Sports & Exhibition Authority of Pittsburgh and Allegheny County

Financial Statements and Required Supplementary Information

For the Years Ended December 31, 2016 and 2015
with Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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MaherDuessel
Certified Public Accountants

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

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), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2016 and 2015, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Maher Duessel

Pittsburgh, Pennsylvania
April 13, 2017

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

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, 2016 and 2015. 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, 2016 by $376 million (net position). This represents a $9.9 million decrease compared to prior year-end net position.

- The Authority's total cash and cash equivalents balance at the close of the 2016 fiscal year was $81 million, representing a $301,000 increase over the prior year-end. Increased cash is a result of the several grants received for the construction of the I579 CAP project as part of the Lower Hill Redevelopment project.

- The Authority recognized $25.5 million in restricted and unrestricted operating revenues for the calendar year 2016, $1.5 million less than 2015. Convention Center revenues come from rentals, event services, and ancillary services such as food and beverage, audio visual services, and equipment rental. Total revenues were $7.5 million in 2016, a decrease of $1.1 million from prior year-end revenues; and Convention Center operating expenses increased $445,000 from 2015, mainly due to expenses directly related to increased salaries/benefits and repair and maintenance of the facility. The Convention Center operates at a planned loss, as is the case with the vast majority of convention centers in the country. The 2016 operating shortfall was $4.4 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 ($25.5 million), net of operating expenses ($61.6 million), resulted in a $36 million operating loss; this result, however, includes depreciation and amortization expenses of $47 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 the new arena, which replaced the Civic Arena as the home of Pittsburgh's hockey franchise. (The arena was originally named CONSOL Energy Center and in 2016 the Penguins signed a new Naming Rights Agreement and the name changed to PPG Paints Arena.) The Authority completed the demolition of the Civic Arena in September 2012 in preparation for the Lower Hill Redevelopment project.

The Authority owns PNC Park, Heinz Field, the Convention Center (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 had been the site of the Civic Arena (Lower Hill). 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, Garage and Riverfront Plaza, and the North Shore Garage. The Authority manages the North Shore Riverfront Park. The Authority's ownership of the Benedum Center and the Heinz History Center is for financing purposes only; the Authority has no significant operating or management responsibility with respect to those facilities.

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 $376 million as of December 31, 2016, a $9.9 million or 2.6% decrease from the prior year. This is a result of several factors:

- Assets in total decreased $41 million. While there was an addition of $7 million in fixed assets, depreciation and amortization decreased $47 million for a net $40 million decrease.

- The deferred outflows of resources decreased $17.3 million related primarily to the accumulated decrease in fair value of hedging derivatives. The accumulated decrease in the fair value of hedging derivatives is offset by a corresponding decrease in liabilities.

- Liabilities, net of the fair value of hedging derivatives, decreased $31.6 million due to the $24 million in debt service payments made on the bonds and loans in 2016 and decreased accounts payable related to capital projects.

Unrestricted net position reports the amount of discretionary assets that an organization has to meet its obligations. The net position summary below shows that the unrestricted portion of net position is positive by $707,000. This is primarily surcharge money from non-NFL events that will be used to either fund Capital Reserve Accounts or pay administrative costs on the Lower Hill project. 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)

	2016	2015	2014
Current assets	$ 77,598	$ 77,571	$ 92,518
Capital assets	955,754	996,228	999,685
Other assets	34,087	34,273	28,450
Total assets	1,067,439	1,108,072	1,120,653
Deferred outflows of resources	61,540	78,840	75,969
Current liabilities	65,776	42,730	40,770
Bonds and loans outstanding (net of current portion)	614,189	666,815	691,747
Other long-term liabilities	73,170	91,574	88,188
Total liabilities	753,135	801,119	820,705
Net position:			
Net capital investment	308,856	323,491	313,982
Restricted	66,281	61,514	61,786
Unrestricted	707	789	149
Total net position	$ 375,844	$ 385,794	$ 375,917

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 ($309 million). This category comprises 82% of the total net position. Total net position also includes a restricted net position of $66 million. During 2016, decreases in the Authority's net investment in capital assets were mainly a result of the completion of the South Plaza project at Heinz Field and depreciation and amortization of fixed assets now exceeding new construction projects. 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 two parking garages, and the North Shore Riverfront Park. Consequently, these assets are not available for future spending. All of the roughly $956 million in capital assets are capitalized and in service. Amounts not yet capitalized are allocable to construction-in-progress mainly related to the Lower Hill Redevelopment Infrastructure project.

Current assets include cash and receivables such as for event rentals, parking fees, surcharges, and contributions. Current assets are $26,000 less than 2015. Restricted contributions and grants decreased $1.6 million and restricted cash and cash equivalents increased $1.9 million due to reimbursement received on grants from the Commonwealth for the Lower Hill development. Other assets include noncurrent restricted cash and cash equivalents, receivables, and lease acquisition costs related to the Lower Hill Redevelopment site and CIP.

The largest component of the Authority's liabilities is bonds payable, which are secured by pledged revenues and total more than $633 million. The current portion of loans payable increased $27 million, which is the result of the 2010 PNC Bank/Dollar Bank loans having a balloon payment due May 1, 2017. Both bonds and loans are discussed in the debt administration section below. Long-term liabilities decreased $71 million and includes a decrease in the fair value of hedging derivatives of $16.9 million, payment on bonds of $23.3 million, and the reclassification of loans payable to current loans payable of $28 million.

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

	2016	2015	2014
Operating revenues	$ 25,543	$ 27,005	$ 21,015
Operating expenses:			
Operations and maintenance	13,210	12,810	11,720
General and administrative	1,359	1,293	1,247
Depreciation and amortization	47,018	47,116	51,191
Other expenses	1	51	62
Total operating expenses	61,588	61,270	64,220
Operating income (loss)	(36,045)	(34,265)	(43,205)
Nonoperating revenues (expenses):			
Allegheny Regional Asset District and City, County, State	30,396	29,267	26,882
Hotel rooms tax	16,780	16,765	16,317
Stadium Authority parking subsidy	161	(134)	149
Pittsburgh Casino operator	7,627	7,621	7,616
Personal seat licenses	-	9,923	587
Team contributions	-	12,151	-
Federal grants	597	406	23
Foundation and other grants	1,350	-	-
World War II Memorial contribution	-	315	-
Interest expense (net of interest income)	(31,097)	(32,115)	(32,359)
Other revenue / (expense)	281	(58)	(1,084)
Total nonoperating revenues (expenses)	26,095	44,141	18,131
Increase (decrease) in net position	$ (9,950)	$ 9,876	$ (25,074)

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 related to charges/rents imposed by the Authority are pledged for debt repayment or capital maintenance reserves. The largest of these is $6.1 million rent from the Pittsburgh Penguins for debt service on the Commonwealth Lease Revenue Bonds Taxable Series B of 2007, Commonwealth Lease Revenue Bonds Series 2010, and rent and parking surcharge restricted to the New Arena capital reserve account. Heinz Field ticket surcharge and rent decreased from $5.0 million in 2015 to $4.6 million in 2016 mainly due to timing of the regular season home games (one game scheduled in 2017) and a playoff game in January 2015. The PNC Park ticket surcharge and rent increased slightly in 2016 by $37,000 due to excess rent.

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 2016 were comprised of (1) $16.8 million from Allegheny County Hotel Rooms Tax for operations of the Convention Center and debt service on the Hotel Room Excise Tax Revenue Bonds, (2) $14.1 million from Allegheny Regional Asset District (RAD) for debt service on the RAD Sales Tax Revenue Bond Refunding Series of 2010 and RAD Refunding Series of 2005 (3) $11.5 million from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund revenue for ongoing Convention Center operations, reimbursement and repayment of loan debt, debt service payments and related expenses on the Commonwealth Lease Revenue Bonds Series A of 2007, (4) $3.9 million from the Commonwealth of Pennsylvania's Redevelopment Assistance Capital Program for construction of the Lower Hill infrastructure, and (5) $7.6 million from the Rivers Casino for debt service on the Commonwealth Lease Revenue Bonds Series A of 2007.

Including the depreciation and amortization expense of $47 million, the Authority's operating loss was $36 million. Operations, without depreciation and amortization expense, would have yielded a surplus of $11 million, which is composed of restricted revenue for the various facility capital reserve funds and debt service obligations.

Capital Assets

As of December 31, 2016, the Authority's investment in capital assets was almost $1 billion (net of accumulated depreciation). Investment in capital assets includes buildings, improvements, equipment, infrastructure, and land (which is valued at $128 million and is not depreciated). All construction-in-progress for facilities and assets that are open and operating were capitalized, except for costs related to the Lower Hill Redevelopment project, I-579 Urban Open Space Cap, and various smaller projects at the Convention Center. The major projects capitalized during 2016 included expenses totaling $4.3 million for Heinz Field and $1.32 million for the Convention Center. 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, 2016 is comprised of 10 bond issues and several loans payable.

Four bonds were originally issued to finance the Regional Destination Financing Plan: Hotel Room Excise Tax Revenue Bonds Series 1999, Regional Asset District Sales Tax Revenue Bonds Series 1999, Taxable Ticket Surcharge Revenue Bonds, Series 2000, and Parking Revenue Bonds Series A of 2001. In 2010 and 2012, three 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 certain renovations and improvements of Heinz Field. As of December 31, 2016, the outstanding bonds related to the Regional Destination Financing Plan and South Plaza Expansion project at Heinz Field are as follows:

			Outstanding	Bond Ratings*	
Bond Issue	Issue Date	Maturity Date	Principal Amount	Standard & Poor's	Moody's
Hotel Room Excise Tax Revenue Bonds, Series of 2010	Oct-2010	Feb-2035	$ 119,370,000	AAA (negative outlook)	Aa3 (negative outlook)
Hotel Room Excise Tax Revenue Bonds, Series of 2012	Aug-2012	Feb-2029	$ 43,355,000	AA- (stable outlook)	Aa3 (on review for possible downgrade)
RAD Sales Tax Revenue Bonds Refunding Series 2010	Sept-2010	Feb-2031	$ 140,790,000	AAA (negative outlook)	Aa3 (negative outlook)
Taxable Ticket Surcharge Revenue Bonds	Aug-2000	Jul-2030	$ 13,170,000	AAA	Aaa
Guaranteed Revenue Bonds Taxable Series of 2014	Oct-2014	Jun-2029	$ 22,020,000	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 2016, principal payments totaling $13,750,000 were made ($5,620,000, $30,000, $6,385,000, $435,000, and $1,280,000, respectively), leaving outstanding debt of $338,705,000.

The below-described RAD Sales Tax Bonds, Refunding Series 2005 and Auditorium Bonds, Refunding Series A 2005 relate to the refinancing of the 1999 Auditorium Bonds that had an initial combined principal amount of $36,550,000 and related to improvements made to the former Civic Arena. Principal payments made in 2016 were $670,000 and $500,000, with outstanding principal amounts as of December 31, 2016 of $2,230,000 and $480,000, respectively.

Bond Issue	Issue Date	Maturity Date	Outstanding Principal Amount	Bond Ratings * Standard & Poor's	Moody's
RAD Sales Tax Bonds, Refunding Series 2005	Jan-2005	Feb-2019	$ 2,230,000	AAA	Aaa
Auditorium Bonds, Refunding Series A of 2005	Sept-2005	Dec-2018	$ 480,000	n/a	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, Commonwealth Lease Revenue Bonds Taxable Series B of 2007, and Commonwealth Lease Revenue Bonds Series of 2010. Principal payments of $5,980,000, $1,140,000, and $295,000, respectively, were made in 2016. The outstanding balance on these bonds as of December 31, 2016 is $206,280,000, $54,665,000, and $15,540,000, 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	$ 206,280,000	A-1	VMIG 1
Commonwealth Lease Revenue Bonds Taxable Series B of 2007	Oct-2007	Nov-2039	$ 54,665,000	A-1	VMIG 1
Commonwealth Lease Revenue Bonds Taxable Series 2010	Apr-2010	Nov-2039	$ 15,540,000	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.

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

There are two sources of active loans/notes outstanding at December 31, 2016. The first relates to 2002 loans from the Howard Heinz Endowment and the Vira I. Heinz Endowment (collectively Heinz Endowments) 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 loans is $800,008.

The second relates to a 2010 PNC Bank/Dollar Bank loan in the original amount of $41,175,574. The 2010 loan refinanced a 2004 PNC Bank/Dollar Bank loan ($16,751,161), financed certain costs of operations and capital costs for the Convention Center and refinanced the 2001 Parking Revenue Bonds ($24,424,977), which were originally issued to finance the Regional Destination Financing Plan. The balance on the 2010 loan as of December 31, 2016 is $28,480,357 and is comprised of a $20,068,770 fixed rate note issued to PNC Bank and an $8,411,587 fixed rate note issued to Dollar Bank. 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	$ 800,008
PNC Bank/Dollar Bank	Apr-10	May-17	$ 28,480,357

In 2012, the Stadium Authority, a related entity of the Authority, refinanced outstanding debt on the West General Robinson Street Garage, secured by, among other things, net revenues from the North Shore Parking

Garage and various Authority lots. This refinancing has helped stabilize the financing for all North Shore parking facilities. In 2016, the Stadium Authority entered into a construction loan for up to $15 million with PNC Bank/Dollar Bank for the construction of a 1,000-car garage on the City's North Shore, which is scheduled to open in May 2017. The security from the Authority's existing 2010 loan was extended to cover the 2016 Stadium Authority note.

Economic Factors

Certain factors were considered in preparing the Authority's budget for the 2017 fiscal year. The Convention Center operating revenues, as well as a discretionary portion of the hotel 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 2017 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 2017 the Authority anticipates receiving money from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund for (a) operating costs of the Convention Center ($1.7 million) and (b) repayment of certain Convention Center debt ($1.7 million). Receipt of the Act 71 funding is directly dependent on the gaming revenues received by the state. 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 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 where the former Civic Arena was located. PAR, a related entity to the Pittsburgh Penguins, has a 10-year option to develop the 28-acre site (Lower Hill Development). The mixed-use development master plan for the site includes a street grid system and a "Cap" above I-579 Crosstown Boulevard that is important to reintegrate the Hill District neighborhood with Downtown and to establish development sites. The Authority is undertaking work with respect to the street grid and the "Cap."

Design for the interior street grid, as well as improvements to the existing exterior roadways, has been completed. The roadway design allows for construction to be done in phases as money becomes available. Work under the first phase of roadway construction contract began in January 2015 and was completed in September 2016. Construction of the second phase began in September 2016 and is scheduled to be completed in summer 2017. The Authority is using, in part, a $15 million PA Redevelopment Assistance Capital Program grant to fund the first and second phase of construction. In addition, work on a related intersection at Centre Avenue is underway and the Authority is using a Transportation Alternatives Program (TAP) grant for that work. As additional funding is identified, construction on remaining interior and perimeter roadway work can begin.

With respect to the I-579 "Cap" project, the Authority hired an engineering firm in October 2014 to do preliminary design of the "Cap." A federal earmark was used to fund the preliminary design with local match by the Authority. In January 2016, final design was begun and is being paid for by a federal TIGER VI planning grant with local match by the Authority. Completion of the "Cap" final design is scheduled for May 2017, with construction anticipated in the fourth quarter of 2017. Costs of the base construction of the "Cap" is $26.44 million, and is fully funded by federal, state, and local sources.

Contacting the Authority's Financial Management

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF NET POSITION

DECEMBER 31, 2016 AND 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 626,669	$ 919,910
Restricted cash and cash equivalents	72,013,444	70,059,067
Receivables:		
Trade (no allowance for doubtful accounts necessary)	2,668,740	2,842,888
Restricted contributions and grants	1,922,566	3,536,275
Other	222,956	73,358
Prepaid expenses	143,307	139,718
Total current assets	77,597,682	77,571,216
Noncurrent assets:		
Restricted cash and cash equivalents	8,037,891	9,397,732
Other receivables	100,000	125,000
Lease acquisition costs	12,775,454	13,317,169
Capital assets, net	955,753,332	996,228,130
Construction in progress	13,174,559	11,433,544
Total noncurrent assets	989,841,236	1,030,501,575
Total Assets	1,067,438,918	1,108,072,791
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	57,019,549	73,906,699
Deferred charges on bond refundings	4,520,902	4,933,695
Total Deferred Outflows of Resources	61,540,451	78,840,394
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	6,223,113	10,529,041
Unearned revenue	1,104,728	1,160,642
Interest payable	6,917,472	7,203,000
Current portion of bonds payable	23,050,000	22,335,000
Current portion of loans/notes payable	28,480,357	1,502,183
Total current liabilities	65,775,670	42,729,866
Noncurrent liabilities:		
Accrued liabilities	958,376	2,333,297
Unearned revenue	967,033	884,502
Developer credits	14,225,000	14,450,000
Fair value of hedging derivatives	57,019,549	73,906,699
Bonds payable	610,189,462	634,201,382
Loans/notes payable	4,000,008	32,613,660
Total noncurrent liabilities	687,359,428	758,389,540
Total Liabilities	753,135,098	801,119,406
Net Position		
Net investment in capital assets	308,855,582	323,490,571
Restricted for capital activity and debt service	66,281,146	61,514,120
Unrestricted	707,543	789,088
Total Net Position	$ 375,844,271	$ 385,793,779

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, 2016 AND 2015

	2016	2015
Operating Revenues:		
Restricted:		
Surcharges/rents	$ 12,131,480	$ 12,461,129
North Shore parking garage, net	1,937,695	1,975,195
Convention Center parking garage, net	2,172,954	2,167,704
Parking lot revenue, net	614,763	599,871
Unrestricted:		
Ticket surcharges	760,699	939,034
License fees	2,914,230	2,973,852
Event service revenue	1,116,147	1,087,826
Ancillary revenue	3,355,135	4,415,035
Other revenue	540,741	386,146
Total operating revenues	25,543,844	27,005,792
Operating Expenses:		
Operations and maintenance	13,210,391	12,810,049
General and administrative	1,359,408	1,292,900
Depreciation and amortization	47,018,416	47,116,603
Other expenses	103	50,828
Total operating expenses	61,588,318	61,270,380
Operating Loss	(36,044,474)	(34,264,588)
Non-operating Revenues (Expenses):		
Restricted:		
Allegheny Regional Asset District	14,141,000	14,188,000
PA Gaming Economic Development & Tourism Fund	10,900,000	10,900,000
Other Commonwealth of PA Grants	4,601,263	3,425,530
Pittsburgh casino operator	7,627,350	7,620,555
Hotel rooms tax	16,780,000	16,765,000
Stadium Authority	160,942	(134,107)
Team contributions	-	12,151,186
Personal seat licenses	-	9,923,041
City of Pittsburgh and Allegheny County	753,636	753,975
Federal grants	596,841	405,973
Foundation and other grants	1,350,000	-
WWII Memorial contribution	-	315,000
Other revenue (expense)	(458)	109,282
Interest expense	(31,096,949)	(32,233,936)
Interest revenue	194,878	119,270
Unrestricted:		
Other revenue	139,010	132,820
Financing expenses	(52,547)	(300,912)
Total non-operating revenues, net	26,094,966	44,140,677
Change in Net Position	(9,949,508)	9,876,089
Net Position:		
Beginning of year	385,793,779	375,917,690
End of year	$ 375,844,271	$ 385,793,779

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Cash received from operations	$ 25,121,337	$ 25,566,187
Cash paid for operating expenses	(9,027,340)	(7,923,078)
Cash paid to employees	(6,293,547)	(5,918,600)
Cash received from other income	540,741	322,924
Net cash provided by (used in) operating activities	10,341,191	12,047,433
Cash Flows From Non-Capital Financing Activities:		
Cash received from hotel tax distributions	3,000,000	3,000,000
Cash received from PA Gaming Economic Development & Tourism Fund	1,700,000	1,700,000
Cash received (paid) for development funds	(1,972,910)	671,069
Other receipts (payments)	(49,116)	128,125
Net cash provided by (used in) non-capital financing activities	2,677,974	5,499,194
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(10,703,461)	(38,296,939)
Interest payments on bonds, notes/loans payable, and capital lease obligations	(31,952,217)	(33,103,541)
Cash received from Allegheny Regional Asset District for bond payments	14,141,000	14,188,000
Cash received from hotel rooms tax for bond payments	13,780,000	13,765,000
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	7,627,350	7,620,555
Cash received from City of Pittsburgh and Allegheny County	753,636	753,975
Cash received from (paid to) Stadium Authority for capital items and bond payments	160,942	(134,107)
Cash received from other capital related grants	8,078,596	720,060
Cash received from personal seat licenses	-	9,923,041
Cash received for WWII memorial	-	315,000
Principal payments on bonds payable	(22,335,000)	(19,995,000)
Principal payments on loans/notes payable	(1,635,478)	(1,572,289)
Net cash provided by (used in) capital and related financing activities	(12,884,632)	(36,616,245)
Cash Flows From Investing Activities:		
Interest income received	219,309	124,169
Bank/trustee fees paid	(52,547)	(300,912)
Net cash provided by (used in) investing activities	166,762	(176,743)
Net Increase (Decrease) in Cash and Cash Equivalents	301,295	(19,246,361)
Cash and Cash Equivalents:		
Beginning of year	80,376,709	99,623,070
End of year	$ 80,678,004	$ 80,376,709
Consists of:		
Restricted cash and cash equivalents	$ 80,051,335	$ 79,456,799
Unrestricted cash and cash equivalents	626,669	919,910
	$ 80,678,004	$ 80,376,709
Reconciliation of Operating Loss to Net Cash Flows Provided By (Used In) Operating Activities:		
Operating loss	$ (36,044,474)	$ (34,264,588)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	47,018,416	47,116,603
Change in operating assets and liabilities:		
Operating receivables	174,148	(1,370,118)
Prepaid operating expenses	(3,589)	(2,406)
Operating liabilities	(803,310)	567,942
Total adjustments	46,385,665	46,312,021
Net cash provided by (used in) operating activities	$ 10,341,191	$ 12,047,433
Noncash Items:		
Capital contributed by teams	$ -	$ 12,151,186

See accompanying notes to financial statements.

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 Public Auditorium Authority of Pittsburgh and Allegheny County's name was legally changed to the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority). The Public Auditorium Authorities Law was re-codified in 2000, and the Authority is now authorized and exists under the Sports and Exhibition Authority Act. 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, Garage and Riverfront Plaza, the PPG Paints Arena, the former Civic Arena 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), which is responsible for the operation and management of that facility. In 2012, the former Civic Arena was demolished, and the Authority has responsibility related to the redevelopment of the site (Lower Hill Redevelopment). 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.

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 of the City of Pittsburgh (Stadium Authority) owned Three Rivers Stadium located in the City. Three Rivers Stadium was razed in February 2001 to make way for Heinz Field and PNC Park. The Stadium Authority is now responsible for the development of the land between the newly constructed stadium and ballpark. A portion of that land was conveyed to the Authority for construction of infrastructure. The remaining land was retained by the Stadium Authority to be developed according to a master development plan. Pending development, the land is used for surface parking with a portion of the revenue from the surface parking lots pledged to the debt service on the Authority's PNC Bank/Dollar Bank loan (see Note 7). The Stadium Authority has a separate board appointed by the Mayor of the City. An Administrative Services Agreement was entered into in November 2002 between the Stadium Authority and the Authority whereby the Authority staff performs all administrative services required for the Stadium Authority to fulfill its duties and obligations.

2. Summary of Significant Accounting Policies

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

Basis of Accounting and Measurement Focus

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

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

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

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed and amortized over the useful life of the assets. During the years ended December 31, 2016 and 2015, there was no net capitalized interest.

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.

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 $958,376 and $872,351 at December 31, 2016 and 2015, respectively. In addition, a Stadium Authority development fund is held to facilitate the construction and financing of parking garages on the North Shore. Approximately $1.5 million was held in this fund as of December 31, 2015 and was used to construct the Stadium Authority's Lot 1 Garage in 2016.

Revenues

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

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

Surcharges/Rent

Surcharges are certain revenues derived from tickets or parking at the various facilities imposed by the Authority in accordance with the team leases. A ticket surcharge is imposed on each ticket sold for Pittsburgh Steelers football games, University of Pittsburgh Panthers football games, Pittsburgh Pirates baseball games and other bowl events held at Heinz Field and PNC Park. A parking surcharge is imposed on 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 operating results of Authority garages and lots accompanying this report). Alco Parking, Inc. operates these facilities through lease or management contracts. Currently, the net revenues of the North Shore parking garage, the Convention Center parking garage, Authority lots, and revenues from the Stadium Authority West General Robinson Street Garage and lots (Lots 1 through 5 and 7A through 7J) are fully restricted for purposes of repaying the Authority's PNC Bank/Dollar Bank 2010 bank loan and the Stadium Authority's PNC Bank/Dollar Bank 2012 bank loan described in Note 7. An affiliated entity of the owner of the Pittsburgh Penguins hockey team (such affiliated entity, as applicable, herein referred to as the Pittsburgh Penguins) operates the PPG Paints Arena garage and parking at the Lower Hill Redevelopment site and all net parking revenue is retained by the team.

Pennsylvania Gaming Economic Development & Tourism Fund (EDTF)

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

- $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 eighth and ninth increments of $1.7 million were received and recognized as non-operating revenue in 2015 and 2016 (Note 7).

- $20,000,000 - for the payment of the operating deficit of the Convention Center. The allocated amount is disbursed in 10 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 eighth and ninth increments of $1.7 million were received and recognized as non-operating revenue in 2015 and 2016.

- $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 ninth and tenth increments in the amount of $7.5 million have been received and recognized as non-operating revenue in 2015 and 2016. The remaining increments of $7.5 million are to be paid in 2017 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 tax on the temporary use or occupancy of hotel rooms within the County. The tax is composed of a 5% Basic Levy and a 2% Added Levy. From the 5% Basic Levy, the County is required to collect the tax and to distribute the funds to the appropriate entities, including the Authority, in accordance with state law (16 P.S. Section 4970.2 et seq) as follows: (1) provide the Municipality of Monroeville with 1/3 of the revenues generated in that jurisdiction, (2) fund the monthly debt service on the Authority's Hotel Room Excise Tax Revenue Bonds and reimburse the County for a collection fee of 5%, (3) make available 2/5 of the Basic Levy to the Greater Pittsburgh Convention and Visitor's Bureau and (4) remaining funds, if any, to fund Convention Center operations and regional tourist promotional activities. The 2% Added Levy is applied in accordance with state law (53 Pa.C.S.A. Section 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.

Personal Seat Licenses

In October 2014, PSSI Stadium LLC, (PSSI) undertook a project to add seats to the south end zone of Heinz Field. Personal Seat Licenses (PSL) were issued to raise funds to pay a portion of the cost of the seat expansion project (Note 18). PSSI was appointed the Authority's agent to sell and market the PSLs, and all proceeds were received by the Authority and used to pay costs of the project. The Authority recognizes this revenue when the payments are received. As of the end of 2016, 2,527 seat licenses have been sold. Approximately $9.9 million was received for PSLs in 2015.

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 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."

Adopted Pronouncements

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

GASB Statement No. 72, *"Fair Value Measurement and Application,"* addresses accounting and financial reporting issues related to fair value measurements. The disclosure requirements of this statement have been incorporated into these financial statements.

GASB Statement No. 76, *"Hierarchy of Generally Accepted Accounting Principles for State* *and Local Governments,"* identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes GASB Statement No. 55.

GASB Statement No. 79, *"Certain External Investment Pools and Pool Participants,"* addresses accounting and financial reporting for certain external investment pools and pool participants. The disclosure requirements of this statement have been incorporated into these financial statements.

Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 73 (Pensions not in Scope of GASB 68), 74 (OPEB Plans), 75 (OPEB Employer), 80 (Component Units), 81 (Split-Interest Agreements), 82 (Pensions), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), and 85 (Omnibus). Management does not anticipate that these statements will have a significant impact on the financial statements.

Reclassification

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

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, and investments for the year ended December 31, 2016:

	Bond Related	Non-bond Related	Total
Cash and cash equivalents:			
Cash	$ -	$ 14,096,020	$ 14,096,020
Money market funds	36,516,736	7,230,281	43,747,017
INVEST	-	22,834,967	22,834,967
	$ 36,516,736	$ 44,161,268	$ 80,678,004

The following is a summary of the Authority's cash and cash equivalents, and investments for the year ended December 31, 2015:

	Bond Related	Non-bond Related	Total
Cash equivalents:			
Cash	$ -	$ 14,185,510	$ 14,185,510
Money market funds	36,732,055	7,708,410	44,440,465
INVEST	-	21,750,734	21,750,734
	$ 36,732,055	$ 43,644,654	$ 80,376,709

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

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, 2016 and 2015, $13,970,859 and $14,020,288 of the Authority's bank balance of $14,511,541 and $14,553,344, respectively, was exposed to custodial credit risk because it was uninsured but collateralized in accordance with Act 72 of the Pennsylvania state legislature, 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, 2016, $31.0 million of money markets were rated A-1^+, and the remaining $35.5 million of investments were rated AAA by Standard & Poor's. As of December 31, 2015, $31.3 million of money markets were rated A-1^+, and the remaining $34.9 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.

4. CAPITAL ASSETS

Capital assets and accumulated depreciation consist of the following:

	2016	2015	Useful Lives (in years)
Land and improvements	$ 127,942,397	$ 127,942,397	
Infrastructure	143,687,828	143,687,828	40-50
Building and improvements	1,227,140,395	1,221,269,299	10-50
Equipment	71,745,871	71,615,064	5-10
Other assets	8,657,038	8,657,038	30
Total capital assets	1,579,173,529	1,573,171,626	
Accumulated depreciation/amortization	(623,420,197)	(576,943,496)	
Capital assets, net	$ 955,753,332	$ 996,228,130	

Capital assets included above that are not being depreciated totaled $128 million for each of the years ended December 31, 2016 and 2015. Accumulated depreciation/amortization does not include amortization of lease acquisition costs.

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

	January 1, 2016	Depreciation	Additions	December 31, 2016
Lower Hill Redevelopment	$ 10,190,420	$ -	$ -	$ 10,190,420
Benedum Center	11,129,405	14,255	-	11,115,150
John Heinz History Center	1,833,700	52,400	-	1,781,300
PNC Park	146,022,564	8,441,823	252,196	137,832,937
North Shore Garage	13,769,567	845,691	160,062	13,083,938
Heinz Field	178,596,980	10,437,360	4,266,675	172,426,295
Convention Center	254,405,420	13,710,439	1,322,972	242,017,953
Convention Center Riverfront Plaza	9,061,346	-	-	9,061,346
North Shore Riverfront Park	26,111,575	63,223	-	26,048,352
PPG Paints Arena	296,085,096	10,952,893	-	285,132,203
North Shore Infrastructure	42,731,211	1,582,423	-	41,148,788
Other	6,290,846	376,195	-	5,914,650
Total	$ 996,228,130	$ 46,476,702	$ 6,001,905	$ 955,753,332

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

Capital assets identified as Lower Hill Redevelopment relate to property within the former Civic Arena site as described in Note 14.

5. CONSTRUCTION IN PROGRESS

Construction in progress totaled approximately $13.17 million as of December 31, 2016 and $11.43 million as of December 31, 2015 and relates to the costs of projects such as the Lower Hill Redevelopment Infrastructure, I-579 Urban Open Space CAP, and Convention Center projects such as the building automation system, east lobby renovation, and the roofing system.

6. BONDS PAYABLE

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

	Principal Outstanding		
	January 1, 2016	Additions (Reductions)	December 31, 2016
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.	$ 2,900,000	$ (670,000)	$ 2,230,000
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.	980,000	(500,000)	480,000
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.	212,260,000	(5,980,000)	206,280,000
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.	55,805,000	(1,140,000)	54,665,000
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.	15,835,000	(295,000)	15,540,000

(Continued)

	Principal Outstanding		
	January 1, 2016	Additions (Reductions)	December 31, 2016
Hotel Room Excise Tax Revenue Bond 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. Funding Source: County Hotel Room Excise Tax, paid directly to the Trustee.	124,990,000	(5,620,000)	119,370,000
Hotel Room Excise Tax Revenue Bond Series 2012 of $44,160,000 due in annual installments ranging from $30,000 to $9,590,000 through February 2029, interest payable semi-annually on February 1 and August 1 at rates ranging from 2.00% to 5.00%, issued to refinance all of the outstanding Hotel Room Excise Tax Revenue Bonds, Series 1999. Funding Source: County Hotel Room Excise Tax, paid directly to the Trustee.	43,385,000	(30,000)	43,355,000
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.	147,175,000	(6,385,000)	140,790,000
Taxable Ticket Surcharge Revenue Bonds Series 2000 of $17,175,000, due in annual installments ranging from $145,000 to $2,835,000 through July 2030, interest payable semi-annually on January 1 and July 1 at rates ranging from 7.72% to 7.92%, issued in August 2000 to finance the construction of Heinz Field. Funding Source: Heinz Field Ticket Surcharge, paid directly to the Trustee.	13,605,000	(435,000)	13,170,000
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.	23,300,000	(1,280,000)	22,020,000
Total bonds payable	640,235,000	(22,335,000)	617,900,000
Deferred amounts:			
For issuance premiums	16,301,382	(961,920)	15,339,462
Bonds payable, net	$ 656,536,382	$ (23,296,920)	$ 633,239,462

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

	Total Principal	Interest	Total
2017	$ 23,050,000	$ 28,394,506	$ 51,444,506
2018	24,380,000	27,317,016	51,697,016
2019	24,965,000	26,253,496	51,218,496
2020	25,330,000	25,162,009	50,492,009
2021	26,545,000	23,952,786	50,497,786
2022-2026	153,150,000	99,677,496	252,827,496
2027-2031	182,305,000	60,993,518	243,298,518
2032-2036	128,825,000	23,397,012	152,222,012
2037-2040	29,350,000	2,643,396	31,993,396
Total	$ 617,900,000	$ 317,791,235	$ 935,691,235

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 proceeds of certain bond issues are restricted by yield limitations. The earnings on certain investments may generate arbitrage where the rate of investment earnings exceeds the yield limitations. The excess earnings, or rebatable arbitrage, is required to be computed in accordance with, and pursuant to, Section 148 of the Internal Revenue Code of 1986 (Code), and 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.

Regional Asset District Sales Tax Revenue Refunding Bonds

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

The RAD Refunding Bonds are payable from and secured by payments and other revenues to be received by the Authority through 2018 under an Amended and Restated Cooperation and Support Agreement among the Authority, the City, the County, and the Allegheny County Regional Asset District (RAD). In calendar years 2016 and 2015, $741,000 and $788,000, respectively, was received by the Authority and used to pay debt service.

Auditorium Refunding Bonds

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

Pursuant to a Supporting Agreement among the Authority, the City and the County dated September 15, 2005, the City and the County each have unconditionally agreed to pay to the Authority, on a pro-rata basis, one half of the principal and interest on these Refunding Series A Auditorium Bonds as it becomes due and payable. The Authority received $268,983 and $265,151 from each the City and the County in 2016 and 2015, respectively.

Commonwealth Lease Revenue Bonds, Series A and Taxable Series B

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

The Authority subleased the New Arena Project to the Pittsburgh Penguins (the New Arena Lease) obligating the Pittsburgh Penguins to pay the Authority 30 annual lease payments of $4.1 million initially, increasing to $4.3 million in 2012, with final payment on September 25, 2039, pledged to support the New Arena Bonds. $4.3 million was received in both 2016 and 2015.

The Commonwealth has appropriated $7.5 million per year for 30 years (ending September 2036) from EDTF to support the debt service on the New Arena Bonds (Note 2). $7.5 million was received in both 2016 and 2015.

A Payment Agreement between the Authority and Holdings Acquisition Co, LLC, (d/b/a Rivers Casino), the holder of the gaming license for the facility located in the City of Pittsburgh, was executed November 10, 2009, requiring semi-annual payments to begin October 2009 and ending October 2038 with such payment pledged to secure the New Arena Bonds. Payments in the amount of $7.627 million and $7.621 million were received in 2016 and 2015, respectively.

The Authority entered into interest rate swap agreements with PNC Bank, National Association (Counterparty) in connection with the New Arena Bonds. Pursuant to the swap agreements, the Authority pays a fixed rate of interest to the Counterparty and the Counterparty then pays a variable rate of interest to the bond trustee to pay debt service on the New Arena Bonds (Note 9). At December 31, 2016, the variable rate on the Series A and B bonds approximated .47% and .32%, respectively. The 2015 variable rate on the Series A and B bonds approximated .08% and .05%, 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 $640,624 and $357,712 in 2016 and 2015, respectively, pursuant to the Commonwealth lease.

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 New Arena. 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 2016 and 2015.

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

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

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

The Authority received Hotel Room Excise Tax Revenues in the amounts of $13,780,000 and $13,765,000 for each of the calendar years 2016 and 2015, respectively, for payment of indebtedness on the 2010 and 2012 bonds.

<u>Regional Asset District Sales Tax Revenue Bonds, Series of 2010</u>

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

The 2010 refunding resulted in a deferred refunding loss 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 2016 and 2015 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 2016 and 2015.

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 the Third Amendment to the Cooperation and Support Agreement with the Authority, the City, the County and the RAD, dated October 15, 2014, RAD guarantees payment of the Series 2014 Bonds should 2014 Rent be insufficient or exhausted. The bond proceeds were used to finance a portion of the costs of the seat expansion project (see Note 18). $2,110,000 was received in 2016 and 2015 for payment of indebtedness on these bonds.

7. LOANS/NOTES PAYABLE

Terms of the loans and notes payable are as follows:

	January 1, 2016	Reductions	December 31, 2016
Loan from Heinz Endowments in the amount of $3,000,000, issued December 2002, 1% interest, deferred until December 31, 2010, annual payments through December 2022.	$ 933,342	$ (133,334)	$ 800,008
Loan from Allegheny County in the amount of $3,100,000, issued October 1991, 0% interest, no stated repayment terms.	3,100,000	-	3,100,000
Loan from Allegheny County in the amount of $50,000, issued pre-1982, 0% interest, no stated repayment terms.	50,000	-	50,000
Loan from the City of Pittsburgh in the amount of $50,000, issued pre-1982, 0% interest, no stated repayment terms.	50,000	-	50,000
Loan from PNC Bank and Dollar Bank in the amount of $37,176,138, issued April 18, 2010, seven-year term with 20-year amortization, 4.5% fixed interest, paid monthly.	29,982,501	(1,502,144)	28,480,357
Total loans/notes payable	$ 34,115,843	$ (1,635,478)	$ 32,480,365

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

Year:	Principal	Interest	Total Debt Service
2017	$ 28,480,357	$ 532,745	$ 29,013,102
2018	-	11,333	11,333
2019	133,333	9,333	142,666
2020	133,333	7,333	140,666
2021	133,333	5,333	138,666
2022-2023	400,009	4,667	404,676
No Maturity	3,200,000	-	3,200,000
Total	$ 32,480,365	$ 570,744	$ 33,051,109

PNC Bank/Dollar Bank 2010 Loan

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

The loan refinanced (1) a 2004 PNC Bank/Dollar Bank Loan, which financed costs for operations and capital costs for the Convention Center and (2) the 2001 Parking Revenue Bonds. Of the total $41 million loan, $16,751,161 was to refinance the 2004 loan and $24,424,977 was to refinance the 2001 Parking Revenue Bonds. The 2001 Bond refunding resulted in a deferred refunding loss of $936,000 which is being amortized over the life of the 2010 Loan. Security for this loan is (1) revenues from Convention Center garage, (2) any discretionary Hotel Tax revenues received (restricted to portion of the loan allocated to the Convention Center uses), (3) grants from the Pennsylvania EDTF (restricted to the Convention Center portion), (4) revenues from North Shore garage, and (5) revenues from Stadium Authority Lots 1 and 7A through 7J (restricted to the North Shore garage portion). (Parking described in Note 12.)

A balloon payment on the PNC Bank/Dollar Bank loan will come due on May 1, 2017. The Authority intends to refinance the majority of the principal on or before the due date.

Stadium Authority

On February 14, 2012, the Stadium Authority refinanced a $19 million loan for its West General Robinson Street garage with a loan from PNC Bank/Dollar Bank. In connection with this Stadium Authority loan, the Authority amended the documents related to its 2010 PNC/Dollar Bank loan to extend the pledge of certain collateral (North Shore garage, Convention Center garage, and Authority surface lot revenues) to the Stadium Authority loan (Note 12). In April 2016, PNC Bank/Dollar Bank issued a construction loan for up to $15 million to the Stadium Authority for the construction of the Lot 1 garage. The Authority amended the 2010 and 2012 loan documents in support of this loan.

Heinz Endowment Loans

In 2001, 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. In 2016 and 2015, no principal was due; however, $266,668 was prepaid on the loans, leaving a principal balance on December 31, 2016 of $800,008.

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.

Allegheny County and the City of Pittsburgh each loaned the Authority $50,000 pre-1982 at a 0% interest rate with no repayment terms stated.

8. Net Investment in Capital Assets

Total net position includes net investment in capital assets. The calculations for the years ending 2016 and 2015 are as follows:

	2016	2015
Capital assets, net	$ 955,753,332	$ 996,228,130
Construction in progress	13,174,559	11,433,544
Lease acquisition costs, net of developer credits	(1,749,546)	(1,207,831)
Less bonds payable related to capital assets	(633,239,462)	(656,536,382)
Less loans/notes payable related to capital assets	(32,480,365)	(34,115,843)
Plus deferred outflows attributable to capital assets	4,520,902	4,933,695
Plus net unspent bond proceeds	2,876,162	2,755,258
Net investment in capital assets	$ 308,855,582	$ 323,490,571

9. Derivative Financial Instruments - Interest Rate Swaps

The Authority had the following interest rate swaps as of December 31, 2016 and 2015:

	Notional Amount	Effective Date	Maturity Date	Rate Paid	Rate Received	Moody's/S&P Rating*	Underlying Bonds
Hedging Derivatives							
Cash flow hedges							
Receive variable - pay fixed	$ 54,665,000	10/4/2007	11/1/2039	5.335%	1M LIBOR	A2/ A	2007 Series B
Interest rate swaps	206,280,000	10/4/2007	11/1/2038	4.020%	SIFMA	A2/ A	2007 Series A

	Notional Amount	12/31/2014 Market Value **	Change in Market Value	12/31/2015 Market Value **	Change in Market Value	12/31/2016 Market Value **
Hedging Derivatives						
Cash flow hedges						
Receive variable - pay fixed						
Interest rate swaps	$ 54,665,000	$ (21,581,045)	$ (183,669)	$ (21,764,714)	$ 4,523,236	$ (17,241,478)
	206,280,000	(49,041,172)	(3,100,813)	(52,141,985)	12,363,915	(39,778,070)
Total		$ (70,622,217)	$ (3,284,482)	$ (73,906,699)	$ 16,887,151	$ (57,019,549)

* Counterparty ratings as of December 31, 2016

** 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 PNC Bank, National Association (counterparty). The intention of the swaps was to effectively change the Authority's variable interest rates on the New Arena Bonds to synthetic fixed rates of 4.020% (Series A) and 5.335% (Taxable Series B).

Terms

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

Pursuant to the swap contracts, the Authority pays the counterparty semi-annually on each November 1 and May 1, and the counterparty pays the Authority monthly on the first of each month. In accordance with the SWAP Agreement, for the year ended December 31, 2016, the Authority paid $7,775,508 net fixed interest with respect to the swap on the Series A Bonds, and paid $2,719,644 net fixed interest with respect to the swap on the Taxable Series B Bonds, which are recorded as interest expenses. At December 31, 2016, the SIFMA Municipal Swap Index and 1M LIBOR rates were .6980% and .6437%, respectively.

Total interest expense related to the New Arena Bonds consists of the following components:

	2016	2015
Net payments under swap agreements	$ 10,495,148	$ 11,615,617
Variable interest paid on bonds	1,458,504	550,290
Total interest expense on New Arena Bonds	$ 11,953,652	$ 12,165,907

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, 2016 and 2015 are reported on the statements of net position as a swap liability.

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

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

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

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

  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 ($57,019,549) at December 31, 2016.

  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 as required by the swap insurer. As of year-end, a termination event had not occurred.

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

- Termination risk is the risk that the swap will end before the final maturity of the New Arena Bonds. The stated term of the swaps is equal to the term of the bonds. There are instances, however, when the swaps could be terminated earlier. The swaps use the International Swaps and Derivatives Association Master Agreement, which includes standard termination events, such as rating downgrades, covenant violations, bankruptcy, or swap payment default by either the Authority or the counterparty. The Authority or the counterparty may terminate the swaps if the other party fails to perform under the terms of the contract. Additional termination events include provisions such as if the underlying bonds were converted to fixed rate, if the indenture or Commonwealth lease is amended or supplemented in a manner that adversely affects the counterparty without the counterparty's prior approval, or in the event of a natural or man-made disaster, armed conflict, act of terrorism, riot, etc., beyond the control of the parties that would occur that would prevent a party from performing under the terms of the contract. If the swaps are terminated, the variable-rate bonds would no longer carry a synthetic fixed interest rate.

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

10. Employee Benefit Plans

The Authority has a defined contribution retirement plan (plan) covering substantially all of its full-time employees. None of its employees are subject to collective bargaining agreements. Participation in the plan requires an employee to have completed six months of service. Employees are required to make mandatory contributions to the plan equal to 5% of their base compensation, on a pre-tax basis. The Authority annually contributes 7% of eligible employee compensation to the plan. Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the remainder of a participant's account is based on years of continuous service. A participant is 100% vested after five years of service. The Authority contributed $72,780 and $70,355 and to the plan for the years ended December 31, 2016 and 2015, 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 retirement plan and employees are 100% vested in any contributions and earnings thereon. The Authority does not make matching contributions to the deferred compensation plan.

11. Operation of David L. Lawrence Convention Center

By agreement dated January 1, 2002, the Authority entered into a management agreement with SMG, a Pennsylvania general partnership, to provide management services for the Convention Center. A subsequent agreement with SMG was entered into for a term running from January 1, 2011 to December 31, 2015. In August 2015, the Authority Board approved a new agreement with SMG effective January 1, 2016 and remaining through 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 and 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 32% of the Center’s revenue in 2016. The Authority entered into a contract with Levy Premium Food Service L.P. (Levy) on June 1, 2003 and again on January 1, 2011 to manage the F & B services at the Convention Center. A First Amendment to the Food/Beverage Agreement was signed September 12, 2013, extending the term of the agreement to December 31, 2016 with a two-year renewal option. On October 21, 2016, the Authority Board approved the two-year extension through December 31, 2018. Levy earns a fee based on 2% of F & B gross receipts up to $3 million, 4% 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 capped at 4%.

12. PARKING OPERATION SYSTEM

The Authority owns and maintains both structured and surface parking facilities in Downtown Pittsburgh and on the City's North Shore. In conjunction with the Authority's parking assets, the Stadium Authority (Note 1) also owns a parking garage, several lots, and is currently constructing a second garage, 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. Per Note 7, the Authority's and Stadium Authority's combined parking revenues are cross collateralized to the extent provided for in the Authority's 2010 and Stadium Authority's 2012 and 2016 PNC Bank/Dollar Bank loans that financed the garage facilities.

Sports & Exhibition Authority Facilities

Facility	Location	Date Opened	Number of Spaces	Alco Mgt Agree. or Lease, date of expiration
Garages				
Convention Center Garage (CCG)	Downtown	2003	710	Management 12/31/2026
North Shore Garage (NSG)	North Shore	2001	925	Management 12/31/2026
Surface Parking				
10th 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			2239	

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 term management contracts/lease agreements for the facilities currently under management contracts:

- Management contracts for CCG/10th and Penn and NSG garages runs through December 31, 2026. Alco's management fee is $24,000 for CCG/10th and Penn and $136,000 for 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.

Green Lots 22 and 23 are operated by Alco pursuant to a long-term lease agreement. Details of the lease agreement are as follows:

- 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, 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 2016 and 2015, Parking Residual Rent was greater and therefore (i) was the basis of the payment.

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 original New Arena Lease, the rent amount due from the Pittsburgh Penguins is (a) $4.1 million per year and (b) $200,000 for each lease year in which certain additional parking spaces are delivered by the Authority. (The additional parking spaces were delivered in 2012.) This rent is used to pay the debt service on Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Note 6).

Under the terms of the New Arena Lease, parking surcharge in the amount of $400,000 is due from the Pittsburgh Penguins each year. The Pittsburgh Penguins collect and retain any parking surcharge collected above this amount. Upon occupancy of the New Arena (August 1, 2010), the Authority deposited $3,000,000 into the Capital Reserve Fund for the New Arena. Pursuant to the New Arena Lease, the Authority deposits the $400,000 annual parking surcharge received from the Pittsburgh Penguins in this account. The Capital

Reserve Fund balance held $6.1 million and $5.6 million, respectively, as of December 31, 2016 and 2015.

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

The Authority and the Pittsburgh Penguins entered into the Third Amendment to the New Arena Lease effective August 1, 2010, whereby the Penguins agreed to pay the Authority an additional $100,000 per year in rent in connection with the expanded service yard and the Authority agreed to deposit this additional rent payment into the Capital Reserve Fund. All rent and surcharge payments due from the Pittsburgh Penguins were received and deposited in 2016.

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 $2.7 million of leasehold improvements and furniture, fixtures, and equipment. Although these leasehold improvements would remain with the building as property of the Authority upon termination of the lease, these assets 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 of the exterior of the structure began in September 2011 and was completed in September 2012. The surface has been paved to be used for parking until the property is developed. Pending the redevelopment of the property, now called the Lower Hill Redevelopment (Lower Hill) site, the Pittsburgh Penguins 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, 2022.

In 2012, the Authority entered into a Cooperation Agreement with the City and the Urban Redevelopment Authority of Pittsburgh (URA), whereby an amount equal to the City parking tax generated from the new parking created from the demolition of the Civic Arena is split jointly between the Authority and the URA. The use of this grant to the Authority is restricted to the design and construction of roads and infrastructure, is capped at $2 million

($1 million for each entity), and terminated December 31, 2016. $216,000 and $224,000 was recorded in 2016 and 2015, respectively.

Pursuant to the Option Agreement dated September 18, 2007 between the Authority, the URA, and the Pittsburgh Penguins (Option Agreement), the Pittsburgh Penguins are given rights to develop the Lower Hill site (approximately 28 acres, 2/3 of which is owned by the Authority and 1/3 of which is owned by the URA), on certain terms and conditions. When ready to begin development of a parcel, the Pittsburgh Penguins are to purchase the parcel from the Authority or the URA at fair market value, as determined by an appraisal. Pursuant to the Option Agreement the Pittsburgh Penguins had a $15 million credit to be applied to the purchase prices. At the termination of the Option Agreement, if the Pittsburgh Penguins have not used the full $15 million of credits, the Authority is obligated to pay the difference in cash. The URA and the Redevelopment Authority of Allegheny County have agreed to loan such amounts to the Authority if needed.

One parcel of land valued at $475,000 was sold in 2009, using $475,000 of credits. No parcels were sold in 2016 or 2015.

In 2014 the Authority, URA, Pittsburgh Arena Real Estate Redevelopment LP, and the Lemieux Group LP, entered into a Comprehensive Option Agreement (COA) to further define the terms of the Option Agreement. The COA contains provisions for the Pittsburgh Penguins to purchase a "Pause" if they are unable to complete a Take Down of a parcel within an Option Period. A Pause can be purchased for $75,000 for each six-month pause period, for a total period of up to twenty-four (24) calendar months per Take Down increment. In certain circumstances, the COA provides that these Pauses are waived. Accordingly, Pause revenue subject to waiver has not been recognized as revenue. Pauses subject to waiver totaling $300,000 have been classified as unearned revenue on the statement of net position.

In October 2015, the Pittsburgh Penguins purchased a Pause with respect to the first Option Period at a cost of $75,000 in credits, extending the Take Down period to April 22, 2016. An additional Pause on the first Option Period was purchased for $75,000 in April 2016 and again in October 2016, extending the Take Down period to April 22, 2017. With respect to the second Option Period, a Pause was purchased in October 2016 for $75,000 extending that Option Period to April 2017.

At December 31, 2016, the balance of credits as reported on the statement of net position was as follows:

	2016	2015
Developer credits issued	$ 15,000,000	$ 15,000,000
Credits applied	(475,000)	(475,000)
Pauses subject to wiaver (reported as unearned revenue)	(300,000)	(75,000)
Developer credits balance, year end	$ 14,225,000	$ 14,450,000

The Authority has reported the $15 million of credits described above as lease acquisition costs. The credits are amortized over the term of the New Arena Lease and will be adjusted upon each purchase by the Pittsburgh Penguins based on the value of credits used and the book value of land sold. For the land transaction in 2009, the Authority's cost basis of the land exceeded the credits used by $1.25 million. At December 31, 2016 and 2015, the balance of lease acquisition costs as reported on the statements of net position totaled $12.8 and $13.3 million, respectively.

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. The Society had obtained a mortgage loan to finance construction of improvements on the property. The Authority had consented to the use of the building as collateral on the loan.

17. PNC PARK OPERATING LEASE

The Authority has entered into a lease agreement with Pittsburgh Associates (Pirates) with an initial term of 29.5 years, commencing in March 2001. Obligated payments to the Authority include the following components: (a) Base Rent of $100,000 per year, (b) Excess Gate Revenues ((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) 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%, but less than 45%, and 10% of the excess above 45% and (ii) 5% of gross food and beverage revenues in excess of $9.00 per capita (adjusted annually by CPI increases)) and (d) Ticket Surcharges (the team shall receive and retain the first $1,500,000 of ticket surcharges each year, with the next $375,000 (adjusted annually by CPI increases) paid to the Authority for deposit into the Capital Reserve Fund, and the next $250,000 paid directly to the Authority. The Pirates shall retain any ticket surcharges collected above these amounts.) In fiscal year 2016, the Authority recognized $100,000 in Base Rent, $757,843 in Ticket Surcharges, and $0 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 leasehold improvements and furniture, fixtures, and equipment. Any fixed asset purchases would remain with the building as property of the Authority upon termination of the lease; these assets are not capitalized by the Authority.

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 $ 5.7 million and $5.8 million, respectively, as of December 31, 2016 and 2015.

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 Revenues NFL Events (5% ticket surcharge is imposed by the Authority on all NFL Events tickets sold at Heinz Field [capped at $3]), with the first $1.4 million of total ticket surcharge monies collected restricted to pay principal and interest on the Ticket Surcharge Revenue Bonds and surcharge proceeds over $1.4 million paid to the Authority for deposit into the Capital Reserve Fund; (b) Ticket Surcharge Revenues 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 2016, the Authority recognized $487,335 in Ticket Surcharge Revenues from NFL Events (after Bond payment), $739,380 from Non-NFL Event Ticket Surcharge, and $21,319 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 leasehold improvements and furniture, fixtures, and equipment. Any such fixed asset purchases would remain with the building as property of the Authority upon termination of the lease; these assets are not capitalized by the Authority.

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 2016 and 2015 was $718,109 and $717,258, respectively. The Capital Reserve Fund for Heinz Field held $4.0 million and $4.9 million, respectively, as of December 31, 2016 and 2015.

On May 21, 2014, the Authority and PSSI entered into an Agreement (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 (Project). Financing for the 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 (Personal Seat Licenses or PSLs). Costs of the 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 Bonds, Taxable Series of 2014 (see Note 6). This money was received in 2016 and 2015. Beginning April 1, 2015 and continuing thereafter if certain conditions are met, an additional, fixed $1 Capital Reserve Fund Ticket Surcharge (Capital 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 Capital Reserve Fund. $1,119,262 and $1,183,571 was generated in 2016 and 2015, respectively, from the $1 Capital Surcharge and deposited to the Capital Reserve account.

As part of the Agreement, the Authority appointed PSSI as its agent to market and sell the PSLs. Proceeds from the PSLs were received by and held in an Authority account and were expended on the Project. PSSI began selling the licenses in fourth quarter of 2014. By December 31, 2016, 2,527 seat licenses were sold.

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 Convention Center and its garage, the North Shore Parking Garage, Lower Hill Redevelopment, and all related infrastructure.

Statement of Net Position - 2016

	Operating	Capital Development	Total
Current assets	$ 5,331,766	$ 72,943,506	$ 78,275,272
Capital assets, net	1,815,850	979,887,495	981,703,345
Noncurrent assets	958,680	7,179,212	8,137,892
Total Assets	8,106,296	1,060,010,213	1,068,116,509
Deferred Outflows of Resources	-	61,540,451	61,540,451
Current liabilities	2,819,266	63,633,995	66,453,261
Noncurrent liabilities	4,825,409	682,534,019	687,359,428
Total Liabilities	7,644,675	746,168,014	753,812,689
Net investment in capital assets	(1,384,150)	310,239,732	308,855,582
Restricted net position	1,138,228	65,142,918	66,281,146
Unrestricted net position	707,543	-	707,543
Total Net Position	$ 461,621	$ 375,382,650	$ 375,844,271

Statement of Revenues, Expenses, and Changes in Net Position - 2016

	Operating	Capital Development	Total
Restricted operating revenues	$ 2,787,717	$ 14,069,175	$ 16,856,892
Unrestricted operating revenues	8,610,787	76,165	8,686,952
Less: operating expenses	(13,867,059)	(702,843)	(14,569,902)
Less: depreciation/amortization	(89,551)	(46,928,865)	(47,018,416)
Operating Loss	(2,558,106)	(33,486,368)	(36,044,474)
Restricted nonoperating revenues	6,403,299	50,702,153	57,105,452
Unrestricted nonoperating revenues (expenses)	106,890	(20,427)	86,463
Interest expense	-	(31,096,949)	(31,096,949)
Transfers	(3,842,756)	3,842,756	-
Change in Net Position	109,327	(10,058,835)	(9,949,508)
Beginning Net Position	352,294	385,441,485	385,793,779
Ending Net Position	$ 461,621	$ 375,382,650	$ 375,844,271

Statement of Cash Flows - 2016

	Operating	Capital Development	Total
Cash flows from operating activities	$ (2,392,761)	$ 12,733,952	$ 10,341,191
Cash flows from non-capital financing activities	559,565	2,118,409	2,677,974
Cash flows from capital and related financing activities	1,699,999	(14,584,631)	(12,884,632)
Cash flows from investing activities	(8,089)	174,851	166,762
Increase (decrease) in cash and cash equivalents	(141,286)	442,581	301,295
Cash and Cash Equivalents, Beginning	4,321,727	76,054,982	80,376,709
Cash and Cash Equivalents, Ending	$ 4,180,441	$ 76,497,563	$ 80,678,004
Consists of:			
Restricted cash and cash equivalents	$ 3,553,772	$ 76,497,563	$ 80,051,335
Unrestricted cash and cash equivalents	626,669	-	626,669
	$ 4,180,441	$ 76,497,563	$ 80,678,004

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

Statement of Net Position - 2015

	Operating	Capital Development	Total
Current assets	$ 5,602,052	$ 73,144,436	$ 78,746,488
Capital assets, net	1,905,401	1,019,073,442	1,020,978,843
Noncurrent assets	25,000	9,497,732	9,522,732
Total Assets	7,532,453	1,101,715,610	1,109,248,063
Deferred Outflows of Resources	-	78,840,394	78,840,394
Current liabilities	3,171,088	40,734,050	43,905,138
Noncurrent liabilities	4,009,071	754,380,469	758,389,540
Total Liabilities	7,180,159	795,114,519	802,294,678
Net investment in capital assets	(1,294,599)	324,785,170	323,490,571
Restricted net position	857,805	60,656,315	61,514,120
Unrestricted net position	789,088	-	789,088
Total Net Position	$ 352,294	$ 385,441,485	$ 385,793,779

Statement of Revenues, Expenses, and Changes in Net Position - 2015

	Operating	Capital Development	Total
Restricted operating revenues	$ 2,830,797	$ 14,436,324	$ 17,267,121
Unrestricted operating revenues	9,742,335	59,558	9,801,893
Less: operating expenses	(13,409,783)	(743,994)	(14,153,777)
Less: depreciation/amortization	(94,353)	(47,022,250)	(47,116,603)
Operating Loss	(931,004)	(33,270,362)	(34,201,366)
Restricted nonoperating revenues	6,400,225	70,147,028	76,547,253
Unrestricted nonoperating revenues (expenses)	53,256	(284,570)	(231,314)
Interest expense	-	(32,238,484)	(32,238,484)
Transfers	(5,097,568)	5,097,568	-
Change in Net Position	424,909	9,451,180	9,876,089
Beginning Net Position	(72,615)	375,990,305	375,917,690
Ending Net Position	$ 352,294	$ 385,441,485	$ 385,793,779

Statement of Cash Flows - 2015

	Operating	Capital Development	Total
Cash flows from operating activities	$ (997,851)	$ 13,045,284	$ 12,047,433
Cash flows from non-capital financing activities	(181,855)	5,681,049	5,499,194
Cash flows from capital and related financing activities	1,699,999	(38,316,244)	(36,616,245)
Cash flows from investing activities	(79,313)	(97,430)	(176,743)
Increase (decrease) in cash and cash equivalents	440,980	(19,687,341)	(19,246,361)
Cash and Cash Equivalents, Beginning	3,880,747	95,742,323	99,623,070
Cash and Cash Equivalents, Ending	$ 4,321,727	$ 76,054,982	$ 80,376,709
Consists of:			
Restricted cash and cash equivalents	$ 3,401,817	$ 76,054,982	$ 79,456,799
Unrestricted cash and cash equivalents	919,910	-	919,910
	$ 4,321,727	$ 76,054,982	$ 80,376,709

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

20. COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is involved in claims and legal actions arising from construction and in the normal course of operations. Additionally, there are multiple claims resulting from the operation of SEA 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, 2016

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

MaherDuessel
Certified Public Accountants

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, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express 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 13, 2017