

The below-described RAD Sales Tax Bonds, Refunding Series 2005 (2005 RAD Bonds) and Auditorium Bonds, Refunding Series A 2005 (Auditorium Bonds) relate to the refinancing of the 1999 Auditorium Bonds that related to earlier financings used to pay costs of improvements to the Civic Arena. \$925,000 of principal was paid on the 2005 RAD Bonds in 2018 and as of December 31, 2018, only \$655,000 of principal remained outstanding. \$245,000 of principal was paid on the Auditorium Bonds in 2018, which was the final payment due on those bonds.

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Bond Issue	Issue Date	Maturity Date	Outstanding Principal Amount	Bond Ratings *	
				Standard & Poor's	Moody's
RAD Sales Tax Bonds, Refunding Series of 2005	Jan-2005	Feb-2019	\$ 655,000	AAA	Aaa

* Ratings at time of issuance, based on the purchase of bond insurance. The rating may or may not have changed since initial issue date.

The Authority issued three series of bonds to finance the construction of the New Arena project: Commonwealth Lease Revenue Bonds, Series A of 2007, Taxable Series B of 2007, and Taxable Series of 2010. Principal payments of \$6,510,000, \$1,275,000, and \$330,000, respectively, were made in 2018. The outstanding balance on these bonds as of December 31, 2018 is \$193,530,000, \$52,185,000, and \$14,900,000, respectively.

Bond Issue	Issue Date	Maturity Date	Outstanding Principal Amount	Bond Ratings *	
				Standard & Poor's	Moody's
Commonwealth Lease Revenue Bonds, Series A of 2007	Oct-2007	Nov-2038	\$ 193,530,000	A-1	VMIG 1
Commonwealth Lease Revenue Bonds, Taxable Series B of 2007	Oct-2007	Nov-2039	\$ 52,185,000	A-1	VMIG 1
Commonwealth Lease Revenue Bonds, Taxable Series of 2010	Apr-2010	Nov-2039	\$ 14,900,000	A	Aa3

* Ratings at time of issuance, based upon credit support provided by bond insurance or Commonwealth Lease. The rating may or may not have changed since initial issue date.

The Authority had outstanding on January 1, 2017 a 2010 PNC Bank/Dollar Bank loan in the amount of \$28,480,357 which had refinanced debt of the Convention Center and North Shore Garage. The bank loan came due May 1, 2017, at which time the Authority paid down the balance on the Convention Center portion of the note and issued a 2017 PNC Bank variable rate term note of \$16,650,400 and a 2017 Dollar Bank variable rate term note in the amount of \$8,965,600 for the North Shore Garage portion. These 2017 notes each had a

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Management's Discussion and Analysis

maturity date of May 1, 2018. In May 2017, the Stadium Authority, also refinanced its outstanding debt related to its West General Robinson Street Garage and Gold 1 Garage and issued a 2017 PNC Bank variable rate term note of \$17,299,100 and a 2017 Dollar Bank variable rate term note in the amount of \$9,314,900, also with maturity dates of May 1, 2018. In November 2017, the Authority issued its Parking System Revenue Bonds, Series of 2017 (2017 Parking Bonds) in the amount of \$41,670,000 to pay off both the Authority and the Stadium Authority 2017 notes. The bonds are secured by a pledge of certain net parking revenues of the Authority and of the Stadium Authority. Of the total remaining principal, \$21,400,000 is to be paid from money to be received from the Stadium Authority.

Bond Issue	Issue Date	Maturity Date	Outstanding Principal Amount	Bond Rating * Standard & Poor's
Parking System Revenue Bonds, Series of 2017	Nov-2017	Jun-2037	\$ 40,430,000	A-

*Rating at time of issuance. For the years 2025 to 2029 the bond rating is AA, based on the purchase of bond insurance. The rating may or may not have changed since initial issue date.

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

There is one active loan/note outstanding at December 31, 2018. This relates to 2002 loans from the Howard Heinz Endowment and the Vira I. Heinz Endowment made in the original total amount of \$3 million, for the purpose of promoting economic development and environmental initiatives by constructing improvements at the Convention Center in accordance with Green Building Standards. In 2011, the Heinz Endowments agreed to forgive \$866,658 of the loan balance providing the Authority continues efforts at the Convention Center to work towards achieving and maintaining LEED recertification. The current balance of the Heinz Endowments' outstanding loan is \$533,340.

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See Note 7 to the financial statements for further information.

Lender	Issue Date	Final Maturity Date	Outstanding Principal Amount
Vira I. Heinz Endowment and Howard Heinz Endowment	Dec 2002	Dec 2023	\$ 533,340

Economic Factors

Certain factors were considered in preparing the Authority's budget for the 2019 fiscal year. The Convention Center operating revenues, as well as a discretionary portion of the revenues of the Allegheny County hotel room tax and an appropriation from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund, would be used to fund the operating activity and administration of the Convention Center. The Authority endeavors to minimize the need for supplemental revenue by maximizing operating revenues such as building income from rentals, food and beverage, and other ancillary services and minimizing expenses with the overriding goal of the Convention Center being to create economic benefit to the region. The Authority's 2019 operating budget is balanced, and no operating cash flow issues are present.

In accordance with Act 71 of 2004 (the Pennsylvania Race Horse Development and Gaming Act), in 2019 the Authority anticipates receiving money from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund for (a) operating costs of the Convention Center (\$1.3 million) and (b) repayment of certain Convention Center debt (\$1.3 million). Receipt of the Act 71 funding is directly dependent on the gaming revenues received by the state. Pursuant to the Act, these funds have been appropriated through 2019. If in the future these moneys are not received, and the unrestricted portion of the hotel room excise tax revenues are not sufficient or are unavailable and other revenue streams do not materialize, the Authority will have cash flow difficulties. In such case, it may then be forced to call upon the Cooperation Agreement with the City of

Pittsburgh and Allegheny County. This agreement, dated January 23, 1978, approves a shared payment by the City of Pittsburgh and Allegheny County to cover the Authority's operating deficit with respect to the Convention Center.

Future Events that will Financially Impact the Authority

The Authority and the Urban Redevelopment Authority of Pittsburgh (URA) are owners of a 28-acre site in the Lower Hill where the Civic Arena had been located. Pittsburgh Arena Real Estate Redevelopment LP, (PAR) a related entity to the Pittsburgh Penguins, has an option to develop the 28-acre site.

In support of the development of the 28 acre site, the Authority constructed a road grid at the site and subsequent to year end the City accepted its dedication as public roads. Also in support of the overall redevelopment of the Lower Hill, the Authority has facilitated the development of the I-579 CAP project by undertaking the design and by taking the lead on obtaining the needed funding.

With respect to the I-579 Cap project, the Authority hired HDR Engineering in October 2014 to design the project. The I-579 Cap final design was completed in 2018, and the Authority transferred certain land to the City of Pittsburgh, as the City will hold the construction contracts and will own and maintain the I-579 Cap project upon completion. The construction bids for the I-579 CAP project are due in March 2019 with an anticipated start date of June 2019 and a completion date of November 2021. The estimated cost of the base construction of the I-579 Cap is \$26.44 million and is fully funded by federal, state, and local sources. The Authority and City of Pittsburgh will enter into a cooperation agreement providing for the transfer funding during the project.

The Authority has certain capital obligations associated with each of the facilities that it owns, excluding the Benedum Center and Heinz History Center. The Authority holds various capital reserve funds related to these obligations. The Authority has responsibility for its capital obligations should the reserve funds not be

sufficient. While the extent and timing of its future capital obligations is impossible to predict with certainty, the Authority is able to cover what it considers to be its current obligations and those of the foreseeable future.

Contacting the Authority's Financial Management

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
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Current assets:		
Cash and cash equivalents	\$ 2,709,662	\$ 1,630,909
Restricted cash and cash equivalents	76,090,721	74,398,210
Receivables:		
Trade (no allowance for doubtful accounts necessary)	2,522,460	3,391,378
Restricted contributions and grants	1,259,395	2,342,041
Other	519,338	372,633
Prepaid expenses	164,277	134,293
Total current assets	83,265,853	82,269,464
Noncurrent assets:		
Restricted cash and cash equivalents	4,966,359	5,196,725
Note receivable, net	22,677,278	23,519,772
Other receivables	100,000	100,000
Capital assets, net	871,749,263	913,949,788
Construction in progress	22,280,752	18,927,651
Total noncurrent assets	921,773,652	961,693,936
Total Assets	1,005,039,505	1,043,963,400
Deferred Outflows of Resources		
<hr/>		
Accumulated decrease in fair value of hedging derivatives	46,878,406	56,830,098
Deferred charges on bond refundings	3,918,232	4,197,276
Total Deferred Outflows of Resources	50,796,638	61,027,374
Liabilities		
<hr/>		
Current liabilities:		
Accounts payable and accrued liabilities	4,330,043	7,019,283
Unearned revenue	1,207,189	1,191,374
Interest payable	6,396,883	6,512,422
Current portion of bonds payable	26,325,000	25,620,000
Total current liabilities	38,259,115	40,343,079
Noncurrent liabilities:		
Accrued liabilities	1,051,412	957,210
Unearned revenue	407,095	524,564
Fair value of hedging derivatives	46,878,406	56,830,098
Bonds payable	604,691,540	632,332,692
Loans/notes payable	3,633,340	3,866,674
Total noncurrent liabilities	656,661,793	694,511,238
Total Liabilities	694,920,908	734,854,317
Net Position		
<hr/>		
Net investment in capital assets	286,580,736	300,541,033
Restricted for facilities and debt service	73,014,762	68,589,868
Unrestricted	1,319,737	1,005,556
Total Net Position	\$ 360,915,235	\$ 370,136,457

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Operating Revenues:		
Restricted:		
Surcharges/rents	\$ 12,457,544	\$ 12,502,776
North Shore parking garage, net	1,735,316	1,863,751
Parking lot revenue, net	625,988	633,065
Unrestricted:		
Ticket surcharges	728,070	611,300
Convention Center parking garage, net	2,269,189	2,217,274
License fees	3,060,070	3,007,552
Event service revenue	1,400,919	1,101,350
Ancillary revenue	6,850,396	4,962,678
Other revenue	591,477	473,879
Total operating revenues	29,718,969	27,373,625
Operating Expenses:		
Operations and maintenance	15,132,534	13,290,846
General and administrative	1,391,531	1,316,092
Depreciation and amortization	48,193,400	47,297,081
Other expenses	500	1,019
Total operating expenses	64,717,965	61,905,038
Operating Loss	(34,998,996)	(34,531,413)
Non-operating Revenues (Expenses):		
Restricted:		
Allegheny Regional Asset District	14,085,000	14,391,000
PA Gaming Economic Development & Tourism Fund	10,900,000	10,900,000
Other Commonwealth of PA Grants	1,395,049	4,268,202
Pittsburgh casino operator	7,637,760	7,632,047
Hotel rooms tax	18,280,000	17,780,000
Stadium Authority	-	(249,414)
City of Pittsburgh and Allegheny County	254,800	253,966
Federal grants	223,757	1,914,776
Foundation and other grants	560,910	900,000
Other revenue (expense)	222,262	210,356
Interest expense	(28,528,574)	(29,290,215)
Interest revenue	616,908	342,350
Debt issuance costs	-	(326,861)
Unrestricted:		
Other revenue	124,388	135,652
Project development expense	29,333	-
Financing expenses	(23,819)	(38,260)
Total non-operating revenues, net	25,777,774	28,823,599
Change in Net Position	(9,221,222)	(5,707,814)
Net Position:		
Beginning of year	370,136,457	375,844,271
End of year	\$ 360,915,235	\$ 370,136,457

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Cash received from operations	\$ 30,012,225	\$ 26,263,754
Cash paid for operating expenses	(10,532,753)	(8,737,922)
Cash paid to employees	(7,055,269)	(6,428,411)
Cash received from other income	591,477	473,879
Net cash provided by (used in) operating activities	13,015,680	11,571,300
Cash Flows From Non-Capital Financing Activities:		
Cash received from hotel tax distributions	4,500,000	4,000,000
Cash received from PA Gaming Economic Development & Tourism Fund	1,700,000	1,700,000
Cash received (paid) for development funds	687,178	(1,444,308)
Other receipts (payments)	75,557	23,432
Net cash provided by (used in) non-capital financing activities	6,962,735	4,279,124
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(11,594,718)	(10,189,473)
Proceeds from issuance of bonds and notes	-	48,754,670
Bond and note issuance costs	-	(326,861)
Cash received on note receivable to Stadium Authority	655,000	-
Note receivable issued to Stadium Authority	-	(23,519,772)
Interest payments on bonds, notes/loans payable, and capital lease obligations	(29,493,730)	(30,363,076)
Cash received from Allegheny Regional Asset District for bond payments	14,085,000	14,391,000
Cash received from hotel rooms tax for bond payments	13,780,000	13,780,000
Cash received from PA Gaming Economic Development & Tourism Fund for capital items and bond and loan payments	9,200,000	9,200,000
Cash received from Pittsburgh casino operator for bond payments	7,637,760	7,632,047
Cash received from City of Pittsburgh and Allegheny County	254,800	253,966
Cash received from (paid to) Stadium Authority for capital items and bond payments	-	(249,414)
Cash received from other capital related grants	3,262,364	6,684,683
Principal payments on bonds payable	(25,620,000)	(23,050,000)
Principal payments on loans/notes payable	(233,334)	(28,613,691)
Net cash provided by (used in) capital and related financing activities	(18,066,858)	(15,615,921)
Cash Flows From Investing Activities:		
Interest income received	653,160	351,597
Bank/trustee fees paid	(23,819)	(38,260)
Net cash provided by (used in) investing activities	629,341	313,337
Net Increase (Decrease) in Cash and Cash Equivalents	2,540,898	547,840
Cash and Cash Equivalents:		
Beginning of year	81,225,844	80,678,004
End of year	\$ 83,766,742	\$ 81,225,844
Consists of:		
Restricted cash and cash equivalents	\$ 81,057,080	\$ 79,594,935
Unrestricted cash and cash equivalents	2,709,662	1,630,909
	\$ 83,766,742	\$ 81,225,844
Reconciliation of Operating Loss to Net Cash Flows Provided By (Used In) Operating Activities:		
Operating loss	\$ (34,998,996)	\$ (34,531,413)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	48,193,400	47,297,081
Change in operating assets and liabilities:		
Operating receivables	868,918	(722,638)
Prepaid operating expenses	(29,984)	9,014
Operating liabilities	(1,017,658)	(480,744)
Total adjustments	48,014,676	46,102,713
Net cash provided by (used in) operating activities	\$ 13,015,680	\$ 11,571,300

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. Nature of Operations and Reporting Entity

The Public Auditorium Authority of Pittsburgh and Allegheny County was incorporated on February 3, 1954, pursuant to the Public Auditorium Authorities Law, as a joint authority organized by the City of Pittsburgh (City) and Allegheny County (County). Effective November 1999, the Authority's name was legally changed to the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority). The Public Auditorium Authorities Law was re-codified in 2000, and the Authority is now authorized and exists under the Sports and Exhibition Authority Act. The Authority's term of existence extends until March 23, 2049.

The Authority provides venues for large public assemblies, including facilities incident thereto, for the benefit of the people of the Commonwealth of Pennsylvania, by among other things, increasing their commerce and prosperity, and promoting their educational, cultural, physical, civic, social, and moral welfare. The Authority owns PNC Park, Heinz Field, the David L. Lawrence Convention Center (including garage and riverfront plaza), the PPG Paints Arena (including garage), the Lower Hill redevelopment site, North Shore Garage, North Shore Riverfront Park, and various associated infrastructure improvements. The Authority leases PNC Park and Heinz Field to Pittsburgh Associates (holder of the Pittsburgh Pirates Major League Baseball franchise) and PSSI Stadium LLC (a related entity to the holder of the Pittsburgh Steelers National Football League franchise), respectively, which operate the facilities through October 31, 2030 and February 28, 2031, respectively. PPG Paints Arena is subleased through June 30, 2040 to Pittsburgh Arena Operating LP (a related entity to the holder of the Pittsburgh Penguins National Hockey League franchise). The teams are responsible for the daily operation, management and maintenance of the sports facilities. The Authority oversees management of the David L. Lawrence Convention Center (Convention Center), North Shore Garage, and North Shore Riverfront Park.

The Authority also owns the Benedum Center and the Senator John Heinz Pittsburgh Regional History Center. The Authority's ownership of these facilities is for financing purposes only; the Authority has no significant operating or management responsibility. The Pittsburgh Trust for Cultural Resources operates the Benedum Center pursuant to a lease. The Senator John Heinz Pittsburgh Regional History Center is leased to the Historical Society of Western Pennsylvania.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The Authority and the Urban Redevelopment Authority of Pittsburgh (URA) are owners of a 28-acre site in the Lower Hill where the Civic Arena had been located. The Authority and the URA have entered into an option agreement (Lower Hill Agreement) with PAR, a related entity of the Pittsburgh Penguins. The Authority, with the URA, is responsible for overseeing development in accordance with the Lower Hill Option Agreement.

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

The Stadium Authority owned Three Rivers Stadium located in the City. Three Rivers Stadium was razed in February 2001 to make way for Heinz Field and PNC Park. The Stadium Authority is now responsible for the development of the land between the constructed stadium and ballpark (North Shore Option Area). A portion of that land was conveyed to the Authority for construction of infrastructure. The remaining land was retained by the Stadium Authority to be developed according to a master development plan. Pending development, the land is used for surface parking with a portion of the revenue from the surface parking lots pledged to the debt service on the Authority's Parking System Revenue Bonds, Series of 2017 (see Note 6). The Stadium Authority has a separate board appointed by the Mayor of the City. An Administrative Services Agreement was entered into in November 2002 and amended November 2017 between the Stadium Authority and the Authority, whereby the Authority staff performs all administrative services required for the Stadium Authority to fulfill its duties and obligations.

2. Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America applicable to governmental units and promulgated by the Governmental Accounting Standards Board (GASB). The Authority is considered a special purpose government engaged in business-type activities and, as such, presents the

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

financial statements required for enterprise funds. A summary of the Authority's more significant accounting policies applied by management in the preparation of the accompanying financial statements follows:

Basis of Accounting and Measurement Focus

The Authority's financial statements are prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred. All assets, deferred outflows of resources, deferred inflows of resources, and 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 total net position.

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

Capital Assets

Capital assets are stated at cost, which includes all costs during the construction period for acquisition of land, rights of way, surveys, engineering costs, roads, bridges, buildings, and other construction costs for constructed assets. Once completed and in operation, additional projects valued at greater than \$10,000 and paid for by the Authority are capitalized; however, professional fees are expensed unless the total value of the project exceeds \$1 million.

Capital assets include the infrastructure network (roads, sidewalks, water lines, and sewer lines) built in connection with the Authority's capital projects, including the Convention Center, North Shore, and Lower Hill redevelopment. Some of this infrastructure, mainly road, water, and sewer system infrastructure, is dedicated to the City or Pittsburgh Water and Sewer Authority (PWSA) after the completion and is thereafter to be maintained by the City and/or PWSA. To the extent the Authority financed the projects and the financing is still outstanding, the Authority considers these costs an integral part of its total development cost of its major projects and, accordingly, capitalizes and amortizes those infrastructure costs over the life of that project.

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets. No depreciation expense is recorded for land or construction-in-progress. Repairs and maintenance that do not extend the lives of the applicable assets are charged to expense as incurred.

Interest expense incurred during the construction phase of a capital asset is included as part of the capitalized value of the asset constructed and amortized over the useful life of the asset. During the years ended December 31, 2018 and 2017, there was no net capitalized interest.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Refunding Transactions

In accordance with applicable guidance, the excess of the reacquisition price over the net carrying amount of refunded debt is recorded as a deferred outflow of resources on the statements of net position and amortized as a component of interest expense over the shorter of the term of the refunding issue or refunded bonds. This applies to the following bonds: Regional Asset District Sales Tax Revenue Bonds, Refunding Series of 2010, and Hotel Room Excise Tax Revenue Bonds, Series 2010 and 2012.

Noncurrent Accrued Liabilities

Noncurrent accrued liabilities, which represent monies held on behalf of the Stadium Authority in a development fund and payable to the Steelers and Pirates upon the development of commercial, retail, and residential facilities in the North Shore Option Area, totaled \$1,051,412 and \$957,210 at December 31, 2018 and 2017, respectively. In addition, there is a Stadium Authority development fund used for capital projects and financing of parking garages on the North Shore.

Revenues

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

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

Surcharges/Rent

Surcharges are certain revenues derived from tickets or parking at the various facilities imposed by the Authority in accordance with the team leases. A ticket surcharge is imposed on each ticket sold for Pittsburgh Steelers football games, University of Pittsburgh Panthers football games, and other bowl events held at Heinz Field and at Pittsburgh Pirates baseball games held at PNC Park. A parking surcharge is imposed on

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

cars parked at the Lower Hill redevelopment site and the PPG Paints Arena garage. Additionally, the team leases provide that the Steelers, Pirates, and Penguins pay rent and/or other amounts to the Authority annually. See Note 13, PPG Paints Arena; Note 17, PNC Park; and Note 18, Heinz Field for the specific terms of each lease as it relates to the surcharges, rents, and/or other amounts and the restricted uses of the funds.

Parking Revenues

Parking revenues are generated from parking services at the North Shore parking garage, the Convention Center parking garage, and Authority lots in both downtown and on the North Shore, net of the related expenses (see accompanying Parking System Report). Alco Parking, Inc. operates these facilities through lease or management contracts. Currently, the net revenues of the North Shore Garage, Authority lots, and revenues from the Stadium Authority West General Robinson Street Garage, Gold 1 Garage, and lots (Lots 1 through 5 and 7A through 7J) are fully restricted for purposes of repaying the Authority's Parking System Revenue Bonds, Series of 2017 described in Note 6. An affiliated entity of the owner of the Pittsburgh Penguins hockey team (such affiliated entity, as applicable, herein referred to as the Pittsburgh Penguins) operates the PPG Paints Arena garage and parking at the Lower Hill redevelopment site and that net parking revenue is currently retained by the team. Net revenues of the Convention Center parking garage are used for operations of the Authority and not pledged to bonds.

Pennsylvania Gaming Economic Development & Tourism Fund (EDTF)

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

- \$20,000,000 - for the retirement of indebtedness of the Convention Center. The allocated amount is disbursed in ten increments of at least \$1.7 million per year with the remaining balance being disbursed within the following two years. The tenth and eleventh increments of \$1.7 million each were received and recognized as non-operating revenue in 2017 and 2018. The final increment of \$1.3 million is to be paid in 2019.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

- \$20,000,000 - for the payment of the operating deficit of the Convention Center. The allocated amount is disbursed in ten increments of at least \$1.7 million per year, with the remaining balance being disbursed within the following two years. The amount cannot exceed the operating deficit of the Convention Center. The tenth and eleventh increments of \$1.7 million each were received and recognized as non-operating revenue in 2017 and 2018. The final increment of \$1.3 million is to be paid in 2019.
- \$225,000,000 - for the construction of the New Arena Project. The allocated amount is disbursed in increments of \$7.5 million for 30 years or the retirement of the debt, whichever is less. The eleventh and twelfth increments in the amount of \$7.5 million each were received and recognized as non-operating revenue in 2017 and 2018. The remaining annual increments of \$7.5 million are to be paid in 2019 through 2036.

Casino Operator Revenue

As described in Note 6, the Authority receives semi-annual payments from the holder of the gaming license for the facility located in Pittsburgh, based on a Payment Agreement which details the payment amounts and due dates. The payments are pledged to pay debt service on the Authority's Commonwealth Lease Revenue Bonds, Series A of 2007. The Authority recognizes this revenue when the payments are received by the bond trustee.

Hotel Room Excise Tax

The County imposes a 7% hotel room excise tax on the temporary use or occupancy of hotel rooms within the County. The tax is composed of a 5% Basic Levy and a 2% Added Levy. From the 5% Basic Levy, the County is required to collect the tax and to distribute the funds to the appropriate entities, including the Authority, in accordance with state law (16 P.S. Section 4970.2 et seq) as follows: (1) provide the Municipality of Monroeville with 1/3 of the revenues generated in that jurisdiction, (2) fund the debt service on the Authority's Hotel Room Excise Tax Revenue Bonds, Series of 2010 and 2012, and reimburse the County for a collection fee of 5%, (3) make available 2/5 of the Basic Levy to the Greater Pittsburgh Convention and Visitor's Bureau and (4) remaining funds, if any, to fund Convention Center operations and regional tourist promotional activities. The 2% Added Levy is applied in accordance with state law (53 Pa.C.S.A.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Section 8721) as follows: (1) to the Municipality of Monroeville, 1/3 of the revenues generated in that jurisdiction, and (2) the remaining balance to pay debt service on the Authority's Hotel Room Excise Tax Revenue Bonds, Series of 2010 and 2012.

Classification of Net Position

Accounting standards require 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 amortization, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- Restricted – This component of net position consists of constraints placed on net position used through external restrictions, reduced by liabilities related to those assets.
- Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Pending Pronouncements

GASB has issued statements that will become effective in future years including Statement Nos. 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements), 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), and 90 (Majority Equity Interests – an amendment of GASB Statements No. 14 and No.61). Management has not yet determined the impact of these statements on the financial statements.

Reclassification

Certain prior year amounts were reclassified to conform to the current year presentation.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

3. Cash, Cash Equivalents, and Investments

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

The following is a summary of the Authority's cash and cash equivalents for the year ended December 31, 2018:

2018 Cash and Cash Equivalents	Unrestricted	Restricted	Total
Cash	\$ 2,709,662	\$ 10,151,088	\$ 12,860,750
Money market funds	-	46,669,909	46,669,909
PA INVEST	-	24,236,083	24,236,083
Total cash and cash equivalents	<u>\$ 2,709,662</u>	<u>\$ 81,057,080</u>	<u>\$ 83,766,742</u>

The following is a summary of the Authority's cash and cash equivalents for the year ended December 31, 2017:

2017 Cash and Cash Equivalents	Unrestricted	Restricted	Total
Cash	\$ 1,630,909	\$ 10,163,136	\$ 11,794,045
Money market funds	-	45,419,987	45,419,987
PA INVEST	-	24,011,812	24,011,812
Total cash and cash equivalents	<u>\$ 1,630,909</u>	<u>\$ 79,594,935</u>	<u>\$ 81,225,844</u>

Restricted cash and cash equivalents relate to bond accounts (established pursuant to the Authority's various trust indentures), grant agreements, enabling legislation, or other contractual agreements that restrict funding for the various facilities. Restricted cash and cash equivalents are reported on the statements of net position and are classified as current or noncurrent based on expected use.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The carrying value of the Authority's investments is the same as their fair value amount. Money markets are valued using quoted market prices (Level 1 inputs). The Authority's investment in the external investment pool (INVEST) is the same as the value of the pool shares and is reported at amortized cost, which approximates market. All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth. The Authority can withdraw funds from INVEST without limitations or fees.

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

Custodial Credit Risk – Deposits. In the case of cash, this is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2018 and 2017, \$12,925,423 and \$11,141,219 of the Authority's bank balance of \$13,464,489 and \$11,685,613, respectively, was exposed to custodial credit risk because it was uninsured but collateralized in accordance with Act 72 of 1971, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

The Authority's investments (INVEST and money markets) are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2018, \$28.7 million of money markets were rated A-1+, and the remaining \$42.2 million of investments were rated AAA by Standard & Poor's. As of December 31, 2017, \$29.9 million of money markets were rated A-1+, and the remaining \$40.5 million of investments were rated AAA by Standard & Poor's.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of the Authority's investments. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's investments, however, have maturities of less than one year.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

4. Capital Assets

Capital assets and accumulated depreciation consist of the following:

	2018	2017	Useful Lives (in years)
Land and improvements	\$ 126,192,850	\$ 126,192,850	
Infrastructure	143,687,828	143,687,828	40-50
Building and improvements	1,239,069,954	1,233,837,315	10-50
Equipment	73,052,271	72,292,035	5-10
Other assets	8,657,038	8,657,038	30
Total capital assets	1,590,659,941	1,584,667,066	
Accumulated depreciation/amortization	(718,910,678)	(670,717,278)	
Capital assets, net	<u>\$ 871,749,263</u>	<u>\$ 913,949,788</u>	

Capital assets included above that are not being depreciated totaled \$126 million for the year ended December 31, 2018 and December 31, 2017.

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

	January 1, 2018	Depreciation	Additions (Deletions)	December 31, 2018
Lower Hill Redevelopment	\$ 8,440,873	\$ 366,994	\$ -	\$ 8,073,879
Benedum Center	11,100,895	14,255	-	11,086,640
John Heinz History Center	1,728,900	52,400	-	1,676,500
PNC Park	133,146,235	8,833,482	-	124,312,753
North Shore Garage	12,247,450	847,472	421,621	11,821,599
Heinz Field	162,152,248	10,854,844	4,118,377	155,415,781
Convention Center	230,823,011	14,254,326	1,207,441	217,776,126
Convention Center				
Riverfront Plaza	9,061,346	-	-	9,061,346
North Shore Riverfront Park	25,985,129	63,223	-	25,921,906
PPG Paints Arena	274,179,310	10,973,422	245,436	263,451,324
North Shore Infrastructure	39,566,365	1,582,423	-	37,983,942
Other	5,518,026	350,559	-	5,167,467
Total	<u>\$ 913,949,788</u>	<u>\$ 48,193,400</u>	<u>\$ 5,992,875</u>	<u>\$ 871,749,263</u>

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

5. Construction in Progress

Construction in progress of \$22.3 million and \$18.9 million as of December 31, 2018 and 2017, respectively, relates to the costs associated with the Lower Hill redevelopment infrastructure and various Convention Center projects. Infrastructure associated with the Lower Hill redevelopment is planned to be dedicated by the City upon project completion.

6. Bonds Payable

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

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	Principal Outstanding		
	January 1, 2018	Additions (Reductions)	December 31, 2018
Allegheny Regional Asset District Sales Tax Revenue Bonds, Refunding Series 2005 of \$13,250,000, due in annual installments ranging from \$650,000 to \$2,695,000 through February 2019, interest payable semi-annually on February 15 and August 15 at rates ranging from 3% to 4.125%, issued in January 2005 to partially refinance the 1999 Series Auditorium Bonds and to fund certain costs of the Convention Center. Funding Source: Allegheny Regional Asset District Sales Tax, paid directly to the Trustee.	\$ 1,580,000	\$ (925,000)	\$ 655,000
Auditorium Bonds, Refunding Series A 2005 of \$8,345,000, due in annual installments ranging from \$235,000 to \$1,170,000 through December 2018, interest payable semi-annually on June 15 and December 15 at rates ranging from 3.05% to 4.00%, issued in September 2005 to partially refinance the 1999 Series Auditorium Bonds and to fund certain costs of the Convention Center. Funding Source: 1/2 each by the City and County, paid directly to the Trustee.	245,000	(245,000)	-
Commonwealth Lease Revenue Bonds Series A of 2007 of \$252,000,000, due in annual installments ranging from \$4,260,000 to \$13,950,000 through November 2038, interest payable semi-annually on May 1 and November 1 at synthetic fixed rate of 4.020% pursuant to a related interest rate swap, issued in October 2007 to fund the construction of a new multi-purpose arena and related facilities. Funding Source: \$7.5 million annually from PA Economic Development and Tourism Fund and \$7.5 million annually by casino operator, paid directly to the Trustee.	200,040,000	(6,510,000)	193,530,000
Commonwealth Lease Revenue Bonds Taxable Series B of 2007 of \$61,265,000, due in annual installments ranging from \$620,000 to \$4,095,000 through November 2039, interest payable semi-annually on May 1 and November 1 at synthetic fixed rate of 5.335% pursuant to a related interest rate swap, issued in October 2007 to fund the construction of a new multi-purpose arena and related facilities. Funding Source: Pittsburgh Penguins, paid directly to the Trustee.	53,460,000	(1,275,000)	52,185,000
Commonwealth Lease Revenue Bonds Taxable Series of 2010 of \$17,360,000 due in annual installments ranging from \$225,000 to \$1,300,000 through November 2039, interest payable semi-annually on May 1 and November 1 at rates ranging from 3.98% to 7.04%, issued April 28, 2010 to fund the construction of a new multi-purpose arena and related facilities. Funding Source: Pittsburgh Penguins, paid directly to the Trustee.	15,230,000	(330,000)	14,900,000
Allegheny Regional Asset District Sales Tax Revenue Bonds, Refunding Series 2010 of \$173,765,000, due in annual installments ranging from \$3,420,000 to \$12,760,000 through February 2031, interest payable semi-annually on February 1 and August 1 at rates ranging from 2% to 5%, issued in September 9, 2010 to refinance the Regional Asset District Sales Tax Revenue Bonds Series of 1999. Funding Source: Allegheny Regional Asset District Sales Tax, paid directly to the Trustee.	134,085,000	(7,040,000)	127,045,000

(Continued)

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	Principal Outstanding		
	January 1, 2018	Additions (Reductions)	December 31, 2018
Hotel Room Excise Tax Revenue Bond, Refunding Series 2010 of \$146,465,000 due in annual installments ranging from \$65,000 to \$12,135,000 through February 2035, interest payable semi-annually on February 1 and August 1 at rates ranging from 2.00% to 5.00%, issued to refinance a portion of the Hotel Room Excise Tax Revenue Bonds, Series 1999 (which financed the expansion of DLLCC). Funding Source: County Hotel Room Excise Tax, paid directly to the Trustee.	113,465,000	(6,200,000)	107,265,000
Hotel Room Excise Tax Revenue Bond, Refunding Series 2012 of \$44,160,000 due in annual installments ranging from \$30,000 to \$9,590,000 through February 2029, interest payable semi-annually on February 1 and August 1 at rates ranging from 2.00% to 5.00%, issued to refinance all of the outstanding Hotel Room Excise Tax Revenue Bonds, Series 1999 (which financed the expansion of DLLCC). Funding Source: County Hotel Room Excise Tax, paid directly to the Trustee.	43,320,000	(35,000)	43,285,000
Taxable Ticket Surcharge Revenue Bonds, Series of 2000 of \$17,175,000, due in annual installments ranging from \$145,000 to \$2,835,000 through July 2030, interest payable semi-annually on January 1 and July 1 at rates ranging from 7.72% to 7.92%, issued in August 2000 to finance the construction of Heinz Field. Funding Source: Heinz Field Ticket Surcharge, paid directly to the Trustee.	12,695,000	(510,000)	12,185,000
Guaranteed Revenue Bonds Taxable, Series of 2014 of \$23,300,000, due in annual installments ranging from \$1,280,000 to \$1,990,000 through December 2030, interest payable semi-annually on June 15 and December 15 at rates ranging from 1.084% to 4.521%, issued in October 2014 to finance certain renovations and improvements of Heinz Field. Funding Source: Steelers Rent, paid directly to the Trustee.	20,730,000	(1,310,000)	19,420,000
Parking System Revenue Bonds, Series of 2017 of \$41,670,000 due in annual installments ranging from \$1,240,000 to \$3,175,000 through December 2037, interest payable semi-annually on June 15 and December 15 at rates ranging from 3% to 5%, issued in November 2017 to refund Authority Bank Notes and refund Stadium Authority Bank Notes. Funding Source: Net Revenues of the Parking System.*	41,670,000	(1,240,000)	40,430,000
Total bonds payable	<u>636,520,000</u>	<u>(25,620,000)</u>	<u>610,900,000</u>
Deferred amounts:			
For issuance premiums	<u>21,432,692</u>	<u>(1,316,152)</u>	<u>20,116,540</u>
Bonds payable, net	<u>\$ 657,952,692</u>	<u>\$ (26,936,152)</u>	<u>\$ 631,016,540</u>

*This chart reflects the total bond value for the Parking System Revenue Bonds, Series of 2017 and includes the whole original issue premium. See below for a description of the relationship with the Stadium Authority and the receivables due for payment on these bonds.

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

	Total Principal	Interest	Total
2019	\$ 26,325,000	\$ 28,232,596	\$ 54,557,596
2020	26,745,000	27,086,709	53,831,709
2021	28,010,000	25,820,886	53,830,886
2022	29,370,000	24,487,250	53,857,250
2023	30,795,000	23,070,061	53,865,061
2024-2028	175,080,000	92,494,380	267,574,380
2029-2033	176,775,000	49,440,187	226,215,187
2034-2038	108,535,000	14,141,555	122,676,555
2039-2040	9,265,000	309,988	9,574,988
Total	\$ 610,900,000	\$ 285,083,612	\$ 895,983,612

Interest payments related to the Commonwealth Lease Revenue Bonds, Series A and B of 2007 have been calculated using the synthetic fixed rates as described in Note 9.

Arbitrage

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

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Regional Asset District Sales Tax Revenue Refunding Bonds, Series of 2005

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

The 2005 RAD Bonds are payable from and secured by payments and other revenues to be received by the Authority through 2018 under an Amended and Restated Cooperation and Support Agreement among the Authority, the City, the County, and RAD. In calendar years 2018 and 2017, \$685,000 and \$991,000, respectively, was received by the Authority and used to pay debt service.

The final principal payment on the 2005 RAD Bonds is due on February 15, 2019.

Auditorium Bonds, Refunding Series of 2005

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

Pursuant to a Supporting Agreement among the Authority, the City and the County dated September 15, 2005, the City and the County each have unconditionally agreed to pay to the Authority one half of the principal and interest on these Auditorium Bonds as it becomes due and payable. The Authority received \$127,400 and \$126,983 from both the City and the County in 2018 and 2017, respectively.

The final principal payment was due and paid on the Auditorium Bonds, on December 15, 2018.

Commonwealth Lease Revenue Bonds, Series A and Taxable Series B of 2007

On October 4, 2007, the Authority issued \$252,000,000 of variable interest rate Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Series A of 2007 and \$61,265,000 of variable interest rate Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 to acquire, construct, and equip a multi-purpose public auditorium

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and related facilities (New Arena Project). In conjunction with this transaction, the Authority has entered into a Standby Bond Purchase Agreement which has been extended through May 1, 2020. The 2007 bonds are to be repaid from (1) rent payments due from the sublease of the new arena to the Pittsburgh Penguins, (2) annual payments from the Commonwealth and (3) annual payments from the holder of the gaming license for the facility located in the City.

The Authority subleased the new arena to the Pittsburgh Penguins and, pursuant thereto, the Pittsburgh Penguins are obligated to pay the Authority annual lease payments of \$4.3 million (with final payment on September 25, 2039). The lease payments are pledged to support the 2007 bonds. \$4.3 million was received in both 2018 and 2017.

The Commonwealth has appropriated \$7.5 million per year for 30 years (ending September 2036) from the EDTF to support the debt service on the 2007 bonds (Note 2). \$7.5 million was received in both 2018 and 2017.

A Payment Agreement between the Authority and Holdings Acquisition Co, LLC, (d/b/a Rivers Casino), the holder of the gaming license for the facility located in the City of Pittsburgh, was executed November 10, 2009, requiring semi-annual payments to begin October 2009 and ending October 2038, with such payment pledged to secure the 2007 bonds. Payments in the amount of \$7.638 million and \$7.632 million were received in 2018 and 2017, respectively.

The Authority entered into interest rate swap agreements with PNC Bank, National Association (Counterparty) in connection with the 2007 bonds. Pursuant to the swap agreements, the Authority pays a fixed rate of interest to the Counterparty and the Counterparty then pays a variable rate of interest to the bond trustee to pay debt service on the 2007 bonds (Note 9). At December 31, 2018, the variable rate on the Series A and B bonds approximated 1.688% and 2.485%, respectively. The 2017 variable rate on the Series A and B bonds approximated 1.30% and 1.50%, respectively.

The Authority has leased the New Arena Project to the Commonwealth and the Commonwealth has subleased it back to the Authority. The Commonwealth is obligated to pay rent under the lease to the extent there is a deficiency or delay in receipt of any amounts needed to pay debt service. The Commonwealth paid \$754,060 and \$222,130 in 2018 and 2017, respectively, pursuant to the Commonwealth lease.

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Commonwealth Lease Revenue Bonds, Taxable Series of 2010

In 2010, the Authority issued \$17,360,000 of fixed rate Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Taxable Series of 2010 to pay costs to complete the acquisition, construction and equipping of the New Arena Project. The Series 2010 Bonds are to be repaid from additional rent payments (\$1.36 million per year) due from the Pittsburgh Penguins per the Second Amendment to the New Arena Lease. These additional payments in the amount of \$1,360,000 were received in both 2018 and 2017.

Hotel Room Excise Tax Revenue Bonds

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

On October 13, 2010, the Authority issued \$146,465,000 in Hotel Room Excise Tax Revenue Bonds, Series of 2010 (2010 Hotel Bonds), the proceeds of which were used to (a) redeem on October 18, 2010 a portion of the Hotel Room Excise Tax Revenue Bonds, Series 1999; (b) pay certain other debt and costs related to the convention center; and (c) pay a portion of the purchase price of the cooling system in the Convention Center. The bonds have an average interest rate of 4.60% and were issued at an original issue premium of \$9.1 million, which is being amortized over the life of the bonds.

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

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The 2010 and 2012 refundings resulted in deferred refunding losses of \$2,632,000 and \$636,000, respectively, which is being amortized over the life of the 2010 and 2012 Hotel Bonds.

The Authority received hotel room excise tax revenues, in the amount of \$13,780,000, in each of the calendar years 2018 and 2017, for payment of indebtedness on the 2010 and Hotel 2012 Bonds.

Regional Asset District Sales Tax Revenue Bonds, Refunding Series of 2010

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

The 2010 refunding resulted in deferred refunding losses of \$2,908,000 which is being amortized over the life of the RAD Bonds. The Authority received \$13,400,000 from RAD for each of the calendar years 2018 and 2017 for payment of indebtedness on the 2010 RAD Bonds.

Taxable Ticket Surcharge Revenue Bonds

In September 2000, the Authority issued \$17,175,000 of Sports & Exhibition Authority of Pittsburgh and Allegheny County Taxable Ticket Surcharge Revenue Bonds, Series 2000 (Ticket Surcharge Bonds). In connection with the issuance of the Ticket Surcharge Bonds, the Authority entered into a Security, Pledge, and Assignment Agreement with the Pittsburgh Steelers Sports, Inc. (PSSI) to facilitate the collection and receipt of a 5% ticket surcharge (not to exceed \$3 per ticket) on each ticket sold for all exhibition, regular season, and post-season National Football League (NFL) games in which PSSI's NFL franchise is designated to be the "home team" by the rules of the NFL. For each football season beginning with the 2002 NFL season, the first \$1,400,000 of total ticket surcharge monies collected for these NFL events is made available for payments of principal and interest on these bonds. This payment was received in 2018 and 2017.

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Guaranteed Revenue Bonds, Taxable Series of 2014

On October 15, 2014, the Authority issued \$23,300,000 of Sports & Exhibition Authority of Pittsburgh and Allegheny County Guaranteed Revenue Bonds, Taxable Series of 2014. The Series 2014 Bonds are to be repaid from increased rent payments (2014 Rent) of \$2.11 million per year due from PSSI per an Amendment to the Heinz Field lease agreement, dated October 15, 2014. Payments were due beginning June 1, 2015 through and including June 1, 2029 and cover costs of principal, interest, ongoing fees and transaction expenses. Pursuant to a Third Amendment to the Cooperation and Support Agreement with the Authority, the City, the County and RAD, dated October 15, 2014, RAD guarantees payment of the Series 2014 Bonds should 2014 Rent be insufficient or not received. The bond proceeds were used to finance a portion of the costs of the South Plaza Expansion project (see Note 18). \$2,110,000 was received from PSSI in 2018 and 2017 for payment of indebtedness and expenses on these bonds.

Parking System Revenue Bonds, Series of 2017

On April 18, 2010, the Authority closed on a \$41,176,138 loan transaction with PNC Bank and Dollar Bank. The loan refinanced (1) a 2004 PNC Bank/Dollar Bank Loan, which financed costs for operations and capital costs for the Convention Center and (2) the Authority's 2001 Parking Revenue Bonds. On December 31, 2016, the balance on these loans totaled \$28,480,357. A balloon payment on the PNC Bank/Dollar Bank loans came due on May 1, 2017. At that time, the Authority paid off the portion related to the Convention Center and refinanced the remainder with a \$16,650,400 PNC Bank variable rate term note and an \$8,965,600 Dollar Bank variable rate term note (Note 7).

On February 14, 2012, the Stadium Authority refinanced a \$19 million loan that financed its West General Robinson Street garage with a loan from PNC Bank/Dollar Bank. In April 2016, PNC Bank/Dollar Bank issued a construction loan for up to \$15 million to the Stadium Authority for the construction of its Gold 1 garage. Both of these loans also came due May 1, 2017, at which time the Stadium Authority refinanced the notes with a \$17,299,100 PNC Bank variable rate term note and a \$9,314,900 Dollar Bank variable rate term note.

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The 2017 notes of the Authority and Stadium Authority all had maturity dates of May 1, 2018, were prepayable at any time, and were secured by a joint pledge of certain Authority and Stadium Authority parking revenues. The 2017 notes of the Authority and Stadium Authority all bore interest at a fluctuating rate equal to 70% of Daily LIBOR plus 105 basis points (1.05%).

The objective of both the Authority and the Stadium Authority was to refinance the short-term bank loans with long-term, fixed rate, investment grade debt. On November 30, 2017, the Authority issued the Sports & Exhibition Authority of Pittsburgh and Allegheny County Parking System Revenue Bonds, Series of 2017. The 2017 Parking Bonds are payable from, and are secured solely by, net revenues of a "Parking System" made up of specified parking facilities of the Authority and specified parking facilities of the Stadium Authority.

The proceeds of the bonds were used to refund the Authority 2017 PNC/Dollar Bank Variable Rate Term Notes, refund the Stadium Authority 2017 PNC/Dollar Bank Variable Rate Term Notes, fund a reserve fund, and pay costs of the issuance.

While the Authority issued the bonds, the Stadium Authority has certain obligations with respect to the bonds as provided for in the Collateral Assignment Agreement and the Joinder Agreement, each dated as of November 1, 2017 and each between the Stadium Authority and the bond trustee. Pursuant thereto, the Stadium Authority has recorded a note payable to the Authority and the Authority recorded a long-term receivable from the Stadium Authority, related to the 2017 Parking Bonds in the amount of the principal and original issue discount, less bond reserves. As of December 31, 2018 and 2017, that note receivable was \$22,677,278 and \$23,519,772, respectively.

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Note Receivable (Net)		
	2018	2017
Principal	\$ 21,400,000	\$ 22,055,000
Original issue discount	3,546,778	3,734,272
Bond reserve funds payable	(2,269,500)	(2,269,500)
Total	\$ 22,677,278	\$ 23,519,772

As of December 31, 2018, the aggregate annual amount of principal and interest payments due from the Stadium Authority for the Parking System Revenue Bonds, Series of 2017 is as follows:

	Total Principal	Interest	Total
2019	\$ 720,000	\$ 1,047,550	\$ 1,767,550
2020	750,000	1,018,750	1,768,750
2021	775,000	988,750	1,763,750
2022	810,000	957,750	1,767,750
2023	850,000	917,250	1,767,250
2024-2028	4,940,000	3,903,500	8,843,500
2029-2033	6,295,000	2,540,000	8,835,000
2034-2037	6,260,000	801,250	7,061,250
Total	\$ 21,400,000	\$ 12,174,800	\$ 33,574,800

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7. Loans and Notes Payable

Terms of the loans and notes payable are as follows:

	Principal Outstanding - Fixed Loans			
	January 1, 2018	Additions	Reductions	December 31, 2018
Loan from Heinz Endowments in the amount of \$3,000,000, issued December 2002, 1% interest, annual payments due through December 2023.	\$ 666,674	\$ -	\$ (133,334)	\$ 533,340
Total loans/notes payable - Fixed	\$ 666,674	\$ -	\$ (133,334)	\$ 533,340
	Principal Outstanding - Open Ended Loans			
	January 1, 2018	Additions	Reductions	December 31, 2018
Loan from Allegheny County in the amount of \$3,100,000, issued October 1991, 0% interest, no stated repayment terms.	\$ 3,100,000	\$ -	\$ -	\$ 3,100,000
Total loans/notes payable - Open Ended	\$ 3,100,000	\$ -	\$ -	\$ 3,100,000

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

Year	Principal	Interest	Total Debt Service
2019	\$ -	\$ 9,334	\$ 9,334
2020	133,334	7,334	140,668
2021	133,334	5,334	138,668
2022	133,334	3,334	136,668
2023	133,338	1,334	134,672
No Maturity	3,100,000	-	3,100,000
Total	\$ 3,633,340	\$ 26,670	\$ 3,660,010

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Heinz Endowment Loans

In 2002, the Howard Heinz Endowments and the Vira I. Heinz Endowments (Endowments) provided \$3 million in loans to the Authority to support the green building features of the Convention Center. The Endowments forgave the first year's payment of \$230,000 in principal and deferred the interest in 2009. Additionally, the Endowments approved the delay of the second payment until December 31, 2010. On December 21, 2011, the Endowments amended the loan to forgive \$66,666 of principal for each year, reducing the principal payments by one-third and allowing for prepayment of principal, without penalty. The Authority has been prepaying this loan. As of December 31, 2018, no payment is due in 2019 due to the prepayment prior to December 31, 2018. On December 31, 2018, the principal balance was \$533,340.

Other Loans

On October 22, 1991, Allegheny County entered into an agreement with the Authority to lend \$3.1 million for the purchase of property needed for the operation of the Heinz History Center. The loan is to be repaid if and when the Authority issues bonds for this purpose.

8. Net Investment in Capital Assets

Total net position includes net investment in capital assets. The calculations for the years ending 2018 and 2017 are as follows:

	2018	2017
Capital assets, net	\$ 871,749,263	\$ 913,949,788
Construction in progress	22,280,752	18,927,651
Less bonds payable related to capital assets	(631,016,540)	(657,952,692)
Less loans/notes payable related to capital assets	(3,633,340)	(3,866,674)
Plus loan receivable from Stadium Authority	22,677,278	23,519,772
Plus deferred outflows attributable to capital assets	3,918,232	4,197,276
Plus net unspent bond proceeds	605,091	1,765,912
Net investment in capital assets	\$ 286,580,736	\$ 300,541,033

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NOTES TO FINANCIAL STATEMENTS

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9. Derivative Financial Instruments - Interest Rate Swaps

The Authority had the following interest rate swaps as of December 31, 2018 and 2017:

	Notional Amount	Effective Date	Maturity Date	Interest Rate Paid	Interest Rate Received	Counterparty Moody's/S&P Rating*	Underlying Bonds
Hedging Derivatives							
Cash flow hedges							
Receive variable - pay fixed:							
Interest rate swaps	\$ 52,185,000	10/4/2007	11/1/2039	5.335%	1M LIBOR	A2/ A	2007 Series B
	193,530,000	10/4/2007	11/1/2038	4.020%	SIFMA	A2/ A	2007 Series A
	Notional Amount	12/31/2016 Market Value **	Change in Market Value	12/31/2017 Market Value **	Change in Market Value	12/31/2018 Market Value **	
Hedging Derivatives							
Cash flow hedges							
Receive variable - pay fixed:							
Interest rate swaps	\$ 52,185,000	\$ (17,241,478)	\$ 391,893	\$ (16,849,585)	\$ 2,956,800	\$ (13,892,785)	
	193,530,000	(39,778,070)	(202,443)	(39,980,513)	6,994,892	(32,985,621)	
Total		<u>\$ (57,019,548)</u>	<u>\$ 189,450</u>	<u>\$ (56,830,098)</u>	<u>\$ 9,951,692</u>	<u>\$ (46,878,406)</u>	

* Counterparty Ratings as of December 31, 2018

** The market value is an estimated net present value of the expected cash flows calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation. With the implementation of GASB Statement No. 72 in 2016, adjustments to the 2016 value were also made to account for nonperformance risk. The swap values are considered to be Level 2 in the fair value hierarchy.

Objective of the Interest Rate Swaps

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

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Terms

The swap agreements were entered into at the same time the New Arena Bonds were issued (October 2007). The swap agreements expire on November 1, 2038 (Series A) and November 1, 2039 (Taxable Series B), consistent with the final maturity of each series of bonds. The interest payments on the interest rate swaps are calculated based on notional amounts, all of which began reducing in 2008, so that the notional amounts approximate the principal outstanding on the respective bonds. The swap's original notional amounts were \$252,000,000 (Series A) and \$61,265,000 (Series B).

Pursuant to the swap contracts, the Authority pays the counterparty semi-annually on each November 1 and May 1, and the counterparty pays the Authority monthly on the first of each month. In accordance with the swap agreements, for the year ended December 31, 2018, the Authority paid \$5,284,881 net fixed interest with respect to the swap on the Series A Bonds, and paid \$1,810,942 net fixed interest with respect to the swap on the Taxable Series B Bonds, which are recorded as interest expenses. At December 31, 2018, the SIFMA Municipal Swap Index and 1M LIBOR rates were 1.670% and 2.439%, respectively.

	<u>2018</u>	<u>2017</u>
Net payments under swap agreements	\$ 7,095,823	\$ 9,015,474
Variable interest paid on bonds	<u>3,955,453</u>	<u>2,398,202</u>
Total interest expense on New Arena Bonds	<u>\$ 11,051,276</u>	<u>\$ 11,413,676</u>

Accounting and Risk Disclosures

As noted in the tables above, current period changes in market value for the interest rate swaps that are accounted for as hedges are recorded on the statements of net position as deferred outflows. The cumulative fair market value of the outstanding interest rate swaps of December 31, 2018 and 2017 are reported on the statements of net position as a swap liability.

The Authority has the ability to early terminate the interest rate swaps and to cash settle the transaction on any business day by providing at least two business days written notice to the counterparty. Evidence that the Authority has sufficient funds available to pay any amount payable to the counterparty must be provided at the time notice is given. At early

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termination, the Authority will be required to pay or receive a settlement amount which is comprised of the fair market value of the terminated transaction(s) based on market quotations and any amounts accrued under the contract(s).

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

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

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

Concentration of credit risk: The Authority currently has one counterparty for both of its interest rate swaps. Total fair market value of interest rate swaps held with this counterparty is (\$46,878,406) at December 31, 2018.

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

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- Remarketing/interest rate/basis risk is the risk that arises when variable interest rates on a derivative and associated bond are based on different indexes. The Authority is subject to remarketing/interest rate/basis risk as the interest index on the variable rate arm of the swaps is based on the SIFMA Municipal Swap Index (Series A Bonds) or 1M LIBOR (Taxable Series B Bonds), as previously discussed, and the variable interest rate on the New Arena Bonds is based on a trading spread to the index based on current market conditions as determined by the remarketing agent. Although expected to correlate over the long-term, the short-term relationships between the SIFMA Municipal Swap Index and the weekly tax-exempt rate, and the 1M LIBOR and the weekly taxable rate may vary. The variance could adversely affect the Authority's calculated payments, and synthetic interest rates may not be realized. This risk has been minimized, however, because the swap indexes are directly related to the markets for the bonds and the variance over the long-term are expected to be minimal.
- Termination risk is the risk that the swap will end before the final maturity of the New Arena Bonds. The stated term of the swaps is equal to the term of the bonds. There are instances, however, when the swaps could be terminated earlier. The swaps use the International Swaps and Derivatives Association Master Agreement, which includes standard termination events, such as rating downgrades, covenant violations, bankruptcy, or swap payment default by either the Authority or the counterparty. The Authority or the counterparty may terminate the swaps if the other party fails to perform under the terms of the contract. Additional termination events include provisions such as if the underlying bonds were converted to fixed rate, if the indenture or Commonwealth lease is amended or supplemented in a manner that adversely affects the counterparty without the counterparty's prior approval, or in the event of a natural or man-made disaster, armed conflict, act of terrorism, riot, etc., beyond the control of the parties that would occur that would prevent a party from performing under the terms of the contract. If the swaps are terminated, the variable-rate bonds would no longer carry a synthetic fixed interest rate.
- Rollover risk is the risk that a derivative associated with the Authority's debt does not extend to the maturity of that debt. When the derivative terminates, the associated debt will no longer have the benefit of the derivative. The Authority is not exposed to rollover risk as the swap agreements terminate on the same day the last payment is due on the respective bonds.

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10. Employee Benefit Plans

The Authority has a defined contribution retirement plan (plan) covering substantially all of its full-time employees. None of its employees are subject to collective bargaining agreements. Participation in the plan requires an employee to have completed six months of service. Employees are required to make mandatory contributions to the plan equal to 5% of their base compensation, on a pre-tax basis. The Authority annually contributes 7% of eligible employee compensation to the plan. Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the remainder of a participant's account is based on years of continuous service. A participant is 100% vested after five years of service. The Authority contributed \$76,721 and \$68,790 to the plan for the years ended December 31, 2018 and 2017, respectively. In 2000, the Authority established a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code of 1986. Under the deferred compensation plan, employees may voluntarily contribute additional pre-tax monies up to allowable federal limits and in 2016 the Plan was expanded to add a post-tax Roth 457 option. Eligibility for the deferred compensation plan is consistent with the defined contribution plan and employees are immediately 100% vested in any contributions and earnings thereon. The Authority does not make matching contributions to the deferred compensation plan.

11. Operation of David L. Lawrence Convention Center

By agreement dated January 1, 2002, the Authority entered into a management agreement with SMG, a Pennsylvania general partnership, to provide management services for the Convention Center. Subsequent agreements with SMG have been approved by the Board, with the current agreement expiring December 31, 2020. SMG is paid a fixed fee as base compensation for providing the management services, increased annually by the percentage increase in the CPI, capped at 3%. SMG may be entitled to an annual incentive fee based on the adjusted gross income in excess of the average of the adjusted gross income for the prior three years. The incentive fee is capped at 20% of total fees payable.

The Convention Center generates revenue through rental contracts and various ancillary services charged directly to the customer. The largest component of ancillary services is food and beverage (F & B), which generated 53% of the Center's revenue in 2018. The Authority entered into a contract with Levy Premium Food Service L.P. (Levy) on June 1, 2003. Over the years, the Board has approved amendments and agreements for Levy to

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continue to manage the F & B services at the Convention Center. On July 12, 2018, the Board authorized an extension of the agreement for five years through December 31, 2023. Levy earns a fee of 2% of F & B gross receipts up to \$3 million, 4% of the gross receipts from \$3 - \$5 million, 6% over \$5 million, and a fee based on 3% of F & B profit. Total fees are capped at \$250,000, with a CPI increase that is capped at 4%.

12. Parking System

The Authority owns and maintains both structured and surface parking facilities in Downtown Pittsburgh and on the City's North Shore. The Stadium Authority (Note 1) also owns two parking garages, and several lots, all of which are located on the City's North Shore. These combined facilities provide daily commuter parking as well as event parking related to the Authority's venues. Certain of the Authority's and Stadium Authority's combined parking revenues are pledged as security for in the Parking System Revenue Bonds, Series of 2017 (Note 7).

Authority Pledged Parking Facilities

Facility	Location	Number of Spaces	Alco Mgt Agree. or Lease, date of expiration
<u>Garages</u>			
North Shore Garage (NSG)	North Shore	925	Management 12/31/2026
<u>Surface Parking</u>			
10 th and Penn Avenue	Downtown	97	Management 12/31/2026
Green Lot 21	North Shore	122	Management 12/31/2020
Green Lots 22-23	North Shore	385	Lease, 12/31/2050
Total		1529	

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The Convention Center Garage revenues are not currently pledged and are used for the Authority's operations. Also not pledged are the PPG Paints Arena garage and the lot spaces at the Lower Hill development site, all of which are currently fully leased to the Pittsburgh Arena Operating L.P. (a related entity to the holder of the Pittsburgh Penguins National Hockey League Franchise).

The Authority has contracted with Alco Parking, Inc. (Alco) to operate its parking facilities. Depending upon the facility, the operation is pursuant to a management contract or a lease agreement.

Below are summaries of the terms of the management contracts/ lease agreement and the facilities currently under management contracts:

- Management Contracts for the CCG/10th and Penn lots, and the NSG run through December 31, 2026. Alco's management fee is \$24,000 for CCG/10th and Penn lots, and \$36,000 for the NSG for 2016 through 2018, with 2.5% increases thereafter.
- Management Contract for Green Lot 21 runs through December 31, 2020; Alco receives a management fee of 3.5% of the Lot's net operating income.
- The Authority and the Stadium Authority lease certain parcels of land to Alco for use as parking lots. The lease includes Green Lots 22 and 23 which are owned by the Authority. 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. With respect to Green Lots 22 and 23, Alco 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 as those terms are defined by the lease agreement. For calendar years 2018 and 2017, Parking Residual Rent was greater and, therefore, was the basis of the payment.

Additional information can be found in the separate Parking System Report of the Authority and Stadium Authority and related to the 2017 Parking Bonds for the year ended December 31, 2018.

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13. PPG Paints Arena Operating Lease

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

Under the terms of the New Arena Lease, parking surcharge in the amount of \$400,000 is due from the Pittsburgh Penguins each year. The Pittsburgh Penguins collect and retain any parking surcharge collected above this amount. Upon occupancy of the New Arena (August 1, 2010), the Authority deposited \$3,000,000 into the New Arena capital reserve fund for the New Arena. Pursuant to the New Arena Lease, the Authority deposits the \$400,000 annual parking surcharge received from the Pittsburgh Penguins in this account. The New Arena capital reserve fund balance held \$7.1 million and \$7.4 million, respectively, as of December 31, 2018 and 2017.

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

The Authority and the Pittsburgh Penguins further amended the New Arena Lease, effective August 1, 2010, whereby the Penguins agreed to pay the Authority an additional \$100,000 per year in rent in connection with the expanded service yard and the Authority agreed to deposit this additional rent payment into the New Arena capital reserve fund. All rent and surcharge payments due from the Pittsburgh Penguins were received and deposited in 2018 and 2017.

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

14. Lower Hill Redevelopment

Upon completion of the New Arena, the Authority undertook the demolition of the Civic Arena. Demolition began in September 2011 and was completed in September 2012. The surface was paved for use as surface parking until the property is developed. Pending the redevelopment of the property, the Pittsburgh Penguins (or affiliate) manage, operate, maintain, and receive all net revenue from the parking spaces located on the site (subject to the \$400,000 parking surcharge described in Note 13) until October 22, 2023.

Pursuant to the Lower Hill Option Agreement (Original Option Agreement) dated September 18, 2007 between the Authority, the URA, and the Lemieux Group LP (as assigned to Pittsburgh Arena Real Estate Redevelopment LP, an affiliate of the Pittsburgh Penguins) (PAR), PAR was given rights to develop the Lower Hill site (approximately 28 acres, of which 2/3 is owned by the Authority and 1/3 by the URA), on certain terms and conditions. When ready to begin development of a parcel, PAR was to purchase the parcel from the Authority or the URA at fair market value, as determined by an appraisal. Pursuant to the Original Option Agreement, PAR had \$15 million of "redevelopment credits" to apply against the purchase price of the land. At the termination of the Original Option Agreement, if the Pittsburgh Penguins had not used the full \$15 million of redevelopment credits, the Authority was obligated to pay the difference in cash. The URA and the Redevelopment Authority of Allegheny County agreed to loan such amounts to the Authority if needed. One parcel of land valued at \$475,000 was sold in 2009, using \$475,000 of redevelopment credits. No other parcels have been sold.

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The Authority, the URA, and PAR entered into a Comprehensive Option Agreement, dated September 11, 2014 (COA) to further define the terms of the Option Agreement. The COA provided for a development schedule of 1/10th of the land each year for 10 years. It also contained a provision for PAR to purchase a "Pause" if they are unable to meet the development schedule. A Pause could be purchased for \$12,500/ month for up to 24 months per parcel.

The Authority, the URA, and PAR entered into an Amended and Restated Comprehensive Option Agreement dated June 20, 2018 (Lower Hill Option Agreement) which modified certain of the terms of the prior agreements. The following is a summary of amendments included:

- The provisions providing for the \$15 million in redevelopment credits and any accrued Pause fees are eliminated.
- Land is to be sold at nominal amount (not appraised value).
- Required development schedule is revised to be 6.45 acres by October 22, 2020 and an additional 4.29 acres by October 22, 2023. If deadlines are not met, unless due to a "Public Development Delay," PAR forfeits certain parking revenues. The Authority and the URA have certain obligations with respect to efforts to seek funding for infrastructure, to cooperate in applications and funding requests related to environmental remediation, to cooperate in applications for funding of affordable housing, and to construct a garage. Failure to comply with these requirements could constitute a "Public Development Delay."
- A Public Development Delay that causes PAR to not meet the October 2020 and October 2023 deadlines, could result in the forfeiture of parking revenues being cancelled and in liquidated damages of up to \$6M, \$3M of which would in no case be payable sooner than the end of the option term.
- The option termination date is extended one year, to October 2025, with the ability to buy Pauses until October 2027. In no case may the agreement extend beyond March 2028.
- Parking rights continue to expire October 22, 2023 (no change).

The Authority had reported lease acquisition costs and a liability for the developer credits described above. The lease acquisition costs were amortized over the term of the New Arena Lease and the developer credits were adjusted upon each purchase by the PAR based on the value of credits used and the book value of land sold. As a result of the revised terms of the Lower Hill Option Agreement, the developer credits and lease acquisition costs

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were eliminated. The land will be contributed to PAR in future years should an appropriate development plan be approved in accordance with the time schedule of the Lower Hill Option Agreement.

15. Benedum Center Operating Lease

On June 15, 1984, the Authority acquired certain property and entered into an agreement to lease the property to the Allegheny International Realty Development Corporation (AIRDC). AIRDC subsequently assigned the lease to the Pittsburgh Trust for Cultural Resources (Trust) for purposes of constructing and operating the Benedum Center. The lease agreement provides for annual rentals of one dollar and requires the Trust to pay for improvements, maintenance, utilities and insurance. The lease is for a period of 50 years and is due to expire in June 2034, with an option to renew the lease for an additional 30 years.

16. Historical Society of Western Pennsylvania Operating Lease

On October 22, 1991, the Authority acquired the former Chautauqua Ice Company property and entered into an agreement to lease the property to the Historical Society of Western Pennsylvania (Society). The Society has established the Heinz History Center and supporting facilities that operate as a museum, research center and cultural facility for the benefit of the general public. The lease agreement provides for annual rental of one dollar and requires the Society to pay for improvements, maintenance, utilities and insurance. The lease is for a period of 25 years and was due to expire in October 2016, with options to renew for three consecutive periods of 25 years each. On August 4, 2015, the Society advised the Authority that they are renewing the lease for the first 25-year period, through October 21, 2041.

17. PNC Park Operating Lease

The Authority has entered into a lease agreement with Pittsburgh Associates (Pirates) with an initial term of 29.5 years, commencing in March 2001. Obligated payments to the Authority include the following components: (a) base rent of \$100,000 per year, (b) excess

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gate revenues ((i) 5% of gate revenues over \$44.5 million up to and including \$52 million and, (ii) 10% of gate revenues over \$52 million increased annually by the percentage increase in the average ticket price), (c) excess concession revenue ((i) if the Pirates' arrangement with its concessionaire(s) entitles the team to receive more than 42% of the aggregate gross concession revenues, the Pirates shall pay the Authority 5% of the excess over the 42% and 10% of the excess over 45% and (ii) 5% of gross food and beverage revenues in excess of \$9.00 per capita (adjusted annually by CPI increases)) and (d) ticket surcharges (the team shall receive and retain the first \$1,500,000 of ticket surcharges each year, with the next \$375,000 (adjusted annually by CPI increases) paid to the Authority for deposit into the PNC Park capital reserve fund, and the next \$250,000 paid directly to the Authority. The Pirates shall retain any ticket surcharges collected above these amounts. In fiscal year 2018, the Authority recognized \$100,000 in base rent and \$780,847 in ticket surcharges. In fiscal year 2017, the Authority recognized \$100,000 in base rent and \$770,074 in ticket surcharges. No money was received in either year for excess gate and/or excess concession revenues.

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

Pursuant to the lease agreement, \$650,000 per lease year is to be deposited into a PNC Park capital reserve fund. The capital reserve fund for PNC Park held \$2.7 million and \$5.1 million, respectively, as of December 31, 2018 and 2017.

18. Heinz Field Operating Lease

The Authority entered into a lease agreement with PSSI Stadium LLC (PSSI) with an initial term of 29.5 years, commencing in August 2001. PSSI (a related entity to the Steelers) subleases the facility to Pittsburgh Steelers Sports, Inc. (Steelers) and the University of Pittsburgh. Obligated payments to the Authority include the following (a) ticket surcharge

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revenues from NFL events (5% ticket surcharge is imposed by the Authority on all NFL event tickets sold at Heinz Field [capped at \$3]), with the first \$1.4 million of total ticket surcharge monies collected restricted to pay principal and interest on the Ticket Surcharge Bonds and surcharge proceeds over \$1.4 million paid to the Authority for deposit into the Heinz Field capital reserve fund; (b) ticket surcharge revenues from non-NFL Events (5% ticket surcharge is imposed by the Authority on all non-NFL events tickets (capped at \$2.25)) and (c) non-sporting event revenues (15% of net revenues from non-sporting events). In fiscal year 2018, the Authority recognized \$746,548 in ticket surcharge revenue from NFL events (after bond payment) \$703,783 from non-NFL event ticket surcharge, and \$24,778 from 15% non-sporting event revenues. In fiscal year 2017, the Authority recognized \$799,357 in ticket surcharge revenues from NFL events (after Bond payment), \$594,994 from non-NFL event ticket surcharge, and \$16,306 from 15% of non-sporting event revenues.

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

On May 21, 2014, the Authority and PSSI entered into an agreement whereby PSSI would undertake certain capital projects and the Authority would assist PSSI with arranging financing for the capital projects provided (a) no tax dollars were used and (b) PSSI would increase its pledged support for long-term capital needs at Heinz Field. The project included installation of a new second scoreboard/video board in the north end of the stadium and the expansion of 2,708 seats with associated amenities in the south plaza (South Plaza Expansion project). Financing for the South Plaza Expansion project included (a) the Authority's issuance of its Guaranteed Revenue Bonds, Taxable Series of 2014 and (b) the Authority selling personal seat licenses on the new seats. Costs of the South Plaza Expansion project in excess of these funding sources were to be paid by PSSI.

On October 15, 2014, the Authority and PSSI entered into an Amendment to the Lease Agreement (Amendment) whereby beginning June 1, 2015, PSSI pays additional annual rent of \$2,110,000, which is pledged to pay principal and interest on the Guaranteed Revenue

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Bonds, Taxable Series of 2014 (see Note 6). This money was received in 2018 and 2017. Pursuant to the Amendment beginning April 1, 2015 and continuing thereafter if certain conditions are met, an additional, fixed \$1 capital reserve fund ticket surcharge (Additional Surcharge) is imposed on all tickets sold for all NFL events and non-NFL events utilizing the seating bowl of Heinz Field and is to be deposited into the Heinz Field capital reserve fund. \$1.2 million was generated in 2018 and 2017 each, respectively, from the \$1 Additional Surcharge and was deposited to the Heinz Field capital reserve fund.

Pursuant to the lease agreement, \$650,000 per lease year (increased by CPI) is to be deposited into a Heinz Field capital reserve fund. With CPI increases, the amount to be deposited in 2018 and 2017 was \$742,660 and \$723,445 respectively. The capital reserve fund for Heinz Field held \$3.3 million and \$5.4 million, respectively, as of December 31, 2018 and 2017.

19. Segment Information

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

The capital development segment includes the Authority's bond issues and loans, pledged revenues and expenses related to capital development projects, including PNC Park, Heinz Field, PPG Paints Arena, the North Shore Parking Garage, Lower Hill redevelopment, and all related infrastructure. This segment information includes inter-segment receivables/payables.

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Statement of Net Position - 2018

	Operating	Capital Development	Total
Current assets	\$ 6,535,373	\$ 77,317,708	\$ 83,853,081
Capital assets, net	1,688,017	892,341,998	894,030,015
Noncurrent assets	697,967	27,045,670	27,743,637
Total Assets	8,921,357	996,705,376	1,005,626,733
Deferred Outflows of Resources	-	50,796,638	50,796,638
Current liabilities	3,102,069	35,744,274	38,846,343
Noncurrent liabilities	4,558,508	652,103,285	656,661,793
Total Liabilities	7,660,577	687,847,559	695,508,136
Net investment in capital assets	(1,411,983)	287,992,719	286,580,736
Restricted net position	1,353,026	71,661,736	73,014,762
Unrestricted net position	1,319,737	-	1,319,737
Total Net Position	\$ 1,260,780	\$ 359,654,455	\$ 360,915,235

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Statement of Revenues, Expenses, and Changes in Net Position - 2018

	Operating	Capital Development	Total
Restricted operating revenues	\$ 625,988	\$ 14,192,860	\$ 14,818,848
Unrestricted operating revenues	14,791,490	108,631	14,900,121
Less: operating expenses	(15,482,667)	(1,041,898)	(16,524,565)
Less: depreciation/amortization	(63,917)	(48,129,483)	(48,193,400)
Operating Loss	(129,106)	(34,869,890)	(34,998,996)
Restricted nonoperating revenues	7,900,050	46,276,446	54,176,496
Unrestricted nonoperating revenues (expenses)	144,265	(14,413)	129,852
Interest expense	-	(28,528,574)	(28,528,574)
Transfers	(6,972,915)	6,972,915	-
Change in Net Position	942,294	(10,163,516)	(9,221,222)
Beginning Net Position	318,486	369,817,971	370,136,457
Ending Net Position	\$ 1,260,780	\$ 359,654,455	\$ 360,915,235

Statement of Cash Flows - 2018

	Operating	Capital Development	Total
Cash flows from operating activities	\$ 601,372	\$ 12,414,308	\$ 13,015,680
Cash flows from non-capital financing activities	(655,934)	7,618,669	6,962,735
Cash flows from capital and related financing activities	1,700,000	(19,766,858)	(18,066,858)
Cash flows from investing activities	22,658	606,683	629,341
Increase (decrease) in cash and cash equivalents	1,668,096	872,802	2,540,898
Cash and Cash Equivalents, Beginning	3,882,132	77,343,712	81,225,844
Cash and Cash Equivalents, Ending	\$ 5,550,228	\$ 78,216,514	\$ 83,766,742
Consists of:			
Restricted cash and cash equivalents	\$ 2,840,566	\$ 78,216,514	\$ 81,057,080
Unrestricted cash and cash equivalents	2,709,662	-	2,709,662
	\$ 5,550,228	\$ 78,216,514	\$ 83,766,742

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FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Statement of Net Position - 2017

	Operating	Capital Development	Total
Current assets	\$ 4,945,502	\$ 77,794,210	\$ 82,739,712
Capital assets, net	1,751,934	931,125,505	932,877,439
Noncurrent assets	957,211	27,859,286	28,816,497
Total Assets	7,654,647	1,036,779,001	1,044,433,648
Deferred Outflows of Resources	-	61,027,374	61,027,374
Current liabilities	2,654,387	38,158,940	40,813,327
Noncurrent liabilities	4,681,774	689,829,464	694,511,238
Total Liabilities	7,336,161	727,988,404	735,324,565
Net investment in capital assets	(1,448,066)	301,989,099	300,541,033
Restricted net position	760,996	67,828,872	68,589,868
Unrestricted net position	1,005,556	-	1,005,556
Total Net Position	\$ 318,486	\$ 369,817,971	\$ 370,136,457

Statement of Revenues, Expenses, and Changes in Net Position - 2017

	Operating	Capital Development	Total
Restricted operating revenues	\$ 633,065	\$ 14,366,527	\$ 14,999,592
Unrestricted operating revenues	12,295,430	78,603	12,374,033
Less: operating expenses	(13,834,720)	(773,237)	(14,607,957)
Less: depreciation/amortization	(63,917)	(47,233,164)	(47,297,081)
Operating Loss	(970,142)	(33,561,271)	(34,531,413)
Restricted nonoperating revenues	7,156,622	51,186,661	58,343,283
Unrestricted nonoperating revenues (expenses)	116,052	(18,660)	97,392
Interest expense	-	(29,617,076)	(29,617,076)
Transfers	(6,445,667)	6,445,667	-
Change in Net Position	(143,135)	(5,564,679)	(5,707,814)
Beginning Net Position	461,621	375,382,650	375,844,271
Ending Net Position	\$ 318,486	\$ 369,817,971	\$ 370,136,457

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Statement of Cash Flows - 2017

	Operating	Capital Development	Total
Cash flows from operating activities	\$ (774,670)	\$ 12,345,970	\$ 11,571,300
Cash flows from non-capital financing activities	(978,011)	5,257,135	4,279,124
Cash flows from capital and related financing activities	1,450,586	(17,066,507)	(15,615,921)
Cash flows from investing activities	3,786	309,551	313,337
Increase (decrease) in cash and cash equivalents	(298,309)	846,149	547,840
Cash and Cash Equivalents, Beginning	4,180,441	76,497,563	80,678,004
Cash and Cash Equivalents, Ending	\$ 3,882,132	\$ 77,343,712	\$ 81,225,844
Consists of:			
Restricted cash and cash equivalents	\$ 2,251,223	\$ 77,343,712	\$ 79,594,935
Unrestricted cash and cash equivalents	1,630,909	-	1,630,909
	\$ 3,882,132	\$ 77,343,712	\$ 81,225,844

20. Commitments and Contingencies

Litigation

The Authority is involved in claims and legal actions arising from construction and in the normal course of operations. There are multiple claims resulting from the operation of Authority facilities, including Convention Center, Heinz Field, PNC Park, and PPG Paints Arena, and parking garages for which, in some cases, the respective tenants or management companies have indemnified the Authority. The range of potential loss and the outcomes of these cases cannot be determined. However, in the opinion of management, the ultimate disposition of these matters, considering indemnification agreements, insurance and Authority defenses, will not have a material adverse effect on the Authority's financial position.

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

Independent Auditor's Report
in Accordance with
Government Auditing Standards

For the Year Ended December 31, 2018

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), which comprise the statement of net position as of December 31, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 12, 2019.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

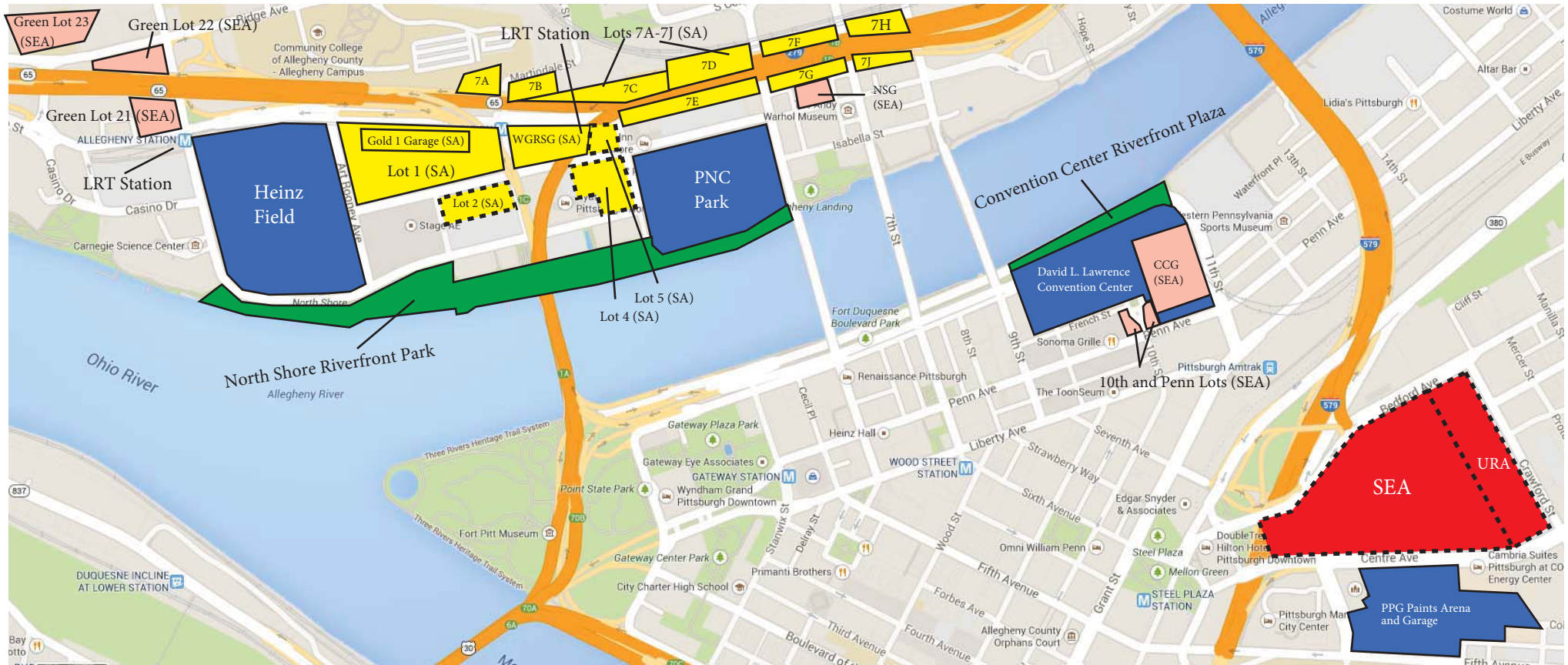
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in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

Maher Duessel

Pittsburgh, Pennsylvania
April 12, 2019

OTHER INFORMATION

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



- Sports and exhibition venues owned by SEA (PPG Paints Arena includes a 640 space integral garage leased to the Penguins)
- SA parking lots and garages: land for Lots 7A-7J leased long-term from PennDOT; "WGRSG" refers to West General Robinson Street Garage
- SEA parking lots and garages: "NSG" refers to North Shore Garage; "CCG" refers to Convention Center Garage
- 28-Acre Lower Hill Redevelopment site (19 acres owned by SEA; 9 acres owned by Urban Redevelopment Authority(URA); Penguins hold development option; SEA currently building road grid and infrastructure; Penguins currently receive surface parking revenues
- North Shore Riverfront Park and Convention Center Riverfront Plaza, both owned by SEA
- ⚙ Remaining North Shore development parcels (owned by SA); joint venture of Steelers and Pirates holds development option; development of Lot 4 in planning stages