

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY AND ADDITIONAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

WITH

INDEPENDENT AUDITOR'S REPORTS

MaherDuessel

Certified Public Accountants || *Pursuing the Profession While Promoting the Public Good®*

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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Independent Auditor's Report

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

We have audited the accompanying statement of net assets of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), as of December 31, 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority for the year ended December 31, 2007 were audited by other auditors whose report dated May 28, 2008 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis presented on pages i through xiii is not a required part of basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying additional information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to basic financial statements taken as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
April 13, 2009

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

DECEMBER 31, 2008

As management of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (the “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, 2008 and 2007. This 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 of the Authority exceeded its liabilities on December 31, 2008 by \$500 million (net assets). This represents a \$4.8 million decrease over prior year-end net assets. The decrease in net assets has slowed from the prior year due to increased capital contributions and construction in progress on the New Arena project site which have offset the continued depreciation on the Regional Destination Financing Plan (RDFP) capital assets. Although some construction costs are remaining, all of the Authority’s major, newly-constructed RDFP capital assets (Heinz Field, PNC Park, and the Convention Center) are in service. The Authority is also continuing development on smaller projects such as the Convention Center Riverfront Park.
- The Authority’s total cash and cash equivalents balance at the close of the fiscal year was \$293 million, representing a \$53 million decrease over last year-end. Decreased cash is a direct result of the site preparation and construction costs related to the New Arena project and the improvement to the Convention Center.

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- The Authority recognized \$15 million in operating revenue for the calendar year 2008, an increase over 2007's operating revenue of \$3.3 million. Ticket surcharge revenue increased \$1.1 million in large part due to Steelers and Penguins playoff games. Parking revenue at the parking garages and lots increased a total of \$617,000. Convention Center operations revenue increased \$1.3 million through rentals, event services, and ancillary revenues. In July, the SEA received the first payments from the Commonwealth's Economic Development and Tourism Fund to be used for the operating deficit and indebtedness of the Convention Center and retirement of debt on New Arena Bonds issued in 2007. Operating revenue, net of operating expenses of \$51.4 million, resulted in a \$36 million operating loss. This result includes depreciation and amortization expenses of \$37.8 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 Sports & Exhibition Authority. As a joint authority for the City of Pittsburgh and Allegheny County, the Authority's mission is to provide venues for sporting, entertainment, educational, cultural, civic, and social events for the benefit of the general public. The Authority owns PNC Park, Heinz Field, the David L. Lawrence Convention Center (and connecting garage), Mellon Arena, North Shore Garage, North Shore Riverfront Park, the Benedum Center, and the Heinz History Center. The Authority leases PNC Park and Heinz Field to Pittsburgh Associates (holder of the Pittsburgh Pirates Major League Baseball Franchise) and PSSI Stadium Corp. (a related entity to the holder of the Pittsburgh Steelers National Football League Franchise), respectively, which operate the facilities through 2030. The Mellon Arena is leased to Lemieux Group LP, (the holder of the Pittsburgh Penguins National Hockey League Franchise), which is responsible for its operations and

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management. The Authority oversees management of the Convention Center and Convention Center garage, North Shore Garage, and 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. The Authority is also responsible for the implementation of the Regional Destination Financing Plan (the Plan). In addition to constructing the stadiums, the Plan consists of the expansion of the 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. As of December 2008, the Plan facilities have been constructed, with only close-out issues on the Convention Center, its related infrastructure, and riverfront park development having remaining work into 2009. In 2008, after acquiring all of the necessary property along Fifth Avenue in the Lower Hill District, the Authority began construction on the New Arena Project, the future home for the Pittsburgh Penguins.

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

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported

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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 *statement of cash flows* reports cash and cash equivalent activities for the fiscal 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 equivalent balance reconciles to the cash and cash equivalent balance at the end of the calendar year.

Notes to the 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 assets may be observed and used to analyze the changing financial position of the Authority as a whole. In the case of the Authority, assets exceed liabilities by \$500 million as of December 31, 2008. This represents a \$4.8 million decrease from the prior year. The overall decrease is a direct result of decreased capital assets due to depreciation exceeding the addition of new capital assets.

Unrestricted net assets report the amount of discretionary assets that an organization has to meet its obligations. The net asset summary below shows that the unrestricted portion of net assets is negative by approximately \$1.6 million. This is due to the fact that there is not enough restricted cash to pay remaining obligations and outstanding construction payables related to the convention center construction. The funding has a short-term solution in the slots revenue whereby the first \$10 million is for repayment of costs already incurred. \$3.7

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million was received in 2008, another \$3.7 is due in 2009, and the balance will be paid in 2010. Settlement agreements executed on contracts whose payment relied on the future slots funding have been paid in 2008. Additional information can be found in the "Economic Factors and 2008 Budget" section of the Management's Discussion and Analysis.

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

	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 334,585	\$ 357,645
Capital assets	<u>961,169</u>	<u>937,721</u>
Total assets	<u>\$ 1,295,754</u>	<u>\$ 1,295,366</u>
Current liabilities	\$ 48,442	\$ 31,518
Bonds outstanding (net of current portion)	713,405	723,706
Other long term liabilities	<u>33,619</u>	<u>35,061</u>
Total liabilities	<u>\$ 795,466</u>	<u>\$ 790,285</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 470,579	\$ 471,349
Restricted	31,258	34,781
Unrestricted	<u>(1,549)</u>	<u>(1,049)</u>
	<u>\$ 500,288</u>	<u>\$ 505,081</u>

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

	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 15,281	\$ 11,886
Operating expenses:		
Operations and maintenance	12,215	10,337
General and administrative	1,057	949
Depreciation and amortization	37,851	34,452
Miscellaneous	332	709
Total operating expenses	<u>51,455</u>	<u>46,447</u>
Operating income (loss)	<u>(36,174)</u>	<u>(34,561)</u>
Nonoperating revenue (expense):		
Allegheny Regional Asset District and City, County, State	36,485	27,124
Hotel rooms tax	13,327	14,207
Stadium Authority parking subsidy	946	2,276
Federal Grants	80	38
Foundation Grants	1,100	2,240
Project administrative and development income (net of expense)	(66)	(78)
Interest expense (net of interest income)	(20,933)	(18,989)
Unrealized gain/loss	510	
Miscellaneous	(68)	(218)
Total nonoperating revenue	<u>31,381</u>	<u>26,600</u>
Decrease in net assets	<u>\$ (4,793)</u>	<u>\$ (7,961)</u>

By far, the largest portion of the Authority's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), net of related debt (\$471 million). This category comprises 97% of the total net assets. Total net assets also include restricted net assets of \$31 million. During 2008, increases in the Authority's investment of capital assets, net of related debt, was mainly a result of construction activities on the New Arena Project. The Authority uses these capital assets primarily to provide a public venue for baseball (PNC Park), football (Heinz Field), hockey and other arena events (Mellon Arena), and for convention center

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shows and events (David L. Lawrence 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. The groundbreaking for the Convention Center was in April 2000 and its Grand Opening took place in September 2003. Construction has been financed primarily with Hotel Tax Bonds, Commonwealth of Pennsylvania grant funds, and local philanthropic contributions. The new David L. Lawrence Convention Center includes 330,000 square feet of exhibition space (250,000 square feet of which is column free), 53 meeting rooms, 37 loading docks, and a 34,000 square-foot ballroom. It currently offers a 715-space parking garage and future plans include an adjoining hotel. SMG, a private management company, operates the convention center on behalf of the Authority under a management contract. Ninety percent of the roughly \$1 billion in capital assets are capitalized and in service. Amounts not yet capitalized in construction-in-progress relate to the construction for the New Arena Project.

Current assets include cash, investments, and receivables for event rentals, parking fees, ticket surcharges, and contributions. Current assets increased by \$88 million from 2007. With the start of the New Arena project and cash requirements for the construction schedule, bond proceeds have been reclassified from non-current to current.

The largest component of the Authority's liabilities is bonds payable, which is secured by pledged revenues as described below in Debt Administration. The current portion of Bonds Payable increased by almost \$1 million due to debt service requirements on the Commonwealth Lease Revenue Bonds Series A, the Hotel Excise Tax Bonds of 1999, and the Regional Asset Sales Tax Bonds of 1999. The balance of liabilities increased by \$3.4 million due primarily to increased trade and construction payables incurred from the New Arena Project construction.

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The Authority's operating revenue is derived from ticket surcharge/team rent, parking revenues, and Convention Center income from building rental, event services, (labor directly related to the event), catering and concession charges net of cost, and ancillary charges such as booth cleaning, security, audio visual, and electrical usage. The majority of the unrestricted operating revenue supports the administrative costs of the Authority and the operation of the Convention Center. The restricted operating revenues related to charges/fees imposed by the Authority are pledged for debt repayment or capital maintenance reserves. Non-operating revenue is primarily composed of federal, state, local, and foundation related grants for the operations of the Convention Center and capital grants for the funding of capital projects. The majority of the \$36.5 million restricted grants in 2008 were comprised of \$22.1 million from the Commonwealth's Economic Development and Tourism Fund revenue for ongoing operations and capital projects of the Convention Center, repayment of the PNC/Dollar Bank loan, and debt service on the Commonwealth Lease Revenue Bonds Series A.

Including the depreciation expense of \$37.9 million, the Authority's operating loss was \$36.2 million. Because the New Arena is scheduled to be completed at the end of 2010, depreciation on the existing Mellon Arena has been accelerated to be totally depreciated in three years. Operations, without depreciation and amortization expense, would have yielded a surplus of \$1.7 million for 2008 compared to a deficit of \$109,000 in 2007 in addition to the factors mentioned above. A major contributing factor to this surplus was the ticket surcharge revenue from the Pittsburgh Penguins' playoff games, Pittsburgh Steelers' playoff games, and an additional football game for the Pitt Panthers.

Capital Assets

As of December 31, 2008, the Authority's investment in capital assets was \$867 million (net of accumulated depreciation). This is a decrease from the prior year, as the construction in progress for the New Arena projects has not yet been capitalized and the annual depreciation is now exceeding the additions to capital assets in place.

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Investment in capital assets includes land, buildings, improvements, equipment, and infrastructure. All construction in progress throughout 2008 was capitalized, except for land acquisition and construction costs related to the New Arena project.

Construction expenses totaling \$2.1 million were capitalized during 2008. Construction costs continue on the Convention Center, and its infrastructure throughout 2008. Equipment and facility improvements occurred at PNC Park and Heinz Field. Design and construction costs for the Convention Center Riverfront Park will continue through 2009. Demolition was completed and construction started on the New Arena site in 2008. Construction for a new arena facility is scheduled to be completed in 2010.

Additional information on the Authority's capital assets can be found in Note 4 of this report.

Debt Administration

Long-term debt of the Authority is comprised of eight, bond issues and several loans payable. Four of the eight bonds were issued to finance the Regional Destination Financing Plan. They are:

Bond Issue	Issue date	Initial principal amount	Pledged revenue stream	Bond Ratings *	
				Standard & Poors	Moody's
Hotel Revenue Bonds	May-1999	\$ 193,375,000	Hotel Room Excise Tax	AAA	Aaa
RAD Revenue Bonds	May-1999	176,625,000	Regional Asset District 1% Sales Tax	AAA	Aaa
Ticket Surcharge Revenue Bonds	Aug-2000	17,175,000	Steeler Football Ticket Surcharge	AAA	Aaa
Parking Revenue Bonds	Mar-2001	27,500,000	Parking Garage Revenue	N/A	Aaa

* Ratings based on the purchase of bond insurance at time of issuance.

The RAD bonds have had two principal payments through 2008 totaling \$3,940,000 and the hotel bonds have had four principal reductions totaling \$3,265,000 with outstanding debt of \$172,685,000 and \$190,110,000, respectively. The outstanding debt on the Ticket Surcharge Bonds is \$15,865,000 with a \$235,000 payment

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made in 2008. The Parking Revenue Bonds have been reduced by seven principal payments including a \$595,000 principal payment in 2008, leaving the outstanding debt at \$24,225,000.

Two bond issues relate to the refinancing of the October 1999 Series Auditorium Bonds had an initial combined principal amount of \$36,550,000. The refinancing occurred to fund certain operating costs of the Convention Center.

Bond Issue	Issue date	Initial principal amount	Pledged revenue stream	Bond Ratings *	
				Standard & Poors	Moody's
RAD Sales Tax Bonds, Refunding Series 2005	Jan-05	\$ 13,250,000	RAD Sales Tax proceeds	AAA	Aaa
Auditorium Bonds, Refunding Series A of 2005	Sep-05	8,345,000	City of Pittsburgh & Allegheny County	n/a	Aaa

* Ratings based on the purchase of bond insurance at time of issuance.

The first refinancing occurred in January of 2005 for \$13,250,000 and the second occurred in September of 2005 for \$8,345,000. The principal retired from both refinancings equaled \$19,885,000. Additional information is shown in Note 6 of this report. The outstanding principal amount as of December 31, 2008 for these bonds is \$7,851,659 and \$3,964,014 respectively.

In October 2007, the Authority issued the following bonds to finance the construction of the New Arena Project.

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Bond Issue	Issue date	Initial principal amount	Pledged revenue stream	Bond Ratings *	
				Standard & Poors	Moody's
Commonwealth Lease Revenue Bonds Series A of 2007	Oct-07	\$ 252,000,000	Gaming Economic Development and Tourism Fund, Casino Operator & Pittsburgh Penguins	A-1	VMIG 1
Commonwealth Lease Revenue Bonds Taxable Series B of 2007	Oct-07	61,265,000	Gaming Economic Development and Tourism Fund, Casino Operator & Pittsburgh Penguins	A-1	VMIG 1

* Ratings based on the purchase of bond insurance at time of issuance.

The first principal payment on the Series A bonds was paid in October 2008 in the amount of \$4,260,000. These Series A bonds are secured by revenues from the Pennsylvania Gaming Economic Development and Tourism Fund. Additional security for Series A bonds is from the Pittsburgh Casino operator, whose first payment is due October 2009. The first principal payment on the Series B bonds, secured by rent from the Pittsburgh Penguins, is due October 2010.

There are four loans/notes outstanding at December 31, 2008. The first is a \$2.4 million loan from the Stadium Authority for public infrastructure work around the new stadiums of which \$941,745 is outstanding at December 31, 2008. The original loan was dated October 4, 2002 and is to be repaid in part via credits (parking and other programmed uses of Stadium Authority land). Original credits allowable totaled \$1,542,015; however, when the loan was amended in 2008, the allowable credits were increased to \$1,949,234 so that no payment will be due until 2010. The second is a \$3 million loan (\$1.5 million from the Howard Heinz Endowment and \$1.5 million from the Vira I. Heinz Endowment) to promote economic development and environmental initiatives by constructing improvements at the Convention Center in accordance with the Green Building Standards. Repayments on the Heinz loans were to begin in 2008; however, the Heinz Endowments agreed to an amendment of the initial agreement, delaying the due date of the principal and interest payments until 2009. The third loan, in the form of two, \$10 million bank notes, one held by Dollar Bank and the other held by PNC Bank, primarily

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funded capital needs. The notes initially had a five-year term with fifteen-year amortization and a floating interest rate based on 93% of prime that was 3.72% at issuance and 6.27755% at October 31, 2005. Effective November 1, 2005, the Authority negotiated a deferral of principal for 2006 and 2007 with a fixed interest rate of 5% for 18 months. Effective June 1, 2007, the rate again became a floating interest rate based on 74% of prime. Subsequent to the year end, the Authority negotiated a 12-month extension on the loan term to April 21, 2010 and providing for the interest rate to be based on the higher of the following: 1) 74% of the prime rate, 2) Federal Funds Open Rate plus 2%, 3) 65% times the Daily LIBOR Rate plus 2% or 4) 2.75%. The fourth is a second loan from the Stadium Authority for \$1.2 million used for cash flow for construction payables on the Convention Center. This is payable to the Stadium Authority upon receipt of Act 71 slots funding and has an interest rate equal to what it would have otherwise earned in the Stadium Authority operating account. See Note 7 to the financial statements for further information.

Economic Factors and the 2008 Budget

Certain factors were considered in preparing the Authority's budget for the 2008 fiscal year. Foremost was that the Convention Center would continue to operate at a loss as do most public facilities of this type. Although the Authority endeavors to keep the operating loss at a minimum, the overriding goal is the economic benefit that visitors bring to the City of Pittsburgh. Thus, operating the center as a world-class facility supported by market sensitive rental pricing causes the operating loss. Operating revenues such as building income from rentals, food and beverage, and other ancillary services, as well as, the unrestricted portion of the hotel tax allocation, unpledged parking revenues, an appropriation from the Pennsylvania Gaming Economic Development and Tourism Fund, and a grant from the Allegheny Regional Asset District fund the operating activity and administration of the Convention Center. The Authority's 2009 operating budget is balanced; and no operating cash flow issues are present.

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In accordance with Act 71 of 2004 (the Pennsylvania Race Horse Development and Gaming Act) the Authority anticipated moneys from the Gaming Economic Development and Tourism Fund, which was provided to the Authority for (a) operating costs of the Convention Center (\$1.7 million per year for 10 years), (b) repayment of certain Convention Center debt (\$20 million bank notes used to assist with capital cash flow), and (c) repayment of \$10 million (to reimburse the Authority for hotel costs already paid), and funding for \$34 million of costs of the planned Convention Center Hotel. Receipt of the Act 71 funding is directly dependent on the gaming revenues received by the state. While the Authority has received the first payments from the fund, if these receipts are not received and other revenue streams do not materialize, the Authority will have cash flow difficulties. It will have no other recourse than to call upon the Cooperation Agreement with the City and County. This agreement, dated January 23, 1978, approves a shared payment by the City and County to cover the Authority's operating deficit with respect to the Convention Center.

Future Events that will Financially Impact the Authority

In addition to the new Arena facility, the Authority has announced that a new Convention Center Hotel is planned and that design is underway for the Convention Center Riverfront Park.

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, 425 Sixth Avenue, Suite 2750, Pittsburgh, PA 15219.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF NET ASSETS

DECEMBER 31, 2008 AND 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 5,409,309	\$ 2,023,711
Restricted cash and cash equivalents	213,473,187	120,691,992
Restricted investments	-	1,549,000
Receivables:		
Trade (no allowance for doubtful accounts necessary)	1,842,624	1,692,825
Hotel rooms tax	-	228,834
Interest	146,667	539,983
Restricted contributions and grants	1,091,851	7,357,601
Prepaid expenses	241,261	319,556
Total current assets	<u>222,204,899</u>	<u>134,403,502</u>
Noncurrent assets:		
Restricted cash and cash equivalents	74,320,335	223,240,923
Restricted investments	38,060,119	-
Capital assets, net	867,211,250	902,715,408
Construction-in-progress	93,957,786	35,006,074
Total noncurrent assets	<u>1,073,549,490</u>	<u>1,160,962,405</u>
Total Assets	<u><u>\$ 1,295,754,389</u></u>	<u><u>\$ 1,295,365,907</u></u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 25,526,407	\$ 9,250,643
Deferred revenue	638,194	605,024
Interest payable	8,654,435	8,877,336
Current portion of bonds payable	10,301,067	9,466,067
Current portion of loans/notes payable	3,044,768	3,039,764
Current portion of capital lease obligation	277,092	278,587
Total current liabilities	<u>48,441,963</u>	<u>31,517,421</u>
Noncurrent liabilities:		
Accrued liabilities	2,056,782	1,530,609
Deferred revenue	1,266,454	1,354,589
Bonds payable	713,404,606	723,705,674
Loans/notes payable	22,995,415	24,640,176
Capital lease obligation	7,187,434	7,423,136
Arbitrage payable	113,601	112,905
Total noncurrent liabilities	<u>747,024,292</u>	<u>758,767,089</u>
Total Liabilities	<u>795,466,255</u>	<u>790,284,510</u>
Net Assets:		
Invested in capital assets, net of related debt	470,579,038	471,349,095
Restricted for capital activity and debt service	31,258,463	34,781,541
Unrestricted	(1,549,367)	(1,049,239)
Total Net Assets	<u>500,288,134</u>	<u>505,081,397</u>
Total Liabilities and Net Assets	<u><u>\$ 1,295,754,389</u></u>	<u><u>\$ 1,295,365,907</u></u>

See accompanying notes to financial statements.

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Operating Revenues:		
Restricted:		
Ticket surcharges	\$ 3,309,802	\$ 2,132,298
North Shore parking garage, net	1,254,685	945,768
Convention Center parking garage, net	1,448,910	1,071,168
Parking lot revenue, net	97,630	96,552
Unrestricted:		
Ticket surcharges	482,218	597,599
Convention Center parking garage, net	-	253,314
Parking lot revenue, net	515,720	333,535
License fees	3,249,136	2,790,416
Event service revenue	734,578	599,736
Ancillary revenue	3,929,810	2,457,616
Other revenue	258,012	607,522
Total operating revenues	15,280,501	11,885,524
Operating Expenses:		
Operations and maintenance	12,214,797	10,336,722
General and administrative	1,056,841	948,846
Depreciation and amortization	37,851,359	34,451,789
Other expenses	332,075	709,117
Total operating expenses	51,455,072	46,446,474
Operating Loss	(36,174,571)	(34,560,950)
Non-operating Revenues (Expenses):		
Restricted:		
Allegheny Regional Asset District	13,870,000	13,870,000
PA Gaming Economic Development & Tourism Fund	22,100,000	-
Hotel rooms tax	13,326,996	14,206,931
Stadium Authority	945,952	2,276,208
City of Pittsburgh and Allegheny County	515,676	1,965,539
Commonwealth of PA grants	-	11,288,148
Federal grants	80,258	38,162
Foundation and other grants	1,100,000	2,239,904
Miscellaneous revenue	144,718	22,996
Interest expense	(21,441,766)	(24,520,739)
Interest revenue	875,215	5,882,386
Unrealized gain on investments	509,836	-
Unrestricted:		
Sponsorship revenue	128,135	128,150
Miscellaneous revenue	94,577	-
Interest expense	(423,119)	(435,729)
Interest revenue	56,828	86,132
Project development expense	(66,456)	(78,401)
Bank/trustee fees	(435,542)	(368,976)
Total non-operating revenues, net	31,381,308	26,600,711
Change in Net Assets	(4,793,263)	(7,960,239)
Net Assets:		
Beginning of year	505,081,397	513,041,636
End of year	\$ 500,288,134	\$ 505,081,397

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Cash Flows From Operating Activities:		
Cash received from operations	\$ 14,905,860	\$ 11,200,567
Cash paid for operating expenses	(8,664,392)	(7,555,738)
Cash paid to employees	(5,503,099)	(4,972,463)
Cash received from other income	258,012	607,522
Net cash provided by (used in) operating activities	996,381	(720,112)
Cash Flows From Non-Capital Financing Activities:		
Cash received from hotel tax distributions	2,385,830	3,498,028
Cash received from Allegheny Regional Asset District	2,000,000	2,000,000
Cash received from PA Gaming Economic Development & Tourism Fund	1,700,000	-
Other receipts (payments)	172,839	26,194
Net cash provided by (used in) non-capital financing activities	6,258,669	5,524,222
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of bonds payable	-	313,265,000
Acquisition and construction of capital assets	(43,860,275)	(29,744,331)
Interest payments on bonds, notes/loans payable, and capital lease obligations	(37,019,371)	(24,994,673)
Cash received from Allegheny Regional Asset District for bond payments	11,870,000	11,870,000
Cash received from hotel rooms tax for bond payments	11,170,000	10,755,417
Cash received from PA Gaming Economic Development & Tourism Fund for capital items and bond and loan payments	20,400,000	-
Principal payments on bonds payable	(9,460,000)	(7,400,000)
Cash received from City of Pittsburgh and Allegheny County for bond payments	515,676	1,965,539
Cash received from Stadium Authority for capital items and bond payments	945,952	1,920,080
Cash received from other capital related grants	7,446,008	16,045,762
Deferred sponsorship revenue	40,000	390,015
Principal payments on capital lease obligations	(237,197)	(205,586)
Principal payments on loans/notes payable	(1,639,757)	(71,432)
Cash received for capital maintenance reserve funding	-	22,996
Net cash provided by (used in) capital and related financing activities	(39,828,964)	293,818,787
Cash Flows From Investing Activities:		
Interest income received	16,256,944	5,542,114
Proceeds from sales and maturities of investments	-	3,098,000
Purchase of investments	(36,001,283)	(2,997,203)
Bank/trustee fees paid	(435,542)	(368,976)
Net cash provided by (used in) investing activities	(20,179,881)	5,273,935
Net Increase (Decrease) in Cash and Cash Equivalents	(52,753,795)	303,896,832
Cash and Cash Equivalents:		
Beginning of year	345,956,626	42,059,794
End of year	\$ 293,202,831	\$ 345,956,626
Consists of:		
Restricted cash and cash equivalents	\$ 287,793,522	\$ 343,932,915
Unrestricted cash and cash equivalents	5,409,309	2,023,711
	\$ 293,202,831	\$ 345,956,626
Reconciliation of Operating Loss to Net Cash Flows Provided By (Used In) Operating Activities:		
Operating loss	\$ (36,174,571)	\$ (34,560,950)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	37,851,359	34,451,789
Change in operating assets and liabilities:		
Operating receivables	(149,799)	(228,982)
Prepaid operating expenses	78,295	(148,654)
Operating liabilities	(608,903)	(233,315)
Total adjustments	37,170,952	33,840,838
Net cash provided by (used in) operating activities	\$ 996,381	\$ (720,112)

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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) to provide educational, cultural, physical, civic, and social events for the benefit of the general public. 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.

As a joint authority for the City and County, the Authority provides venues for sporting, entertainment, educational, cultural, civic, and social events for the public. The Authority owns but leases the Mellon Arena (formerly the Civic Arena), PNC Park, Heinz Field, the Benedum Center, and the John Heinz History Center property to other entities who are responsible for their operation. The Authority owns and is responsible for the operation of the David L. Lawrence Convention Center (Convention Center). The Authority also owns two parking facilities, and is responsible for riverfront park development and various associated infrastructure improvements. Involvement with the Benedum Center and the John Heinz History Center is limited to the initial financing structures for those facilities. The Authority has no other significant responsibility with respect to those facilities.

The Board of Directors (Board) of the Authority 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 primary accountability 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 owned Three Rivers Stadium located in the City of Pittsburgh. The 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 these lots pledged to the debt service on the Authority's Parking Revenue Bonds (see Note 6).

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

The Stadium Authority has a separate board appointed by the Mayor of the City of Pittsburgh. Currently, one board member serves on both boards. 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. The Stadium Authority reimburses the Authority certain expenses on a year-by-year basis.

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 follows all GASB pronouncements and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements. In accordance with GASB Statement No. 20, the Authority does not apply FASB pronouncements issued after November 30, 1989. 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 and all liabilities associated with the operations of the Authority are included on the statements of net assets. The statements of revenues, expenses, and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in the Authority's net total assets.

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.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

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, and other construction costs for constructed assets. Capital assets include the infrastructure network built in connection with the Authority's other capital projects. Infrastructure includes roads, sidewalks, water lines, and sewer lines. 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. For 2008, there was no net capitalizable interest as interest income approximated interest expense relative to construction phase activities.

Revenues

The Authority's operating revenues consist of excess ticket surcharges and parking revenues and Convention Center revenue from building rentals, event services, and catering and concession charges net of direct labor costs. Non-operating revenues consist primarily of investment income along with grants received that are restricted for capital related costs, the payment of debt service, or operation of the Convention Center.

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.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Ticket Surcharges

Ticket surcharges are derived from a ticket surcharge on each ticket sold for Pittsburgh Steelers football games, University of Pittsburgh Panthers football games, Pittsburgh Pirates baseball games, Pittsburgh Penguins hockey games, and other events held at Heinz Field, PNC Park, and Mellon Arena. Each football season, the first \$1,400,000 of total ticket surcharge monies collected from Pittsburgh Steelers football games is restricted to principal and interest on the Ticket Surcharge Revenue Bonds. Each baseball season, the first \$1,500,000 of total ticket surcharge monies collected from Pittsburgh Pirates baseball games stays with the team. Each hockey season, facility maintenance surcharges up to a base amount which is adjusted annually by the Consumer Price Index (approximately \$2,093,000 in 2008) stays with the team. The Authority receives the Pittsburgh Panther surcharge in full, and any excess over the restrictions mentioned above for Pittsburgh Steelers, Pittsburgh Pirates, and Pittsburgh Penguins games.

Parking Revenues

Parking revenues are generated from parking services at the North Shore parking garage and the Convention Center parking garage, net of the related expenses. Alco Parking, Inc. operates these facilities through management contracts. Currently, the North Shore Garage revenues are fully restricted for debt service on the Parking Revenue Bonds. The Convention Center parking revenues have been restricted since 2005 for purposes of repaying the \$20 million (original principal amount) bank notes described in Note 7.

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 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, (3) reimburse the County for a collection fee of 5%, and (4) remaining funds, if any, to fund Convention Center operations and regional tourist promotional activities.

Derivative Financial Instruments

The Authority has entered into interest rate swap agreements, which are considered derivative financial instruments, to swap the variable interest rates on a portion of its long-term debt to fixed rates. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Classification of Net Assets

GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*," requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- Restricted – This component of net assets consists of constraints placed on net assets used through external restrictions.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Pending Pronouncements

In June 2008, GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*." This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This Statement is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and will be effective for the Authority's financial statements for the year ended December 31, 2010. The Authority is currently considering the impact that this new pronouncement will have on the financial statements.

Reclassifications

Certain comparative amounts for the prior year have been reclassified to conform to the current year presentation. Such reclassifications did not affect net assets or changes therein.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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 set forth by the office of the State Treasurer of the 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 fair value of the Authority's cash and cash equivalents, and investments for the year ended December 31, 2008:

	Bond Related	Non-bond Related	Total
Cash equivalents:			
Cash	\$ 282,178	\$ 15,531,919	\$ 15,814,097
Money Market funds	262,208,872	5,660,919	267,869,791
INVEST	-	5,518,943	5,518,943
Guaranteed interest contract	4,000,000	-	4,000,000
	<u>\$ 266,491,050</u>	<u>\$ 26,711,781</u>	<u>\$ 293,202,831</u>
Investments:			
FHLB	<u>\$ 38,060,119</u>	<u>\$ -</u>	<u>\$ 38,060,119</u>

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

Custodial Credit Risk – Deposits. In the case of deposits, 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, 2008, \$15,599,264 of the Authority's bank balance of \$16,358,994 was exposed to custodial credit risk because it was uninsured and 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. These deposits have carrying amounts of \$15,814,097 at December 31, 2008.

INVEST, money markets, and the guaranteed interest contract are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The fair value of these investments is the same as their carrying amount. The fair value of the Authority's investment in INVEST is the same as the value of the pool shares.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

All investments in an external investment pool that are not SEC registered are subject to oversight by the Commonwealth.

Credit Risk. 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, 2008, the Authority's investments in FHLB, INVEST, and money markets were rated AAA by Standard & Poor's.

Due to the state of the economy in 2008, the Federal Government made changes to the insurance on funds held at financial institutions. A new program allowing institutions to purchase insurance from the government was enacted. The U.S. Treasury Guarantee Program for Money Market Funds insures funds that were invested at September 19, 2008 on a first-in, first-out basis for institutions that elected to carry the additional insurance. This program does not guarantee any new investments in funds made after September 19, 2008. At December 31, 2008, approximately \$34 million of the Authority's money markets were insured under the program. The program is set to expire on April 30, 2009.

During the fourth quarter of 2008, the guaranteed interest contract was restructured. Declines in the credit rating of the counterparty prompted the trustee and the Authority to request the termination of the investment agreement and the principal amount was returned to the Authority in 2008. In conjunction with the termination, the Authority received a termination adjustment from the counterparty of approximately \$4 million in January 2009. The amount of the termination payment is recorded as the value of the investment contract at year-end.

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. Of the Authority's investments in FHLB, \$33,651,719 is scheduled to mature during calendar year 2010. The Authority's remaining investments are short-term with maturities of less than one year.

4. CAPITAL ASSETS

Capital assets and accumulated depreciation consist of the following:

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	January 1, 2008	Additions	Deletions	December 31, 2008	Useful Lives
Operating assets:					
Office equipment	\$ 245,011	\$ 28,387	\$ -	\$ 273,398	5-10
Less accumulated depreciation	233,290	4,407	-	237,697	
Total operating assets	11,721	23,980	-	35,701	
Mellon Arena:					
Land	4,017,916	-	-	4,017,916	
Land improvements	2,630,313	-	-	2,630,313	5-40
Building and improvements	59,767,318	-	-	59,767,318	10-40
Equipment	6,181,977	-	-	6,181,977	10
Other assets	960,400	-	-	960,400	20
	73,557,924	-	-	73,557,924	
Less accumulated depreciation	52,089,827	5,696,249	-	57,786,076	
Total Mellon Arena	21,468,097	(5,696,249)	-	15,771,848	
Benedum Center:					
Land	11,022,494	-	-	11,022,494	
Building and improvements	570,189	-	-	570,189	40
	11,592,683	-	-	11,592,683	
Less accumulated depreciation	349,240	14,255	-	363,495	
Total Benedum Center	11,243,443	(14,255)	-	11,229,188	
John Heinz History Center:					
Land	480,000	-	-	480,000	
Building	2,620,000	-	-	2,620,000	50
	3,100,000	-	-	3,100,000	
Less accumulated depreciation	847,100	52,400	-	899,500	
Total John Heinz History Center	2,252,900	(52,400)	-	2,200,500	

(Continued)

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	January 1, 2008	Additions	Deletions	December 31, 2008	Useful Lives
PNC Park:					
Land	19,321,705	-	-	19,321,705	
Building	235,172,400	364,456	-	235,536,856	30-40
Equipment	12,818,751	-	-	12,818,751	5-10
	267,312,856	364,456	-	267,677,312	
Less accumulated depreciation	64,485,527	7,851,229	-	72,336,756	
Total PNC Park	202,827,329	(7,486,773)	-	195,340,556	
North Shore Garage:					
Land	776,629	-	-	776,629	
Building	23,383,710	-	-	23,383,710	30
Equipment	7,096	-	-	7,096	5-10
	24,167,435	-	-	24,167,435	
Less accumulated depreciation	5,128,777	779,457	-	5,908,234	
Total North Shore Garage	19,038,658	(779,457)	-	18,259,201	
Heinz Field:					
Land	8,183,167	-	-	8,183,167	
Building	242,456,714	883,650	-	243,340,364	30-40
Equipment	12,132,757	-	-	12,132,757	5-10
	262,772,638	883,650	-	263,656,288	
Less accumulated depreciation	63,984,112	8,111,346	-	72,095,458	
Total Heinz Field	198,788,526	(7,227,696)	-	191,560,830	
Convention Center:					
Land	20,668,134	-	-	20,668,134	
Building	352,733,203	73,770	-	352,806,973	30-40
Smallwares	500,000	-	-	500,000	5
Equipment	11,836,000	-	-	11,836,000	5-10
	385,737,337	73,770	-	385,811,107	
Less accumulated depreciation	69,332,847	12,186,480	-	81,519,327	
Total Convention Center	316,404,490	(12,112,710)	-	304,291,780	

(Continued)

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	January 1, 2008	Additions	Deletions	December 31, 2008	Useful Lives
Infrastructure:					
Convention Center	40,734,771	713,691	-	41,448,462	40
North Shore	63,297,355	-	452	63,296,903	40
	104,032,126	713,691	452	104,745,365	
Less accumulated depreciation	12,434,279	2,618,634	-	15,052,913	
Total Infrastructure	91,597,847	(1,904,943)	452	89,692,452	
Riverfront Park:					
Land	24,185,219	8,846	-	24,194,065	
Infrastructure	1,906,465	66,565	-	1,973,030	50
Less accumulated depreciation	38,129	39,461	-	77,590	
Total Riverfront Park	26,053,555	35,950	-	26,089,505	
Convention Center Park:					
Land and improvements	48,798	208,289	-	257,087	
Other capitalized assets	16,080,076	-	-	16,080,076	30
Less accumulated depreciation	3,100,033	497,441	-	3,597,474	
Total other capitalized assets	12,980,043	(497,441)	-	12,482,602	
Total Capital Assets, net	\$ 902,715,408	\$ (35,503,706)	\$ 452	\$ 867,211,250	

Capital assets included above that are not being depreciated totaled \$88.9 and \$88.7 million for the years ended December 31, 2008 and 2007, respectively. Depreciation and amortization totaled \$37.9 and \$34.5 million for the years ended December 31, 2008 and 2007, respectively. Depreciation expense for 2008 related to the Mellon Arena capital assets reflects a change in accounting estimate related to the remaining useful life of those assets. Management of the Authority anticipates that Mellon Arena will no longer be used for its original purpose when the new arena is opened (Note 6); depreciation has been revised accordingly to reflect this change.

The costs of the Benedum Center and the John 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 by the Pittsburgh Trust for Cultural Resources and the Historical Society of Western Pennsylvania.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

5. CONSTRUCTION-IN-PROGRESS

The construction-in-progress detail is as follows:

	January 1, 2008	Additions	Deletions	December 31, 2008
New Arena Project	<u>\$ 35,006,074</u>	<u>\$ 58,951,712</u>	<u>\$ -</u>	<u>\$ 93,957,786</u>

Construction-in-progress as of December 31, 2008 relates to land acquisition, site preparation, and construction costs associated with the New Arena Project.

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).

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	January 1, 2008	Reductions	December 31, 2008
Allegheny Regional Asset District Sales Tax Revenue Bonds, Refunding Series 2005 of \$13,250,000, due in annual installments ranging from \$665,000 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 operating costs of the Convention Center.	\$ 8,543,325	\$ (691,666)	\$ 7,851,659
Auditorium Bonds, Refunding Series A 2005 of \$8,345,000, due in annual installments ranging from \$245,000 to \$1,155,000 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 operating costs of the Convention Center.	4,328,416	(364,402)	3,964,014
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.	252,000,000	(4,260,000)	247,740,000
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.	61,265,000	-	61,265,000
Hotel Room Excise Tax Revenue Bonds Series 1999 of \$193,375,000, due in annual installments ranging from \$495,000 to \$12,125,000 through February 2035, interest payable semi-annually on February 1 and August 1 at rates ranging from 3.30% to 5.25%, issued in May 1999 to finance the Convention Center project including capital improvements and land acquisition for related facilities.	191,420,000	(1,310,000)	190,110,000

(Continued)

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	January 1, 2008	Reductions	December 31, 2008
Allegheny Regional Asset District Sales Tax Revenue Bonds, Refunding Series 1999 of \$176,625,000 due in annual installments ranging from \$1,930,000 to \$12,730,000 through February 2031, interest payable semi-annually on February 1 and August 1 at rates ranging from 4.35% to 5.25%, issued in May 1999 to finance the construction of Heinz Field and PNC Park.	174,695,000	(2,010,000)	172,685,000
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.	16,100,000	(235,000)	15,865,000
Parking Revenue Bonds Series A of 2001 of \$27,500,000, due in annual installments ranging from \$50,000 to \$1,815,000 through December 2030, interest payable semi-annually on June 1 and December 1 at rates ranging from 3.45% to 5.375%, issued in March 2001 to pay costs of the Regional Destination Financing Plan.	24,820,000	(595,000)	24,225,000
Total bonds payable	<u>\$ 733,171,741</u>	<u>\$ (9,466,068)</u>	<u>\$ 723,705,673</u>

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

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	RAD Refunding Series 2005	Auditorium Refunding Series A 2005	Hotel Room Excise Tax Revenue Series 1999	RAD Sales Tax Revenue Refunding Series 1999	Taxable Ticket Surcharge Revenue Series 2000
2009	\$ 716,666	\$ 369,401	\$ 1,785,000	\$ 2,110,000	\$ 250,000
2010	736,666	379,401	2,215,000	2,220,000	270,000
2011	725,000	399,401	2,680,000	2,335,000	295,000
2012	711,666	419,401	3,270,000	4,980,000	320,000
2013	701,666	454,401	3,890,000	5,240,000	345,000
2014-2018	3,603,329	1,942,009	27,220,000	30,520,000	2,200,000
2019-2023	656,666	-	35,700,000	39,070,000	3,270,000
2024-2028	-	-	43,005,000	49,865,000	4,855,000
2029-2033	-	-	46,685,000	36,345,000	4,060,000
2034-2038	-	-	23,660,000	-	-
2039-2041	-	-	-	-	-
Total	\$ 7,851,659	\$ 3,964,014	\$ 190,110,000	\$ 172,685,000	\$15,865,000
Purpose:	Refinance 1999 Auditorium Bonds and fund certain operating costs of the Convention Center.	Refinance 1999 Auditorium Bonds and fund certain operating costs of the Convention Center.	Finance the Convention Center project including capital improvements and land acquisition for related facilities	Finance the construction of Heinz Field and PNC Park	Finance the construction of Heinz Field
Funding Source:	Allegheny Regional Asset District Sales Tax - paid directly to Trustee	1/2 each by the City and County - paid directly to Trustee	County Hotel Room Excise Tax - paid directly to Trustee	Allegheny Regional Asset District Sales Tax - paid directly to Trustee	Steeler ticket surcharges - paid directly to Trustee

	Parking Revenue Series A 2001	Commonwealth Lease Revenue Series A 2007	Commonwealth Lease Revenue Series B 2007	Total Principal	Interest
2009	\$ 620,000	\$ 4,450,000	\$ -	\$ 10,301,067	\$ 34,234,860
2010	650,000	4,640,000	620,000	11,731,067	33,761,873
2011	675,000	4,840,000	860,000	12,809,401	33,210,939
2012	710,000	5,050,000	915,000	16,376,067	32,535,342
2013	745,000	5,270,000	965,000	17,611,067	31,739,151
2014-2018	4,320,000	29,960,000	5,720,000	105,485,338	144,572,248
2019-2023	5,625,000	37,020,000	7,560,000	128,901,666	116,653,275
2024-2028	7,345,000	45,755,000	9,980,000	160,805,000	82,316,235
2029-2033	3,535,000	56,540,000	13,170,000	160,335,000	41,946,539
2034-2038	-	54,215,000	17,380,000	95,255,000	11,029,986
2039-2041	-	-	4,095,000	4,095,000	218,468
Total	\$ 24,225,000	\$ 247,740,000	\$ 61,265,000	\$ 723,705,673	\$ 562,218,916
Purpose:	Pay costs of the Regional Destination Financing Plan	Fund the construction of a new multi-purpose arena and related facilities	Fund the construction of a new multi-purpose arena and related facilities		
Funding Source:	North Shore and Stadium Authority parking garage and lot revenue - paid to trustee by Authority	\$7.5M annually from EDTF & \$7.5M annually by casino operator - paid directly to trustee	Intended to be paid by the Penguins - \$4.1M in 2010 and \$4.3M annually thereafter from Arena rent - directly to trustee		

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Interest payments related to the New Arena Series A and B bonds have been calculated using the synthetic fixed rates as described in Note 9.

Arbitrage Payable

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 the temporary treasury regulations issued by the Internal Revenue Service on May 12, 1989, 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. Based on third party prepared arbitrage computations, 90% of the total amount accrued in the 2003 financial statements was due and payable to the IRS by March 2005. At December 31, 2008 and 2007, the arbitrage payable represents the remaining 10% due as of the January 1, 2005 computation date. The accrued anticipated arbitrage liability at December 31, 2008 and 2007 is \$113,601 and \$112,905, respectively. The Authority has determined there are no other arbitrage obligations due.

Noncurrent Accrued Liabilities

Noncurrent accrued liabilities, which represent monies held on behalf of the Stadium Authority of the City of Pittsburgh (Stadium Authority) to be used to pay for the development of commercial, retail, and residential facilities in the North Shore Option Area, totaled \$2,056,782 and \$1,530,609 at December 31, 2008 and 2007, respectively.

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 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$244,064. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2019 using the effective interest rate method. The Authority completed the refunding to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$879,000 received at the time of issuance. The refunding also resulted in cash flow savings of \$768,654 over the life of the RAD Refunding Bonds.

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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). The Authority received \$1,000,000 for each of the calendar years 2008 and 2007.

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%. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$154,734. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using the effective interest rate method. The Authority completed the refunding to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$460,000 received at the time of issuance. The refunding also resulted in cash flow savings of \$435,813 over the life of the Auditorium Refunding Bonds.

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 the Auditorium Refunding Bonds as it becomes due and payable.

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 an affiliated entity of the owner of the Penguins hockey team (Pittsburgh Arena Operating, LP, as assignee of Lemieux Group, LP) (New Arena Lease), (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 slots license for the facility located in the City.

The New Arena Lease was executed on September 18, 2007 and obligates Pittsburgh Arena

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Operating, LP to pay the Authority thirty annual lease payments of \$4.1 million initially, and then \$4.3 million per year commencing September 25, 2010 and ending on September 25, 2039, which has been pledged to support the New Arena Bonds.

The Commonwealth has appropriated \$7.5 million per year for 30 years from EDTF to support the debt service on the New Arena Bonds (Note 17).

In December 2006, the Pennsylvania Gaming Control Board selected PITG to be the recipient of a single stand-alone slots casino located in the City. The Authority has received written undertakings from PITG to contribute not less than \$7.5 million per year for 30 years to the cost of the New Arena Project. On August 14, 2009, the Pennsylvania Gaming Control Board approved the transfer of the slots license to Holdings Acquisition Co, LLC on the condition that the obligation with respect to the New Arena Project be fulfilled.

In addition, 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 only to the extent there is a deficiency or delay in receipt of any portion of the amounts due from the three (3) sources listed above.

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 Trustee to pay debt service on the New Arena Bonds (Note 9).

Hotel Room Excise Tax Revenue Bonds

On May 26, 1999, the Authority issued \$193,375,000 of Public Auditorium of Pittsburgh and Allegheny County Hotel Room Excise Tax Revenue Bonds, Series 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 payment sufficient to service the Hotel Bonds through 2035 ranging from calendar year amounts of \$7,000,000 to \$13,780,000.

Regional Asset District Sales Tax Revenue Bonds

On May 26, 1999, the Authority issued \$176,625,000 of Public Auditorium of Pittsburgh and Allegheny County Regional Asset District Sales Tax Revenue Bonds, Series 1999 (RAD Bonds). In connection with the issuance of the RAD Bonds, the Authority entered into a Cooperation and Support Agreement with the Stadium Authority, the City, the County, and

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the RAD dated May 6, 1999. The agreement requires the RAD to provide financial support to the Authority for the RAD Bonds through 2030. The Authority received \$10,870,000 for each of the calendar years 2008 and 2007.

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 will be made available for payments of principal and interest on these bonds.

Parking Revenue Bonds

In March 2001, the Authority issued \$27,500,000 of Sports & Exhibition Authority of Pittsburgh and Allegheny County Parking Revenue Bonds, Series A of 2001 (Parking Revenue Bonds). Net proceeds were expended to pay costs of the Regional Destination Financing Plan including (a) the expansion of the Convention Center, (b) construction of PNC Park, (c) construction of Heinz Field, (d) construction and reconstruction of access roadways, (e) construction of public parking facilities, (f) development of riverfront parks, and (g) payment of costs associated with the foregoing, but not limited to, construction of infrastructure, site improvement, and demolition.

The Parking Revenue Bonds are limited obligations of the Authority payable solely from the Trust Estate pledged under the indenture which includes, among other things, net revenues from the North Shore Garage (an eight-story precast concrete structure, which provides 930 vehicular parking spaces on East General Robinson Street on the North Shore of the City) and certain surface lots as pledged in the security agreement dated January 15, 2001 between the Authority and the Stadium Authority of the City (Parking Revenues Agreement). The Parking Revenues Agreement pledges certain parking revenues received with respect to surface parking lots located in close proximity to PNC Park and Heinz Field. These lots are owned or leased by the Authority or by the Stadium Authority and contain approximately 4,700 spaces. The pledged surface parking lot revenues are released from the bond obligation when revenues of the North Shore Garage equal or exceed 1.25 times operating expenses of the North Shore Garage plus net debt service on the Parking Revenue Bonds.

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The Parking Revenue Bonds were initially secured by a Letter of Credit (LOC) issued by Mellon Bank, N.A. This LOC was replaced by Bank of America (Bank) in June 2006 with a stated amount equal to the then outstanding principal amount of the bonds. This LOC represents the Bank's commitment to provide funds to pay a redemption price equal to 100% of the outstanding principal of the Parking Revenue Bonds.

In accordance with the LOC, Security, and Reimbursement Agreement dated June 24, 2005 between the Authority and the Bank (Reimbursement Agreement) certain additional temporary collateral was pledged to the Bank including (a) a pledge of revenue from additional surface parking lots of the Authority, (b) the establishment of an additional reserve fund in the amount of \$1 million funded as follows: \$200,000 each in the form of cash or letter of credit from PSSI, the Pirates, Equitable Resources, and \$400,000 from Continental Real Estate, and (c) an assignment by the Stadium Authority of sales proceeds from the development of the area between Heinz Field and PNC Park, and (d) an assignment of any ground lease that may be entered into with respect to the amphitheater anticipated between Heinz Field and PNC Park. The temporary collateral is to remain in place only until the debt service coverage for the Authority's Parking Revenue Bonds reaches 1.3 to 1.0. The Reimbursement Agreement provides that upon payment of existing loans from Dollar Bank and PNC Bank, the Authority will pledge to the Banks the net revenues of the Convention Center Garage. It is anticipated that this additional revenue stream will cause the debt service coverage to exceed 1.3. The loans from Dollar Bank and PNC Bank are to be repaid with funds being received from the Pennsylvania Gaming Economic Development and Tourism Fund.

The LOC terminates on the earliest of (a) June 22, 2009, (b) the date no Parking Revenue Bonds are outstanding, or (c) the date of a drawing to provide funds to pay a redemption of bonds. The Authority had incurred \$358,355 and \$297,171 for LOC fees for the years ended December 31, 2008 and 2007, respectively.

Pursuant to an agreement between the Authority and the Public Parking Authority of Pittsburgh (Parking Authority) (together with any amendments and supplements thereto, the Option Agreement), the Parking Authority agrees to be obligated to purchase the North Shore Garage from the Authority (1) if requested by the Authority and (2) if North Shore Garage and Parking Authority Indenture have achieved certain financial benchmarks.

7. LOANS/NOTES PAYABLE

Terms of the loans and notes payable are as follows:

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	January 1, 2008	Reductions	December 31, 2008
Loan from the Stadium Authority in the amount of \$2,400,000, issued November 2002, 2.5% interest payable semi-annually through January 2013.	\$ 1,176,745	\$ (235,000)	\$ 941,745
Loan from the Stadium Authority in the amount of \$1,200,000, issued May 2005, variable interest tied to funding commitment.	1,200,000	-	1,200,000
Loan from Green Building Fund of Community Loan Fund of Southwest Pennsylvania in the amount of \$3,000,000, issued December 2002, 1% interest, deferred five years, annual payments through December 2022.	3,000,000	-	3,000,000
Loan from Levy Restaurants in the amount of \$500,000, issued June 2003, 0% interest, deferred six months, annual payments through December 2010.	214,306	(71,424)	142,882
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
Notes from PNC Bank and Dollar Bank in the amount of \$20,000,000, issued April 2004, interest at 74% of prime, 2.4% at year-end. Principal and interest paid monthly with final maturity April 2010.	18,888,889	(1,333,333)	17,555,556
Total loans/notes payable	<u>\$ 27,679,940</u>	<u>\$ (1,639,757)</u>	<u>\$ 26,040,183</u>

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

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	Stadium Authority	Green Building Fund	Levy Restaurant	Allegheny County	City of Pittsburgh	PNC Bank/ Dollar Bank	Total Principal	Interest
2009	\$ 1,440,000	\$ 200,000	\$ 71,436	\$ -	\$ -	\$ 1,333,332	\$ 3,044,768	\$ 407,408
2010	250,000	200,000	71,446	-	-	16,222,224	16,743,670	45,544
2011	255,000	200,000	-	-	-	-	455,000	37,294
2012	196,745	200,000	-	-	-	-	396,745	28,919
2013	-	200,000	-	-	-	-	200,000	90,000
2014-2018	-	1,000,000	-	-	-	-	1,000,000	40,000
2019-2023	-	1,000,000	-	-	-	-	1,000,000	2,000
No maturity	-	-	-	3,150,000	50,000	-	3,200,000	-
Total	<u>\$ 2,141,745</u>	<u>\$ 3,000,000</u>	<u>\$ 142,882</u>	<u>\$ 3,150,000</u>	<u>\$ 50,000</u>	<u>\$ 17,555,556</u>	<u>\$ 26,040,183</u>	<u>\$ 651,165</u>

8. CAPITAL LEASE OBLIGATION

The Authority leases a water chiller plant under a capital lease which expires in 2021. The asset and liability under the capital lease is recorded at the present value of the minimum lease payments. The asset is being amortized over its estimated productive life. Amortization of assets under capital leases charged to expense was \$426,250 for the years ended December 31, 2008 and 2007. The interest rate on the capital lease is 5.6% and was imputed based on the Authority's incremental borrowing rate at the inception of the lease. The following is a summary of property under capital leases for the years ended December 31, 2008 and 2007:

	2008	2007
Water chiller plant	\$ 8,525,000	\$ 8,525,000
Less: accumulated amortization	(2,983,750)	(2,557,500)
	<u>\$ 5,541,250</u>	<u>\$ 5,967,500</u>

The aggregate annual amount of principal and interest payments required under capital lease obligations is as follows:

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	Principal	Interest	Total
	<u> </u>	<u> </u>	<u> </u>
2009	\$ 277,092	\$ 408,655	\$ 685,747
2010	314,123	392,197	706,320
2011	353,914	373,595	727,509
2012	396,645	352,691	749,336
2013	442,502	329,313	771,815
2014-2018	3,065,893	1,196,099	4,261,992
2019-2021	2,614,357	235,035	2,849,392
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 7,464,526</u>	<u>\$ 3,287,585</u>	<u>\$ 10,752,111</u>

9. DERIVATIVE FINANCIAL INSTRUMENTS - INTEREST RATE SWAPS

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). The net interest expenditures at these synthetic rates are the only amounts related to the swap agreements recorded in the financial statements.

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 swap's original notional amounts were \$252,000,000 (Series A) and \$61,265,000 (Series B). Starting in fiscal year 2008, the notional value of the swaps reduces so that the notional amounts approximate the respective principal amount on the bonds outstanding.

Initially, the New Arena Bonds will accrue interest at a weekly rate determined by the remarketing agent on the effective rate date. The interest rate on the New Arena Bonds while in the weekly rate may not exceed 12%. Per the Series A interest rate swap agreement, the Authority will pay the Counterparty interest at a fixed rate of 4.020% and will receive from the Counterparty interest equal to the tax-exempt floating rate index (SIFMA Municipal Swap Index). Per the Taxable Series B interest rate swap agreement, the Authority will pay the Counterparty interest at a fixed rate of 5.335% and will receive from the Counterparty

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interest equal to the London Interbank Offered Rate for a one-month maturity (1M LIBOR). The interest payments on the interest rate swaps are calculated based on the notional amounts, which reduce over time.

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. For the year ended December 31, 2008, the Authority paid \$8,813,734 fixed and received \$4,783,123 variable with respect to the swap on the Series A Bonds, and paid \$2,916,612 fixed and received \$1,493,810 variable with respect to the swap on the Taxable Series B Bonds. For the year ended December 31, 2007, the Authority paid \$759,780 fixed and received \$765,045 variable with respect to the swap on the Series A Bonds, and paid \$245,137 fixed and received \$253,411 variable with respect to the swap on the Taxable Series B Bonds.

Fair Values

As of December 31, 2008, the interest rate swaps had negative fair market values of \$38,586,871 (Series A) and \$23,862,390 (Taxable Series B). As of December 31, 2007, the interest rate swaps had negative fair market values of \$7,853,932 (Series A) and \$3,574,381 (Taxable Series B). The fair market values were provided by the Counterparty at mid-market, based on financial principles and assumptions of the Counterparty.

Risk Exposure

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. On December 31, 2008, the Counterparty was rated AA- by Standard & Poor's and Aa3 by Moody's Investors Services, Inc., nationally recognized rating agencies. In January 2009, the Counterparty was downgraded to A+ by Standard & Poor's. 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 now 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. To mitigate the potential for Counterparty credit risk, during the capitalized interest period (October 4, 2007 to May 1, 2010), if the Counterparty's credit rating falls below A+ by Standard & Poor's or A1 by Moody's Investors Services, Inc.,

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the A+ fair value of the swaps in the Authority's favor will be fully collateralized (subject to a \$500,000 minimum transfer amount) by the Counterparty with eligible collateral, including cash or government securities. The collateral would be posted with a third-party custodian, which would be a commercial bank or trust company selected by the Authority, meeting certain requirements of the Counterparty. In addition, for the period following the Capitalized Interest Period only, 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.

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 should 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. If the swaps are terminated, the variable-rate bonds would no longer carry a synthetic fixed interest rate.

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

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account is based on years of continuous service. A participant is 100% vested after five years of service. The Authority contributed \$44,735 and \$32,889 to the plan for the years ended December 31, 2008 and 2007, 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. 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.

Pursuant to the management agreement between the Authority and SMG (Note 11), the Authority pays expenses of SMG in operating and managing the Convention Center including SMG employee compensation and related costs. SMG employees at the Convention Center participate in a defined contribution retirement plan (SMG plan) by contributing 5% of their base compensation on a pre-tax basis. SMG contributes 3% to the SMG plan plus an additional 1% discretionary contribution. The Authority reimbursed SMG \$38,171 and \$39,260 for the years ended December 31, 2008 and 2007, respectively. The Authority also reimburses SMG for contributions to the contract management union-sponsored fringe benefit plan (benefit plan) on behalf of all SMG employees working at the Convention Center covered under its collective bargaining agreement. Contributions to the benefit plan are based on a fixed percentage of each employee's base wages and are to be used by the union to provide pension, medical, and life insurance fringe benefits for each employee. The Authority collectively reimbursed SMG \$893,231 and \$791,960 to the benefit plan for the years ended December 31, 2008 and 2007.

11. OWNERSHIP OF DAVID L. LAWRENCE CONVENTION CENTER

In June 2001, the Authority closed and demolished the original Convention Center (opened in 1981) and acquired additional parcels of land in order to allow for the construction of the new expanded David L. Lawrence Convention Center in accordance with the Regional Destination Financing Plan. By Quit Claim Deed dated October 23, 2001, the land on which the original Convention Center stood was transferred from the Commonwealth to the Authority. The land from the original Convention Center and the land acquired for the expansion had been leased to the Department of General Services of the Commonwealth for funding purposes. The Department of General Services, in turn, subleased the premises back to the Authority for the continued development of the new David L. Lawrence Convention Center. The lease and the sublease expired on February 27, 2003 upon final funding of the \$174,300,000 committed by the Commonwealth for the construction costs of the new Convention Center. The Authority presently owns the land with no lease or sub-lease to the Commonwealth.

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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 new David L. Lawrence Convention Center. The term of the original agreement expired on December 31, 2006 but was extended to December 31, 2010 in 2005. SMG will be paid a fixed fee as base compensation for providing the services and may be entitled to several annual incentive fees based on increasing profit/reducing deficit and exceeding budgeted targets for parking and food and beverage revenues.

The Convention Center was capitalized in December 2002; however, the Authority continued construction into 2003 with a grand opening held in September 2003. Final construction payments will continue into 2009.

12. MELLON ARENA AUDITORIUM SUBLEASE

The Authority built the Civic Arena (Arena) in 1961 on land it had leased from the Urban Redevelopment Authority of Pittsburgh (URA). The Authority sublet the Arena and surrounding parking lots to the Civic Arena Corporation (CAC), pursuant to a sublease dated June 16, 1981, as amended by various documents including: (i) Civic Arena Sublease Amendment dated December 23, 1985; (ii) Second Amendment to Civic Arena Sublease dated September 1, 1990; (iii) Consent to Assignment of Sublease dated October 31, 1991, given by Authority and accepted by SMG in conjunction with an Assignment of Sublease dated October 31, 1991, pursuant to which CAC assigned all of its right, title and interest in and to the Sublease to SMG; (iv) Third Amendment to Civic Arena Sublease between the Authority and SMG dated as of June 23, 1997; (v) Fourth Amendment to Civic Arena Lease between the Authority and SMG dated as of September 1, 1999; (vi) Fifth Amendment to Civic Arena Lease between the Authority and SMG made as of December 14, 2004, effective as of July 1, 2004; (vii) Sixth Amendment to Civic Arena Lease between the Authority and SMG made as of August 15, 2006, effective as of July 1, 2004; and (viii) Seventh Amendment to Civic Arena lease, effective June 1, 2007 (collectively, the Civic Arena Lease).

By a deed dated December 22, 1998, recorded in the Office of Recorder of Deeds of Allegheny County, Pennsylvania on January 12, 1999, in Deed Book Volume 10386, page 379, the URA conveyed fee simple title to the Arena property (not including the Melody Tent Site property) to the Authority. Pursuant to a Development and Repayment Agreement dated as of June 23, 1997, as amended on September 1, 1999, by and between the Authority, SMG, and Pittsburgh Hockey Associates, d/b/a the "Pittsburgh Penguins" (PHA), the parties thereto entered into agreements relating to the continued use and occupancy of the Arena. On October 13, 1998, PHA, together with two related entities, instituted certain proceedings in the United States Bankruptcy Court for the Western District of Pennsylvania. Pursuant to

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a Plan of Reorganization approved by the Bankruptcy Court, PHA emerged from the proceedings, and pursuant to a certain Amended and Restated Limited Partnership Agreement dated as of September 1, 1999, became known as the Lemieux Group, LP (LG).

In connection with the emergence of PHA from the proceedings, the First Amendment to the Development and Repayment Agreement, dated as of September 1, 1999, by and between the Authority, SMG, and LG, was entered into providing further agreements relating to the occupancy of the Arena by LG for the playing of professional hockey and the continued operation and control of the Arena by SMG. In addition, the Fourth Amendment to the Civic Arena Lease was entered into and a) established a new lease termination date of June 30, 2007, with a five-year renewal option (extending the term to June 30, 2012) to be exercised by January 1, 2007, b) added a lease turnover provision (on June 30, 2005 LG was to become master tenant and SMG to become its manager), c) reduced rent to \$1 per year, d) granted naming rights to LG, and e) relieved the team of certain debt obligations and eliminated ticket surcharges for debt but provided for a facility maintenance surcharge. The settlement also required a) LG under certain circumstances to pay approximately \$1,000,000, of which \$200,000 was paid in 2000 and no further payments have been made and b) SMG to contribute \$875,000 which was paid in its entirety as of December 31, 2005. The Supporting Agreement with respect to the Authority's Refunding Bonds requires these moneys be transferred to the City and County (1/2 each). The Authority has made these transfers.

By a sublease agreement dated as of September 1, 1999, SMG subleased certain of the Arena to LG (Arena Sublease). The term of the Arena Sublease was to expire on June 30, 2004, at which time SMG's interest under the Civic Arena Lease was to be automatically conveyed to LG (Automatic Conveyance). In 2004, the Fifth Amendment to Civic Arena Lease was entered into extending the termination date of the Civic Arena Lease to June 30, 2007. By letter agreement dated December 2004 between LG and SMG, it was agreed that the date of the Automatic Conveyance be extended to June 30, 2007. In 2005, the Sixth Amendment to Civic Arena Lease was entered into providing that LG, and only LG, had the right to extend the term of the Civic Arena Lease after June 30, 2007, for which the extension term was to be for one (1) year, or for a longer period in connection with the development of the New Arena.

LG and the Authority have entered into a long-term sublease agreement (New Arena Lease) pursuant to which the Authority agreed to issue debt to finance the development and construction of the New Arena and LG agreed to lease and play professional hockey at the New Arena for a term beginning on August 1, 2010, and ending on June 30, 2040. Pursuant to the Seventh Amendment to the Civic Arena Lease, effective July 1, 2007, the term of the Civic Arena Lease was extended until the commencement of the New Arena Lease.

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Pursuant to the Option Agreement dated September 18, 2007 between the Authority, the URA, and the Lemieux Group LP (Developer), Developer is given the rights to develop the land on which Mellon Arena currently sets (approximately 28 acres) and certain other land adjacent to the New Arena, on certain terms and conditions. Upon the Developer identifying a parcel it wishes to develop, it is to purchase the parcel from the Authority or the URA, as applicable. The Developer is entitled to an aggregate of \$15 million of credits from the URA or Authority to be applied to the purchase prices. At the termination of the Option Agreement, if the Developer has not received 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.

13. 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 fifty years and is due to expire in June 2034 with an option to renew the lease for an additional thirty years.

14. 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 is due to expire in October 2016. The Society has the option to renew the lease for three consecutive periods of 25 years each at an annual rental mutually agreed to by the parties. The Society has obtained a mortgage loan to finance construction on the property. The Authority has consented to the use of the building as collateral on the loan.

15. PNC PARK OPERATING LEASE

The Authority has entered into a lease agreement with Pittsburgh Associates (Pirates) with a primary term of 29.5 years, commencing in March 2001. Obligated payments to the

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Authority include the following components: (a) Base Rent, (b) Excess Gate Revenues (i) 5% of gate revenues over \$44.5 million and (ii) 10% of gate revenues over \$52 million, (c) Excess Concession Revenues, the sum of (i) should the Pirates arrangement with the concessionaire(s) selected by the team entitle 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, and (d) Ticket Surcharges, the team shall receive and retain the first \$1,500,000 of ticket surcharge each year, with the next \$375,000 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.

Under the conditions of this operating lease, the Pirates are granted the exclusive right to any 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 \$8,792,668 of leasehold improvements and furniture, fixtures, and equipment. Although these fixed asset purchases would remain with the building as property of the Authority if there was a default by the Pirates, under accounting principles generally accepted in the United States of America, these assets cannot be capitalized by the Authority.

The lease also provides for the creation of a Capital Reserve Fund, which is funded from ticket surcharges from Major League Baseball games and concerts, rent, excess concession, and gate revenues. The Capital Reserve Fund for PNC Park held \$6,140,378 and \$5,915,815, respectively, as of December 31, 2008 and 2007.

16. HEINZ FIELD OPERATING LEASE

The Authority has entered into a lease agreement with PSSI Stadium Corporation (PSSI) with a primary 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 components: (a) Non-Sporting Event Revenues, 15% of net revenues from nonsporting events, (b) Ticket Surcharge Revenues, a 5% ticket surcharge shall be imposed by the Authority on all tickets sold for events at Heinz Field, with lease year surcharge proceeds over \$1,400,000 for NFL Events paid to the Authority for deposit into the Capital Reserve Fund and all surcharge monies collected for non-NFL events being paid directly to the Authority, and (c) Visitor's Club Seat Revenues, beginning in year 16 of the lease, visiting

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team's share of club seat revenues shall be remitted to the Authority for deposit into the Capital Reserve Fund.

Under the conditions of this operating lease, PSSI is granted the exclusive right to any 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 \$18,966,758 of leasehold improvements and furniture, fixtures, and equipment. Although these fixed asset purchases would remain with the building and as property of the Authority if there was a default by PSSI, under accounting principles generally accepted in the United States of America, these assets cannot be capitalized by the Authority.

The lease also provides for the creation of a Capital Reserve Fund, which is to be funded from ticket surcharges from National Football League games, college football games, and concerts, excess concession, gate, and food and beverage revenues. The Capital Reserve Fund for Heinz Field held \$5,835,945 and \$5,065,693, respectively, as of December 31, 2008 and 2007.

17. PENNSYLVANIA GAMING ECONOMIC DEVELOPMENT & TOURISM FUND

Section 14.07 of Act 71 provided for the creation of the EDTF. House Bill 1631 of 2007, known as the EDTF Capital Budget Itemization Act of 2007, authorized recurring payments for certain projects from the EDTF. The Authority will receive the following project allocations:

1. \$20,000,000 - For the retirement of indebtedness of the Convention Center. The allocation will be disbursed in increments of at least \$1.7 million over ten years with the remaining balance being disbursed within the following two years. The first increment of \$1.7 million was received and recognized as non-operating revenue in 2008.
2. \$20,000,000 - For the payment of the operating deficit of the Convention Center. The allocation will be disbursed in increments of at least \$1.7 million over ten years with the remaining balance being disbursed within the following two years. The amount cannot exceed the operating deficit of the Convention Center. The first increment of \$1.7 million was received and recognized as non-operating revenue in 2008.
3. \$44,000,000 - For costs related to the Convention Center including financing a Convention Center hotel. The allocation will be disbursed in increments of at least \$3.7

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million over ten years with the remaining balance being disbursed within the following two years. The first increment of \$3.7 million was received and recognized as a capital contribution in 2008.

4. \$225,000,000 - For the construction of the New Arena Project. The allocation will be disbursed in increments of \$7.5 million for thirty years or the retirement of the debt, whichever is less. The first and second increments totaling \$15 million were received and recognized as non-operating revenue in 2008. The remaining increments of \$7.5 million are to be paid in 2009 through 2036.

18. INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT

Total net assets include an amount for investment in capital assets, net of related debt. The calculations for the years ending 2008 and 2007 are as follows:

	2008	2007
Capital assets, net	\$ 867,211,250	\$ 902,715,408
Construction in progress	93,957,786	35,006,074
Less bonds payable related to capital assets	(723,705,673)	(733,171,741)
Less loans/notes payable related to capital assets	(26,040,183)	(27,579,940)
Less obligations under capital leases	(7,464,526)	(7,701,723)
Plus net unspent bond proceeds	266,620,384	302,081,017
Invested in capital assets, net of related debt	<u>\$ 470,579,038</u>	<u>\$ 471,349,095</u>

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 pledged revenues related to several capital development projects including PNC Park, Heinz Field, the David L. Lawrence Convention Center, the North Shore Parking Garage, Convention Center Parking Garage, the New Arena Project, and all related infrastructure. Investors in the bonds rely solely on the revenues pledged for the projects for repayment.

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Statement of Net Assets - 2008

	Operating	Capital Development	Total
Current assets	\$ 10,713,667	\$ 214,070,181	\$ 224,783,848
Capital assets	2,236,201	958,932,835	961,169,036
Noncurrent assets	1,655,883	110,724,571	112,380,454
Total Assets	<u>14,605,751</u>	<u>1,283,727,587</u>	<u>1,298,333,338</u>
Current liabilities	4,216,044	46,804,868	51,020,912
Noncurrent liabilities	22,816,906	724,207,386	747,024,292
Total Liabilities	<u>27,032,950</u>	<u>771,012,254</u>	<u>798,045,204</u>
Net assets invested in capital, net	(18,662,237)	489,241,275	470,579,038
Net assets restricted	8,549,187	22,709,276	31,258,463
Net assets unrestricted	(2,314,149)	764,782	(1,549,367)
Total Net Assets	<u>\$ (12,427,199)</u>	<u>\$ 512,715,333</u>	<u>\$ 500,288,134</u>

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

Statement of Revenues, Expenses, and Changes in Net Assets - 2008

	Operating	Capital Development	Total
Restricted operating revenues	\$ 1,448,910	\$ 4,662,117	\$ 6,111,027
Unrestricted operating revenues	8,730,117	439,357	9,169,474
Less: operating expenses	(13,286,136)	(317,577)	(13,603,713)
Less: depreciation/amortization	(56,807)	(37,794,552)	(37,851,359)
Operating Loss	<u>(3,163,916)</u>	<u>(33,010,655)</u>	<u>(36,174,571)</u>
Restricted nonoperating revenues	7,614,486	45,854,165	53,468,651
Unrestricted nonoperating revenues (expenses)	48,366	(693,943)	(645,577)
Interest expense	(697,669)	(20,744,097)	(21,441,766)
Change in Net Assets	<u>3,801,267</u>	<u>(8,594,530)</u>	<u>(4,793,263)</u>
Beginning Net Assets	<u>(16,228,466)</u>	<u>521,309,863</u>	<u>505,081,397</u>
Ending Net Assets	<u>\$ (12,427,199)</u>	<u>\$ 512,715,333</u>	<u>\$ 500,288,134</u>

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Statement of Cash Flows - 2008

	Operating	Capital Development	Total
Cash flows from operating activities	\$ (1,987,869)	\$ 2,984,250	\$ 996,381
Cash flows from non-capital financing activities	7,010,803	(752,134)	6,258,669
Cash flows from capital and related financing activities	(566,452)	(39,262,512)	(39,828,964)
Cash flows from investing activities	47,924	(20,227,805)	(20,179,881)
Increase (decrease) in cash and cash equivalents	4,504,406	(57,258,201)	(52,753,795)
Cash and Cash Equivalents, Beginning	<u>5,527,218</u>	<u>340,429,408</u>	<u>345,956,626</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 10,031,624</u></u>	<u><u>\$ 283,171,207</u></u>	<u><u>\$ 293,202,831</u></u>

Statement of Net Assets - 2007

	Operating	Capital Development	Total
Current assets	\$ 10,176,570	\$ 130,105,034	\$ 140,281,604
Capital assets	2,264,622	935,456,830	937,721,452
Noncurrent assets	1,126,998	222,113,955	223,240,953
Total Assets	<u>13,568,190</u>	<u>1,287,675,819</u>	<u>1,301,244,009</u>
Current liabilities	6,013,059	31,382,464	37,395,523
Noncurrent liabilities	23,783,620	734,983,469	758,767,089
Total Liabilities	<u>29,796,679</u>	<u>766,365,933</u>	<u>796,162,612</u>
Total Net Assets	<u><u>\$ (16,228,489)</u></u>	<u><u>\$ 521,309,886</u></u>	<u><u>\$ 505,081,397</u></u>

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

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Statement of Revenues, Expenses, and Changes in Net Assets - 2007

	Operating	Capital Development	Total
Restricted operating revenues	\$ 1,071,168	\$ 3,174,618	\$ 4,245,786
Unrestricted operating revenues	9,458,145	181,593	9,639,738
Less: operating expenses	(11,884,030)	(110,655)	(11,994,685)
Less: depreciation/amortization	(155,394)	(34,296,395)	(34,451,789)
Operating Loss	(1,510,111)	(31,050,839)	(32,560,950)
Restricted nonoperating revenues	3,451,515	31,479,380	34,930,895
Unrestricted nonoperating revenues (expenses)	75,730	(285,829)	(210,099)
Interest expense	(1,071,168)	(23,885,300)	(24,956,468)
	945,966	(23,742,588)	(22,796,622)
Capital contributions	-	14,836,383	14,836,383
Change in Net Assets	945,966	(8,906,205)	(7,960,239)
Beginning Net Assets	(17,174,455)	530,216,091	513,041,636
Ending Net Assets	\$ (16,228,489)	\$ 521,309,886	\$ 505,081,397

Statement of Cash Flows - 2007

	Operating	Capital Development	Total
Cash flows from operating activities	\$ (1,733,601)	\$ 3,013,489	\$ 1,279,888
Cash flows from non-capital financing activities	3,524,222	-	3,524,222
Cash flows from capital and related financing activities	(2,017,935)	295,836,722	293,818,787
Cash flows from investing activities	58,547	5,215,388	5,273,935
Increase (decrease) in cash and cash equivalents	(168,767)	304,065,599	303,896,832
Cash and Cash Equivalents, Beginning	5,695,985	36,363,809	42,059,794
Cash and Cash Equivalents, Ending	\$ 5,527,218	\$ 340,429,408	\$ 345,956,626

20. COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is involved in claims and legal actions arising from construction and in the

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normal course of operations. The Authority is in the process of closing out its construction contracts for the Convention Center and is a party to multiple claims and unresolved issues that at this point cannot be quantified with any degree of certainty. There is a limited amount of money in the budget to cover these unresolved items. Additionally, there are multiple claims resulting from the operation of Heinz Field and PNC Park, for which the respective teams have indemnified the Authority, the range of potential loss and the outcomes of these cases cannot be determined. 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.

Cooperation and Support Agreement with the Stadium Authority

In July 1999, the Authority and the Stadium Authority entered into a Cooperation and Support Agreement in which the Authority guaranteed support to the Stadium Authority to fund any shortfall which could occur in connection with the Stadium Authority's future revenue, debt service requirements, and annual operating expenses. On February 22, 2002, the Authority and the Stadium Authority amended the July 1999 Cooperation and Support Agreement to limit the Authority's guarantee to support certain of the Stadium Authority's debt. This obligation is due to be completed in March 2010. At this time the management of the Authority does not anticipate any future payments under the provisions of this amendment.

New Arena Development

In November 2008, the Authority approved a final project budget for the New Arena Project of \$321 million representing a \$31 million increase over the original target project cost. In accordance with the First Amendment to the New Arena Development Agreement dated as of November 14, 2008 between the Authority and Pittsburgh Arena Development, LP (Developer), the budget excess will be split among the Developer, the Commonwealth, and the Authority. Accordingly, the Developer will be responsible for \$15.5 million and the Commonwealth and the Authority will be responsible for \$10 million and \$5.5 million, respectively. The URA and The Redevelopment Authority of Allegheny County have each agreed to loan the Authority \$2.75 million to cover the Authority's portion of the budget excess to the extent financing is needed. The Developer is solely responsible for costs in excess of the final project budget.

At December 31, 2008, the Authority's total commitment to the Developer approximated \$201 million. Contracts have been entered into totaling \$143 million and of those, \$125 million remains to be paid.

ADDITIONAL INFORMATION

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SCHEDULE 1 - PLEDGED PARKING OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2008

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Operating revenue:													
Lease revenue	\$ 111,985	\$ 73,343	\$ 82,619	\$ 85,690	\$ 100,499	\$ 82,260	\$ 107,680	\$ 76,188	\$ 94,505	\$ 103,124	\$ 64,604	\$ 114,423	\$ 1,096,920
Transient revenue	41,887	38,156	44,880	45,535	40,411	39,103	43,437	38,940	42,315	48,380	35,456	40,495	498,995
Pirate revenue	-	-	-	290,455	67,629	120,459	148,114	82,954	57,071	-	-	-	766,682
Steelers revenue	24,710	-	-	-	-	-	-	82,690	38,555	13,090	60,398	43,235	262,678
Panther revenue	-	-	-	-	-	-	-	48,000	6,552	4,057	8,508	-	67,117
Other event revenue	-	-	1,230	-	-	-	5,570	(880)	-	7,180	142	277	13,519
Gross operating income	178,582	111,499	128,729	421,680	208,539	241,822	304,801	327,892	238,998	175,831	169,108	198,430	2,705,911
Less: parking tax (.31035)	(51,022)	(31,856)	(36,777)	(120,478)	(59,582)	(69,091)	(86,662)	(93,468)	(67,963)	(50,237)	(48,315)	(56,691)	(772,142)
Adjusted gross receipts	127,560	79,643	91,952	301,202	148,957	172,731	218,139	234,424	171,035	125,594	120,793	141,739	1,933,769
Expenses:													
Garage supplies	2,089	3,081	335	1,045	905	360	1,091	621	918	636	860	1,049	12,990
Insurance	-	4,930	-	4,930	-	-	-	4,930	-	317	4,930	-	20,037
Insurance - group	2,294	2,148	2,149	2,203	2,157	2,171	2,167	2,154	2,106	1,572	1,232	1,214	23,567
License	33	-	-	-	-	-	-	-	-	576	-	33	642
Maintenance	1,423	4,058	16,403	2,328	11,830	4,968	13,250	9,313	11,668	2,418	4,554	14,425	96,638
Office	1,436	417	3,001	2,109	2,070	1,955	2,431	2,134	2,216	2,119	1,218	3,539	24,645
Pension	538	449	453	1,008	843	941	1,086	668	946	509	546	465	8,452
Police	-	-	-	-	3,884	-	10,085	4,762	-	12,251	1,755	-	32,737
Professional services	-	-	-	-	-	5,890	-	-	-	-	-	-	5,890
Security	7,455	(8,132)	3,144	10,298	10,538	3,273	10,679	3,474	10,844	6,930	7,455	3,757	69,715
Taxes - payroll	1,416	1,345	822	1,713	1,332	1,673	2,017	1,469	2,012	1,202	1,578	1,186	17,765
Tickets	-	7,580	-	-	100	-	4,146	-	-	-	-	-	11,826
Uniforms	64	25	37	-	113	90	136	131	99	85	181	138	1,099
Utilities	21,968	21,896	22,072	18,157	16,686	550	32,085	4,131	16,698	31,543	446	18,682	204,914
Utilities reimbursement	-	-	-	(47,610)	(4,500)	-	(4,500)	(4,500)	-	(13,500)	(9,000)	(4,500)	(88,110)
Wages	9,114	7,181	7,462	16,592	15,052	18,238	21,698	13,086	20,862	12,312	13,009	11,860	166,466
Subtotal expenses	47,830	44,978	55,878	12,773	61,010	40,109	96,371	42,373	68,369	58,970	28,764	51,848	609,273
Operating income	79,730	34,665	36,074	288,429	87,947	132,622	121,768	192,051	102,666	66,624	92,029	89,891	1,324,496
Management fee	(5,417)	(5,417)	(5,417)	(5,417)	(5,417)	(5,417)	(5,417)	(5,417)	(5,417)	(5,417)	(5,417)	(5,417)	(65,004)
Net income	74,313	29,248	30,657	283,012	82,530	127,205	116,351	186,634	97,249	61,207	86,612	84,474	1,259,492
Other expenses	(958)	(1,011)	(3,582)	(1,108)	(1,080)	(938)	(1,006)	(681)	(804)	(1,744)	(2,247)	(1,620)	(16,779)
Other income	1,371	1,142	842	1,031	1,444	738	939	1,136	20,545	1,764	1,465	397	32,814
Total North Shore Garage revenue	74,726	29,379	27,917	282,935	82,894	127,005	116,284	187,089	116,990	61,227	85,830	83,251	1,275,527

(Continued)

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

SCHEDULE 1 - PLEDGED PARKING OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2008

(Continued)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Fixed rent from Alco lease	38,833	38,833	38,833	38,833	38,833	38,833	38,833	38,833	38,833	38,833	38,833	38,833	465,997
Net revenues from lots:													
Lot 1 - daily	22,084	9,722	26,649	15,565	16,433	16,743	14,417	13,940	12,817	11,274	11,646	(1,215)	170,074
Lot 1 - other	(28)	(32)	6,841	932	574	(37)	6,959	(685)	3,675	5,334	(404)	(779)	22,351
Lot 2 - daily	3,686	3,130	3,469	7,440	7,891	5,572	6,875	7,515	6,285	5,175	6,590	3,809	67,438
Lot 2 - other	(44)	(44)	2,613	276	487	231	2,958	(36)	(44)	1,951	(225)	(301)	7,822
Lot 3 - daily	2,191	1,755	1,784	2,009	2,107	2,195	2,113	2,491	1,977	1,633	1,923	(598)	21,580
Lot 3 - other	-	-	-	-	-	-	(37)	-	-	-	-	4	(33)
Lot 4 - daily	8,445	67	10,384	15,113	16,145	11,593	13,496	13,679	11,571	11,677	11,641	(13,272)	110,538
Lot 4 - other	(49)	(50)	2,904	307	541	257	5,024	(242)	459	3,411	(416)	(1,803)	10,342
Lot 5 - daily	878	413	1,050	633	665	677	590	572	529	463	485	(727)	6,229
Lot 5 - other	(17)	(17)	242	20	6	(17)	246	(41)	123	185	(31)	(113)	587
Lot 7A - daily	-	(492)	(465)	(221)	-	(38)	-	-	-	-	-	40	(1,175)
Lot 7A - event	(1,144)	(467)	(482)	(1,049)	(948)	814	117	16,401	(1,846)	(1,195)	(1,443)	(3,444)	5,316
Lot 7B - daily	970	965	4,566	2,575	2,530	2,727	2,688	3,121	2,325	2,187	2,205	(1,737)	25,122
Lot 7B - event	(28)	323	(934)	(281)	(153)	1,946	422	14,129	(1,044)	(353)	(921)	(2,939)	10,169
Lot 7C - daily	801	751	4,163	2,646	2,556	2,698	2,724	3,114	2,334	1,966	2,104	(1,770)	24,088
Lot 7C - event	(83)	241	(853)	1,055	945	4,432	2,542	19,160	(243)	(901)	(691)	(4,740)	20,864
Lot 7D - daily	(13)	(1,419)	(1,007)	-	-	(61)	(7)	-	-	-	-	244	(2,263)
Lot 7D - event	(2,428)	(9)	(987)	(2,110)	(2,529)	372	(3,377)	24,929	(3,353)	(2,902)	(2,898)	(4,883)	(175)
Lot 7E - daily	-	-	-	-	-	-	-	-	-	-	-	-	-
Lot 7E - event	2,162	623	351	51,021	5,885	10,342	9,360	19,828	4,090	1,909	765	(13,307)	93,029
Lot 7F - daily	(107)	(309)	(456)	(2)	28	41	34	-	32	9	5	47	(680)
Lot 7F - event	(391)	(275)	(20)	(343)	318	3,069	625	8,702	568	(417)	(458)	(2,710)	8,670
Lot 7G - daily	(526)	(10,431)	(1,456)	(1,142)	1,036	364	(446)	588	140	(491)	(128)	306	(12,187)
Lot 7G - event	(203)	(7)	(20)	(1,238)	446	2,004	(111)	12,844	96	(510)	814	(3,029)	11,086
Lot 7H - daily	(19)	(353)	(328)	(221)	(133)	-	(317)	(748)	-	-	-	216	(1,902)
Lot 7H - event	(188)	(318)	(336)	(781)	(79)	(323)	(462)	2,242	375	(593)	1,089	(677)	(52)
Lot 7J - daily	-	-	-	-	-	-	-	-	-	-	-	-	-
Lot 7J - event	2,478	714	407	2,058	3,748	4,515	3,154	6,304	2,211	(711)	733	(2,178)	23,434
Total net revenues from pledged surface lots	77,260	43,314	96,911	133,094	97,332	108,953	108,420	206,640	81,912	77,935	71,218	(16,723)	1,086,268
Total net revenues from North Shore garage and pledged surface lots	151,986	72,693	124,828	416,029	180,226	235,958	224,704	393,729	198,902	139,162	157,048	66,528	2,361,795
Interest earned	7,643	7,106	5,709	5,296	4,380	4,186	3,495	3,611	3,715	3,891	3,532	3,068	55,632
Net profit after interest income	\$ 159,629	\$ 79,799	\$ 130,537	\$ 421,325	\$ 184,606	\$ 240,144	\$ 228,199	\$ 397,340	\$ 202,617	\$ 143,053	\$ 160,580	\$ 69,596	\$ 2,417,427

(Concluded)

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

FOR THE YEAR ENDED DECEMBER 31, 2008

MaherDuessel

Certified Public Accountants || *Pursuing the Profession While Promoting the Public Good®*

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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 the financial statements of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority) as of and for the year ended December 31, 2008, and have issued our report thereon dated April 13, 2009. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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

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

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

* * * * *

This report is intended solely for the information and use of management, the Board of Directors of the Authority, others within the Authority, and applicable federal, state and local awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maher Duessel

Pittsburgh, Pennsylvania
April 13, 2009

