

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

Financial Statements and Supplementary Information

For the Year Ended March 31, 2013

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Stadium Authority of the City of Pittsburgh (Authority), which comprise the statement of net position as of March 31, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of March 31, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited the Stadium Authority of the City of Pittsburgh's March 31, 2012 financial statements, and our report dated July 16, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Pittsburgh, Pennsylvania
July 15, 2013

McLellan Marra & Associates, P.C.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2013

As management of the Stadium Authority of the City of Pittsburgh ("Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority as of and for the fiscal years ended March 31, 2013 and 2012. 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

- Net position as of March 31, 2013 is better than prior year due to a combination of events. Assets have increased mainly due to increased cash from parking revenues. The liabilities of the Authority exceeded its assets on March 31, 2013 by \$6.2 million (net position) which is a \$2.2 million decrease (27%) compared to prior year-end net position mostly due to payments on loans outstanding.
- The Authority's total cash and cash equivalents balance (Note 3) at the close of the 2013 fiscal year was \$6 million, representing a \$672,000 increase over the prior year-end. Increased cash is a result of the increased parking revenues from the Authority's lots and garage and lower debt service payments as a result of refinancing the bank loan on the West General Robinson Street ("WGRS") garage.
- The Authority recognized \$5.5 million in restricted and unrestricted operating revenues for the calendar year 2013, a \$740,000 increase over 2012. Parking revenues from the WGRS garage and the Authority's North Shore lots increased \$741,000 over the prior year. Operating expenses decreased \$881,000 because of decreased interest payments and bank fees on bank loans, and decreased administrative fees such as consulting services for the option area development.
- As shown on the Statements of Revenues, Expenses, and Changes in Net Position, total Authority operating revenues (\$5.5 million), net of operating expenses (\$3.4 million), resulted in a \$2.1 million operating surplus. This amount includes depreciation and amortization expenses of \$778,000.

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Management's Discussion and Analysis

Overview of the Financial Statements

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial report, which is comprised of a single enterprise fund. The following is a brief history of the Authority and its role today in the development of the North Shore.

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

The Option Area originally contained 12 development parcels of various sizes. Currently the North Shore Developers, L.P. have taken down four parcels and have developed the Equitable Resources building, the Del Monte building (2 parcels) and the Hyatt Place Hotel. Eight parcels remain to be developed.

As part of this development, the Authority built the West General Robinson Street (WGRS) garage in 2006 to provide parking for the stadium and ballpark, the development and other activities, to replace parking that was

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Management's Discussion and Analysis

or will be eliminated with the development. Until all development is completed, the remaining parcels are used as surface parking lots.

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

The Authority leases additional land from the Commonwealth of Pennsylvania that is also used for surface parking. The WGRS garage and all surface lots are managed by or leased to ALCO Parking Corporation ("ALCO"). The lease and management agreements with ALCO with respect to the parking lots run through 2050. The management agreement for WGRS garage runs through December 31, 2014.

Financial Statements

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

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

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

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

Below is a summary of the net position of the Authority as of March 31, 2013.

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

	<u>2013</u>	<u>2012</u>
Current assets	\$ 5,786	\$ 3,998
Capital assets	25,802	26,409
Other assets	<u>3,978</u>	<u>3,730</u>
Total Assets	<u>\$ 35,566</u>	<u>\$ 34,137</u>
Current liabilities	\$ 944	\$ 1,050
Other long-term liabilities	18,021	18,726
Grants from the City of Pittsburgh	<u>22,775</u>	<u>22,775</u>
Total Liabilities	<u>\$ 41,740</u>	<u>\$ 42,551</u>
Net Position:		
Net investment in capital assets	\$ 7,024	\$ 6,896
Restricted for capital activity and debt s	5,199	2,954
Unrestricted	<u>(18,398)</u>	<u>(18,263)</u>
Total Net Position	<u>\$ (6,175)</u>	<u>\$ (8,413)</u>

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Current assets include cash, investments, and receivables from parking operations. Current assets are \$1.8 million greater than 2012. Other assets include development funds which are monies held and payable to the Steelers and Pirates upon the development of commercial, retail, and residential facilities in the Option Area. In addition, an Authority development fund is held to facilitate the construction and financing of parking garages on the North Shore. (Collectively referred to herein as the Development Funds.)

Liabilities exceed assets by \$6.2 million as of March 31, 2013, a \$2.2 million decrease over 2012. Per Note 8, from 1965 through 1992, the City made grants totaling \$22,775,168 to the Authority to be repaid if funds ever become available. While the probability is small that this money will be reimbursed, it is a liability on the Authority's financial statements. The other long-term liabilities includes PNC/Dollar Bank loans. The Authority issued the PNC Bank/Dollar Bank fixed and variable rate loans in February, 2012. This refinancing reduced debt service payments for the WGRS garage.

Net capital investment reflects the Authority's investment in capital assets (e.g., land, buildings, machinery, and equipment), net of related debt (\$7 million). During 2013, the increase in the Authority's net capital investment was the result of completion of construction on Chuck Noll Way, a new roadway between Art Rooney Avenue and Tony Dorsett Drive, which connects North Shore Drive and West General Robinson Street.

The Authority's capital assets are primarily the WGRS garage and various infrastructure projects. Chuck Noll Way has been dedicated to and accepted by the City as a city street but continues to be reflected as an Authority asset because the Authority considers these costs an integral part of the total development cost of the Option Area and, accordingly, capitalizes them over the life of the projects. Therefore, these capital assets are not available for future spending.

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The net position reports the amount of discretionary assets that an organization has to meet its obligations. The total net position summary above shows that the unrestricted portion of net position has a deficit of \$18m. As stated above, this is a direct result of recording almost \$23 million in grants payable to the City.

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

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 5,490	\$ 4,750
Operating expenses:		
Operating and maintenance	2,581	3,194
General and administrative	34	307
Depreciation	777	773
Total operating expenses	<u>3,392</u>	<u>4,274</u>
Operating income (loss)	<u>2,098</u>	<u>476</u>
Nonoperating revenues (expenses):		
Capital Transferred to the SEA	57	(748)
Capital Contribution FHWA	167	857
Development Fund Expense	(133)	(137)
Gain on Sale of Land	50	-
Misc	-	1
Total nonoperating revenues (expenses)	<u>141</u>	<u>(27)</u>
Increase/Decrease in net assets	<u>\$ 2,239</u>	<u>\$ 449</u>

The Authority's operating revenues are derived from parking revenues from the WGRS garage and various Authority parking lots which were \$740k greater than 2012. The Port Authority of Allegheny County constructed the North Shore Connector, a 1.2 mile extension of its existing light rail transit system (LRT). The LRT's North Side station is integral to the WGRS garage. Since the opening of the LRT in April 2013, an increased number of people working in the downtown area of the city have been parking at the less expensive

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Authority lots and WGRS garage on the North Shore and taking advantage of the free LRT connection to town resulting in increased parking revenue for the Authority.

The SEA, a related entity of the Authority, refinanced outstanding debt on the North Shore Garage (NSG) and the Convention Center Garage which were secured by, among other things, net revenues from the garages and various Authority lots. For the year end March 31, 2013, the NSG was able to cover the debt service on the SEA loans, (reducing disbursement of the Authority parking revenues.)

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

Operating expenses are primarily related to the parking operations, reimbursement to the SEA for administration expenses, payment of insurance and interest expense on the loan. Operating expenses are \$881k less than last year due to the interest savings from the refinancing of WGRS garage and decreased consulting fees in 2013.

Non-operating revenues (expenses) are primarily money transferred to/from the SEA for payment of debt service per the PNC/Dollar loan agreements, a Federal Highway grant for the completion of Chuck Noll Way construction and payment to the teams from Development Funds. Including the depreciation and amortization expense of \$777,000, the Authority's operating surplus was \$2.1 million.

Debt Administration

Long-term debt of the Authority outstanding as of March 31, 2013 is comprised of various loans payable.

The Authority issued the PNC Bank/Dollar Bank fixed and variable rate loans in February, 2012 to refinance the ERECT Fund and Strategic Investment Fund (SIF) loans originally issued to fund the construction of the WGRS garage. At the time of the refinancing, the ERECT loan interest rate was 7% and the SIF fund interest rate was 6.5%. The PNC/Dollar fixed rate loans have a 3.8% interest rate and the PNC Bank Variable Rate Loan interest

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Management's Discussion and Analysis

is calculated at 70% of LIBOR and 195 basis points (averaging 2.11% in 2013). This refinancing reduced debt service payments in 2013 from \$1.8 million to \$1.4 million.

When construction of the WGRS garage began in 2005, the Authority received a \$1,250,000 loan with an interest rate of 2% from the Commonwealth of Pennsylvania, Department of Community and Economic Development to be paid over 20 years. Fiscal year 2012 was the first year principal was due on the loan. \$83,378 was paid in debt service for each year ending 2013 and 2012.

Economic Factors

Certain factors were considered in preparing the Authority's budget for the 2014 fiscal year. It is estimated the LRT, which opened in April 2012, will continue to have a positive impact on North Shore parking. Per the Option Agreement Amendment dated November 11, 2011, North Shore Developers, L.P. is expected to close on the sale of the 5th and 6th take down parcels on or around July 31, 2013. It is estimated this take down will have little to no effect on Authority parking revenues on the North Shore since daily parking was not at capacity. The sale price of these parcels is \$1.1 million. This money is to be used per the Amendment Agreement to support the development of additional parking structures and in the absence of additional parking structures, applied to pay debt service on the WGRS garage or the SEA's North Shore Garage.

Future Events that will Financially Impact the Authority

As stated previously, per the Option Agreement there were twelve parcels of property to be developed on the North Shore. After the take down of the 5th and 6th parcel described above, there will be six remaining parcels to be developed. Per the Amendment Agreement North Shore Developers, L.P. must take down two of the remaining parcels (the Follow-On Parcels) by May 31, 2015 and May 31, 2017 respectively. Thereafter, the then remaining parcels (Phase 3 Parcels) must be taken down for development by May 31, 2021. With each take down of property, the amount of surface parking will decrease which will have an impact on the amount of

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Management's Discussion and Analysis

Authority parking revenues. Pursuant to the Option Agreement, the Authority has certain obligations to provide an additional parking structure.

The balloon payment on the fixed rate 2012 PNC/Dollar Bank loans at the end of the 63 month term will be \$12,388,042 and the variable rate portion will be \$2,212,500. The Authority also needs to provide for a capital reserve fund for the capital maintenance of the WGRS garage facility.

Contacting the Authority's Financial Management

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

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statements of Net Position

March 31, 2013 and 2012

Assets

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 3,408,011	\$ 3,616,635
Restricted – cash and cash equivalents	1,155,966	234,344
Receivable – ALCO Parking	139,083	18,466
Other receivable	1,073,004	113,278
Interest receivable	170	156
Prepaid insurance	<u>9,726</u>	<u>15,170</u>
Total current assets	<u>5,785,960</u>	<u>3,998,049</u>
Fixed assets:		
Building	28,514,997	28,344,856
HOV improvements	2,241,369	2,241,369
Machinery/equipment	43,588	43,588
Less: accumulated depreciation	<u>(4,998,272)</u>	<u>(4,220,645)</u>
Net fixed assets	<u>25,801,682</u>	<u>26,409,168</u>
Restricted assets:		
Non-routine maintenance	20,367	74,144
Development fund	2,515,276	2,226,741
Reserve/loans escrow	<u>1,442,271</u>	<u>1,429,607</u>
Total restricted assets	<u>3,977,914</u>	<u>3,730,492</u>
Total assets	<u>\$35,565,556</u>	<u>\$34,137,709</u>

See the accompanying notes to the financial statements.

Liabilities

	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 125,944	\$ 199,052
Accrued interest payable	61,292	63,763
Current portion of long-term debt	<u>757,041</u>	<u>786,967</u>
Total current liabilities	944,277	1,049,782
 Long-term loans payable	 18,020,613	 18,725,884
 Grants from the City of Pittsburgh	 <u>22,775,168</u>	 <u>22,775,168</u>
 Total Liabilities	 <u>41,740,058</u>	 <u>42,550,834</u>
 Net Position:		
Net investment in capital assets	7,024,029	6,896,317
Restricted for capital activity and debt service	5,199,403	2,914,138
Unrestricted	<u>(18,397,934)</u>	<u>(18,223,580)</u>
Total Net Position	<u>(6,174,502)</u>	<u>(8,413,125)</u>
 Total Liabilities and Net Position	 <u>\$35,565,556</u>	 <u>\$34,137,709</u>

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH
 Statements of Revenues, Expenses and Changes in Net Positions
 For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Parking	\$ 5,482,238	\$ 4,741,137
Other	1,281	1,133
Interest	<u>6,027</u>	<u>7,641</u>
Total operating revenues	<u>5,489,546</u>	<u>4,749,911</u>
Operating expenses:		
Salary reimbursement	47,566	47,566
Administrative	34,068	307,868
Operations and development	1,828,448	1,679,449
Insurance	38,829	41,039
Interest	665,639	1,237,898
Trustee and financing related fees	0	186,328
Amortization and depreciation	<u>777,627</u>	<u>773,373</u>
Total operating expenses	<u>3,392,177</u>	<u>4,273,521</u>
Operating profit	<u>2,097,369</u>	<u>476,390</u>
Non-operating revenues (expenses):		
Capital transferred (to) from the Sports & Exhibition Authority	57,468	(747,641)
Capital Contribution FHWA	167,235	857,065
Other Income	50,000	773
Development fund expense	<u>(133,449)</u>	<u>(136,909)</u>
Total non-operating revenues, net	<u>141,254</u>	<u>(26,712)</u>
Change in Net Position	2,238,623	449,678
Net Position beginning of year	<u>(8,413,125)</u>	<u>(8,862,803)</u>
Net Position end of year	<u>\$(6,174,502)</u>	<u>\$(8,413,125)</u>

See accompanying notes to the financial statements

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statement of Cash Flows

For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Parking	\$ 5,361,621	\$ 5,016,288
Other	(958,445)	935,632
Interest	<u>6,013</u>	<u>12,747</u>
Total receipts	4,409,189	5,964,667
Salaries	(47,566)	(47,566)
Administrative	(34,068)	(307,868)
Operations and development	(1,904,027)	(2,675,297)
Insurance	(33,385)	(48,155)
Trustee and bond related fees	<u>0</u>	<u>(186,328)</u>
Total cash provided by operating activities	<u>2,390,143</u>	<u>2,699,453</u>
Cash flows from capital and related financing activities:		
Principal payments of long-term debt	(735,197)	(19,240,580)
Proceed from long-term debt	0	18,400,000
Capital contribution FHWA	167,235	857,065
Receipts/(payments) from/to SEA	57,468	(747,641)
Interest paid on long-term debt	<u>(668,110)</u>	<u>(1,292,936)</u>
Net cash used in capital and related financing activities	<u>(1,178,604)</u>	<u>(2,024,092)</u>
Cash flows from investment activities:		
(Deposits) withdrawals to development funds	(288,535)	480,007
Purchase of fixed assets	(170,141)	(1,150,930)
(Deposits) withdrawals to insurance escrow	0	44,126
(Deposits) withdrawals to replacement reserve	0	125,375
Other	(80,978)	(136,136)
(Deposits) withdrawals to non-routine maintenance	53,777	101,120
(Deposits) withdrawals to reserve loans	<u>(12,664)</u>	<u>(1,196,107)</u>
Net cash provided (used) in investment activities	<u>(498,541)</u>	<u>(1,732,545)</u>
Net increase (decrease) in cash and cash equivalents	712,998	(1,057,184)
Cash and cash equivalents at beginning of year	<u>3,850,979</u>	<u>4,908,163</u>
Cash and cash equivalents at end of year	<u>\$ 4,563,977</u>	<u>\$ 3,850,979</u>
Total cash and cash equivalents consists of:		
Unrestricted cash and cash equivalents	\$ 3,408,011	\$ 3,616,635
Restricted cash and cash equivalents	<u>1,155,966</u>	<u>234,344</u>
Total cash and cash equivalents	<u>\$ 4,563,977</u>	<u>\$ 3,850,979</u>

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statement of Cash Flows, continued

For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Operating profit (loss)	\$ 2,097,369	\$ 476,390
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization/depreciation	777,627	773,373
Interest on debt	665,639	1,237,898
Changes in operating assets and liabilities:		
Receivable - ALCO Parking	(120,617)	275,151
Other receivables	(959,726)	934,499
Accounts payable and accrued expenses	(75,579)	(995,848)
Prepaid insurance	5,444	(7,116)
Interest receivable	<u>(14)</u>	<u>5,106</u>
Total cash provided by operating activities	<u>\$ 2,390,143</u>	<u>\$ 2,699,453</u>

See accompanying notes to the financial statements.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements

March 31, 2013

(1) **Organization**

The Stadium Authority of the City of Pittsburgh (Authority) was organized on July 1, 1965 to provide increased commerce and prosperity, and to promote educational, cultural, physical, civic, social and moral welfare to the general public.

The Authority was responsible for the management of Three Rivers Stadium located in the City of Pittsburgh. Three Rivers Stadium was home to the Pittsburgh Pirates (Pirates) and Pittsburgh Steelers (Steelers) professional sports teams and was also utilized for various concerts and other events until it was razed in February 2001. Subsequent to the razing of Three Rivers Stadium, the Authority has been responsible for the development of the land between the newly constructed stadium and ballpark. (See Note 5). A portion of that land was conveyed to the Sports & Exhibition Authority of Pittsburgh and Allegheny County (SEA) for construction of infrastructure. The remaining land (the Option Area) was retained by the Authority to be developed according to a master development plan. The Authority entered into an option agreement dated September 23, 2003, as amended (the Option Agreement) with a joint venture of the Steelers and Pirates (North Shore Developers, L.P.) for the development of the Option Area. The Authority has constructed a public parking garage on a portion of the land. Pending development the remaining land is used for surface parking.

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

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

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Notes to the Financial Statements, continued

March 31, 2013

(2) Summary of Significant Accounting Policies

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

(a) Basis of Accounting and Measurement Focus

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

Classification of Net Position

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

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

(b) Management Estimates

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

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2013

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

(c) **Cash and Cash Equivalents**

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

(d) **Restricted Assets**

Restricted assets include the portion of the Development Funds that are from net parking revenue deposits which can only be used for certain eligible expenses as outlined in the Option Agreement dated Sept. 25, 2003, Agreement Regarding Parking Revenues dated January 15, 2001 and the Amendment Agreement dated Nov. 11, 2011.

Restricted assets also include \$1,442,271 for 2013 and \$1,429,607 for 2012 of debt service reserves relating to the 2012 PNC/Dollar loans and \$20,367 and \$74,144 for 2013 and 2012 respectively for non-routine maintenance.

(e) **Adoption of Governmental Accounting Standards Board Statements**

The Authority adopted the provisions of GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*" The adoption of this statement had no effect on the financial reporting information of the Authority.

The Authority adopted the provisions of GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" The adoption of this statement resulted in new terminology for the Statement of Net Position.

The Authority adopted the provisions of GASB Statement No. 64, "*Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53.*" The adoption of this statement had no effect on the financial reporting information of the Authority.

(f) **Pending Pronouncements**

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

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

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2013

(3) Cash and Cash Equivalents

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

The following is a summary of the fair value of the Authority's cash and cash equivalents at March 31, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Unrestricted cash and cash equivalents:		
Cash	\$ 74,078	\$ 135,612
Government funds	1,065,287	1,064,638
Certificate of deposit	<u>2,268,646</u>	<u>2,416,385</u>
	<u>\$3,408,011</u>	<u>\$3,616,635</u>
Restricted cash and cash equivalents:		
Cash	\$1,176,333	\$ 234,344
Money market funds	1,442,271	1,429,607
Certificate of deposit	<u>0</u>	<u>74,144</u>
	<u>\$2,618,604</u>	<u>\$1,738,095</u>

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

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

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one institution. Currently the Authority maintains its cash and cash equivalent balances at three financial institutions; two are FDIC insured banks and the third is at PA Invest (a Commonwealth of Pennsylvania program that provides highly rated investment pools designed specifically for local government and nonprofit groups). At FDIC insured banks, accounts are fully insured up to \$250,000 per institution which constitutes federally insured funds. The excess funds are secured with a pledge of collateral from the bank. Therefore at March 31, 2013 all of the Authority's cash and cash equivalent deposits were either insured under federal insurance programs or collateralized.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2013

(4) **Land**

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

Pursuant to the Option Agreement approximately 400,000 square feet of land between the ballpark and the stadium (the Option Area), has been or is being developed. The land was originally divided into 12 development parcels. Per the original Option Agreement the agreed sale price per square foot ranged from \$8 to \$15, for a total approximate agreed sales price value of \$4 million. The Authority had sold one parcel for approximately \$500,000 in September 2003 a second and third parcel for a combined total of \$455,000 in June 2004 and a fourth parcel (plus certain additional land) for a total price of approximately \$1.2 million in December 2008. In December 2008 adjustments to the parcels were made resulting in the number of parcels being decreased from 12 to 11. In November, 2011 an Amendment Agreement was signed (a) adjusting the parcels back to 12, (b) defining a take down schedule for the remaining 8 parcels and (c) providing for parking revenues to be earned on certain parcels to be used by the Authority to support the development of additional parking structures and in the absence of additional parking structures, applied to pay debt service on the WGRS garage or the SEA's North Shore Garage. The sale price of the remaining land is to be based on an appraised value considering the intended use of the property. No parcels were sold in the years ending March 31, 2013 and 2012. The Amendment Agreement provided that the sale of the fifth and sixth parcels must occur by December 31, 2012, however, the Board authorized extensions of that date to July 31, 2013 and a purchase price of \$1.1 million has been set.

(5) **Development Funds**

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

Timing of these deposits is based on receipts from ALCO Parking (Note 9). \$421,738 and \$377,347 was deposited or will be deposited to the team development funds for 2013 and 2012 respectively. The teams received earned distributions from these accounts of \$162,412 and \$133,449 for each of these year endings.

The Authority development fund originally received parking revenue generated from a portion of Lot 2 referred to as Parcel A, which has been sold and developed. Per Note 4, revenues earned from certain parcels are now deposited into the Authority development fund to be used per the November 2011 Amendment Agreement. This development fund had a balance of \$938,957 and \$938,853 for the years ending March 31, 2013 and 2012 respectively. \$140,099 and \$86,897 were or will be deposited to the Authority development funds for 2013 and 2012 respectively.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2013

(6) **Building**

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

Buildings and Improvements	40 years
Machinery and Equipment	5 years

Depreciation expense for the year ended March 31, 2013 was \$777,627 and \$773,373 for March 31, 2012.

(7) **Debt**

On December 18, 1985, an irrevocable trust was established to defease the previously issued Stadium Authority 1971 Series A and 1982 Series B Bonds. Neither the trust, which has sufficient amounts on deposit to retire the Series A and B Bonds, nor the obligation is included in the Authority's balance sheet. The last payment due on the outstanding defeased bonds was \$2,420,000 paid on April 1, 2011 and therefore the balance on the defeased bonds is 0. The irrevocable trust was funded from the net proceeds of the Guaranteed Stadium Refunding Bonds, Series 1985 (Series 1985 Bonds), which were issued December 18, 1985 in the principal amount of \$32,405,000.

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

The SEA also holds a 2010 PNC/Dollar Bank Loan. The Authority entered into a Collateral Assignment of Parking Revenue Agreement with the SEA in 2010 that pledged certain parking revenues from Lots 1 and 7A through 7J to help secure the 2010 SEA loan. The Authority and the SEA amended the documents related to the SEA 2010 PNC/Dollar Bank loan to extend the pledge of certain collateral to the 2012 Authority loan. As a result, the security for the two loans (2010 SEA loan and 2012 Authority loan) includes the assignment of net revenues from (1) the WGRS garage, (2) Lots 7A to 7J, (3) Lots 1 through 5, (4) the Convention Center Garage, (5) the North Shore Garage, and (6) SEA surface lots revenue. With the 2012 PNC/Dollar Bank loan refinancing and the collateral pledged to it, the Authority anticipates the WGRS garage will begin to generate revenues sufficient to provide one time coverage of expenses and debt service, barring not major capital projects at the facility.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2013

(7) **Debt, continued**

Balances and terms of the loans/notes payable at March 31, 2013 are as follows:

(a) PNC Bank Fixed Rate Loan	\$10,000,259
<p>The PNC Bank loan for \$10,400,000 has a 20 year amortization and a 63 month term*. Principal was due on the loan beginning March 2012; interest is payable at a rate of 3.8%.</p>	
(b) Dollar Bank Fixed Rate Loan	4,807,817
<p>The Dollar Bank loan for \$5,000,000 has a 20 year amortization and a 63 month term*. Principal was due on the loan beginning March 2012; interest is payable at a rate of 3.8%.</p>	
(c) PNC Bank Variable Rate Loan	2,837,500
<p>The PNC Bank loan for \$3,000,000 has a 20 year amortization and a 63 month term. Principal was due on the loan beginning March 2012; interest is based on the sum of (A) 70% of LIBOR plus (B) 195 basis points (1.95%) for the applicable LIBOR Interest Period.</p>	
(d) Infrastructure Development Program (IDP)	<u>1,132,078</u>
<p>The IDP Loan was received as a lump sum \$1,250,000 loan on August 22, 2005. It has a term of 20 years with a 2% interest rate. Interest payments are made semi-annually on June 1 and December 1 beginning in 2009. The first principal payment was made December 1, 2011 and will be made annually thereafter. The last payment will be December 1, 2028.</p>	
Total	18,777,654
Less current portion	(757,041)
	<u>\$18,020,613</u>

* The balloon payment on the fixed rate 2012 PNC/Dollar Bank loans at the end of the 63 month term will be \$12,388,042 and the variable rate portion will be \$2,212,500.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2013

(7) **Long-Term Debt, continued**

Scheduled maturities and principal payments on the four loans for the next five years are as follows:

3/31/2014	\$ 757,041
3/31/2015	779,679
3/31/2016	801,793
3/31/2017	827,528
3/31/2018 through 3/31/2029	<u>15,611,613</u>
	<u>\$18,777,654</u>

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

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

(9) **Leases**

On March 23, 1989, the Authority entered into an agreement with the Commonwealth of Pennsylvania (PennDOT) to lease certain property near Heinz Field and PNC Park to be used for public parking. The term of the lease was 21 years and is renewable for four additional 10-year periods. At the end of the first term (March 31, 2010) the Authority exercised its option to renew the lease for four (4) ten year terms, extending the lease to March 31, 2050. The Authority expensed \$70,080 related to this agreement for each of the years ended March 31, 2013 and 2012. The rate of \$70,080 began August 2010 and ends March 2020.

Future minimum lease requirements from the Authority for PennDOT are as follows:

2014	\$ 70,080
2015	70,080
2016	70,080
2017	70,080
2018-2020	<u>210,240</u>
	<u>\$490,560</u>

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

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2013

(9) **Leases, continued**

Beginning April 1, 2010 with the first lease option extension, the provisions in the ALCO Parking lease relating to the Residual Rental Lease period (rather than Fixed Rental Lease period) now apply such that ALCO Parking pays to the Authority an amount equal to the greater of (i) 50% of the Parking Residual Rent Income or (ii) 50% of the Residual Base Period Rent. For fiscal years 2013 and 2012 Parking Residual Rent was greater and therefore (i) was the basis of the calculation.

(10) **Conditional Receivable**

Pursuant to the Collateral Assignment of Parking Revenues dated April 19, 2010 between the Authority and PNC Bank and Dollar Bank, and prior thereto pursuant to the Agreement Regarding Parking Revenues certain of the Authority's parking lot revenues are pledged for debt service on the SEA's financing of the North Shore Garage (Note 7). \$9,389,782 of Authority funds were so used for the period April 2001 through March 31, 2012. These revenues are to be re-paid to the Authority in the event of "excess pledged revenue."

At the end of the SEA's fiscal year, December 31, 2012, the SEA analyzed the income from the North Shore Garage and determined that the pledged revenue from Lots 1 and 7A to 7J was not needed for the 2010 SEA PNC/Dollar Bank debt service. As such, \$748,680 is to be repaid to the Authority. At March 31, 2013 \$179k was accrued for the first 3 months of the calendar year. An analysis will be done monthly and the account reconciled December 31, 2013 (SEA fiscal year) to determine the excess pledged revenues, if any, to be released to the Authority after the payment of debt service for the North Shore garage.

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

Total net assets includes an amount for investment in capital assets, net of related debt. The calculations for the years ending March 31, 2013, and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Capital assets, net	\$25,801,682	\$26,409,168
Less: loans/notes payable related to capital assets	<u>(18,777,653)</u>	<u>(19,512,851)</u>
Net Investment in capital assets	<u>\$ 7,024,029</u>	<u>\$ 6,896,317</u>

(12) **Subsequent Event**

Subsequent events were evaluated through July 15, 2013, which is the date the financial statements were available to be issued. No subsequent events were noted.