

Sports & Exhibition Authority of Pittsburgh and Allegheny County

Single Audit

December 31, 2019

MaherDuessel

Pursuing the profession while promoting the public good©
www.md-cpas.com

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis	i
--------------------------------------	---

Financial Statements:

Statements of Net Position	1
Statements of Revenues, Expenses, and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	4

Supplementary Information:

Schedule of Expenditures of Federal Awards	38
Notes to Schedule of Expenditures of Federal Awards	39

Independent Auditor's Reports Required by the Uniform Guidance:

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 <i>Government Auditing Standards</i>	40
Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance	42

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

(Continued)

Schedule of Findings and Question Costs	45
Summary Schedule of Prior Audit Findings	46
Other Information:	
Sports & Exhibition Authority and Stadium Authority Property Map	47

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The Authority and Stadium Authority Property Map has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Maier Duessel

Pittsburgh, Pennsylvania
April 9, 2020

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2019

As management of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority as of and for the fiscal years ended December 31, 2019 and 2018. This Management's Discussion and Analysis is designed to assist the reader in focusing on the significant financial issues and activities. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities on December 31, 2019 by \$332.7 million (net position). This represents a \$28.2 million decrease compared to prior year-end net position.
- The Authority's total cash and cash equivalents balance at the close of the 2019 fiscal year was \$84.8 million, representing a \$1.1 million increase from the prior year-end. Cash and cash equivalents represents the money on deposit with the multiple bond trustees to meet the indenture and debt service requirements, money for the various Authority construction programs, and funds to cover operations.
- The Authority recognized \$29.4 million in restricted and unrestricted operating revenues for the calendar year 2019, which is \$400,000 less than 2018. Restricted operating revenues are mostly surcharges and rents from the various sports teams and parking revenue from the North Shore Garage. Unrestricted revenues include Convention Center operations and garage revenues. Convention Center revenues come from rentals, event services, and ancillary services such as food and beverage, audio visual services, and equipment rentals. Convention Center total net revenues were \$11.8 million in

Management's Discussion and Analysis

2019, a \$510,000 increase from prior year-end revenues; and Convention Center total net operating expenses were \$14 million, an increase of \$500,000 from 2018. The Convention Center operates at a planned loss, as is the case with the vast majority of convention centers in the country. The 2019 operating shortfall was \$2.3 million. The shortfall is covered by payments from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund (EDTF) and Allegheny County's Hotel Tax revenue.

- As shown on the statements of revenues, expenses, and changes in net position, total Authority operating revenues (\$29.4 million), net of operating expenses (\$65.3 million), resulted in a \$36 million operating loss; this result, however, includes depreciation and amortization expenses of \$48.6 million.

Overview of the Financial Statements

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

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

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

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

Financial Statements

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

The *statements of net position* present information on all of the Authority's assets, deferred outflows of resources and liabilities, with the difference between the three reported as net position. Over time,

increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

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

Notes to Financial Statements

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

Financial Analysis

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to analyze the changing financial position of the Authority as a whole. In the case of the Authority, assets and deferred outflows of resources exceed liabilities by \$332.7 million as of December 31, 2019, a \$28.2 million decrease from the prior year. This is a result of several factors:

Management's Discussion and Analysis

- Assets in total decreased \$52 million. Most of this is due to capital assets that decreased \$43 million and construction in progress that decreased \$9.6 million when the Lower Hill roadway was dedicated to the City of Pittsburgh. The deferred outflows of resources increased \$15 million, related primarily to the accumulated increase in fair value of hedging derivatives related to the Commonwealth Lease Revenue Bonds, Series A of 2007. The accumulated increase in the fair value of hedging derivatives is offset by a corresponding increase in liabilities.
- Liabilities, net of the fair value of hedging derivatives, decreased \$24 million. In addition to the previously stated fair value of hedging derivatives, \$28 million was due to a decrease in Bonds Payable.

The Condensed Summary of Net Position reports the amount of discretionary (unrestricted) assets that the organization has to meet its obligations. The net position summary below shows that the unrestricted portion of net position is a surplus of \$395,000. This is composed of funds from the Convention Center garage operations. In November 2017, when the Authority issued the Parking System Revenue Bonds, Convention Center garage revenues (which were previously restricted to Convention Center financings) were no longer restricted. These funds are used to pay Authority operating costs and fund the Authority's many major projects, which may span several years.

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 85,272	\$ 83,266	\$ 82,269
Capital assets	828,415	871,749	913,950
Other assets	<u>39,537</u>	<u>50,024</u>	<u>47,744</u>
Total assets	<u>953,224</u>	<u>1,005,039</u>	<u>1,043,963</u>
Deferred outflows of resources	<u>65,692</u>	<u>50,797</u>	<u>61,027</u>
Current liabilities	43,084	38,259	40,343
Bonds and loans outstanding (net of current portion)	580,003	608,325	636,200
Other long-term liabilities	<u>63,124</u>	<u>48,337</u>	<u>58,311</u>
Total liabilities	<u>686,211</u>	<u>694,921</u>	<u>734,854</u>
Net position:			
Net capital investment	259,888	286,581	300,541
Restricted	72,422	73,014	68,590
Unrestricted	<u>395</u>	<u>1,320</u>	<u>1,005</u>
Total net position	<u>\$ 332,705</u>	<u>\$ 360,915</u>	<u>\$ 370,136</u>

By far, the largest portion of the Authority's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), net of related debt (\$260 million). This category comprises 78% of the total net position. Total net position also includes a restricted net position of \$72.4 million. During 2019, a decrease in the Authority's net investment in capital assets was mainly a result of depreciation and amortization of fixed assets exceeding the amount expended for new construction. The Authority uses its capital assets primarily to provide public venues for baseball (PNC Park), football (Heinz Field), hockey and other arena events (PPG Paints Arena), and for convention center events (Convention Center). Other major capital assets are parking garages, and the North Shore Riverfront Park. Consequently, these assets are not available for future spending. All but \$12.7 million of the Authority's capital assets are capitalized and in service. Amounts

allocable to construction-in-progress mainly related to the I-579 Cap project, and various Convention Center projects. Infrastructure associated with the I-579 CAP project is planned to be dedicated to the City upon project completion.

Current assets include cash and receivables such as for event rentals, parking fees, surcharges, and contributions. Current assets are \$2 million more than 2018. Other assets include noncurrent restricted cash and cash equivalents, receivables, capital assets, and construction-in-progress. A long-term receivable with a December 31, 2019 balance of \$21.7 million was recorded on the Statements of Net Position. This is the portion of the outstanding principal of the Authority's Parking System Revenue Bonds, Series of 2017 that is allocated to the Stadium Authority of the City of Pittsburgh (Stadium Authority). The bonds are payable from, and are secured by, revenues of specific parking facilities of both the Authority and the Stadium Authority.

The largest component of the Authority's liabilities is bonds payable, which are secured by pledged revenues as described in the debt administration section. Bonds payable total more than \$603 million and decreased \$27.6 million in 2019.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 29,362	\$ 29,719	\$ 27,374
Operating expenses:			
Operations and maintenance	15,299	15,132	13,291
General and administrative	1,419	1,392	1,316
Depreciation and amortization	48,616	48,193	47,297
Other expenses	-	1	1
Total operating expenses	<u>65,334</u>	<u>64,718</u>	<u>61,905</u>
Operating income (loss)	<u>(35,972)</u>	<u>(34,999)</u>	<u>(34,531)</u>
Nonoperating revenues (expenses):			
Allegheny Regional Asset District and City, County, State	25,746	26,635	29,812
Hotel rooms excise tax	18,780	18,280	17,780
Stadium Authority parking subsidy	-	-	(249)
Pittsburgh Casino operator	7,643	7,638	7,632
Federal grants	4,597	224	1,915
Foundation and other grants	294	561	900
Interest expense (net of interest income)	(26,405)	(27,911)	(29,290)
Debt issue costs	-	-	(327)
Grant and development expense	(24,806)	-	-
Other revenue (expense)	1,913	351	650
Total nonoperating revenues (expenses)	<u>7,762</u>	<u>25,778</u>	<u>28,823</u>
Increase (decrease) in net position	<u>\$ (28,210)</u>	<u>\$ (9,221)</u>	<u>\$ (5,708)</u>

The Authority's operating revenues are derived from ticket surcharges, team rent, parking revenues, and Convention Center income from building rental, event services, catering and concession charges, and ancillary fees such as booth cleaning, security, audio visual, and electrical usage. The Authority's unrestricted operating revenues support the administrative costs of the Authority. The restricted operating revenues are related to certain surcharges/parking revenues/team rent that are pledged for debt repayment or capital maintenance reserves. Heinz Field ticket surcharge and rent decreased from \$5.4 million in 2018 to \$5 million in 2019 and

includes surcharge from Steelers home games, Pitt Panthers games, and concerts. Rent and parking surcharge related to the New Arena was the same in 2019 and 2018 at \$6.1 million. The PNC Park ticket surcharge and rent decreased from \$880,000 in 2018 to \$729,000 in 2019.

Non-operating revenues are primarily composed of state and local grants and other agreements for the operations of the Convention Center, payment of debt, and costs related to capital projects. The majority of the restricted revenues in 2019 were comprised of (1) \$18.78 million from Allegheny County hotel rooms tax for debt service on the Hotel Room Excise Tax Revenue Bonds, Refunding Series of 2010 and 2012 and operations of the Convention Center, (2) \$14.2 million from Allegheny Regional Asset District (RAD) for debt service on the RAD Sales Tax Revenue Bond, Refunding Series of 2010 and the multi facility grant, (3) \$10.1 million in grants from the Commonwealth of Pennsylvania's Economic Development and Tourism Fund for ongoing Convention Center operations, reimbursement and repayment of loan debt, debt service payments, and rent expenses related to the Commonwealth Lease Revenue Bonds, Series A and B of 2007, (4) \$7.6 million from the Rivers Casino for debt service on the Commonwealth Lease Revenue Bonds, Series A of 2007, and (5) \$1.45 million from the Commonwealth of Pennsylvania's Redevelopment Assistance Capital Program and Multimodal Transportation Fund Grant for construction of the I-579 CAP project .

Including the depreciation and amortization expense of \$48.6 million, the Authority's operating loss was \$36 million. Operations, without depreciation and amortization expense, would have yielded a surplus of \$12.6 million, which is composed of restricted revenue for the various facility capital reserve funds and debt service obligations.

Capital Assets

As of December 31, 2019, the Authority's investment in capital assets was almost \$828 million (net of accumulated depreciation/amortization). Investment in capital assets includes buildings, improvements, equipment, infrastructure, and land (which is valued at \$126 million and is not depreciated). The major projects capitalized during 2019 included expenses totaling \$2.3 million for replacement of Heinz Field lighting, \$1.6 million for scoreboard, projectors and dasher boards at PPG Paints Arena, and \$600,000 for various Convention Center projects. Additional information on capital assets can be found in Note 4 of this report.

Debt Administration

Long-term debt of the Authority, outstanding as of December 31, 2019, is comprised of nine bond issues and an active loan from the Heinz Endowments.

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

In 2014, the Authority issued its Guaranteed Revenue Bonds, Taxable Series of 2014 in the principal amount of \$23,300,000 to finance the South Plaza Expansion project at Heinz Field. As of December 31, 2019, the outstanding bonds related to the Regional Destination Financing Plan and South Plaza Expansion project at Heinz Field are as follows:

Sports & Exhibition Authority of
Pittsburgh and Allegheny County

Management's Discussion and Analysis

Bond Issue	Issue Date	Maturity Date	Outstanding Principal Amount	Bond Ratings*	
				Standard & Poor's	Moody's
Hotel Room Excise Tax Revenue Bonds, Series of 2010	Oct-2010	Feb-2035	\$ 100,760,000	AAA (negative outlook)	Aa3 (negative outlook)
Hotel Room Excise Tax Revenue Bonds, Refunding Series of 2012	Aug-2012	Feb-2029	\$ 43,250,000	AA- (stable outlook)	Aa3 (on review for possible downgrade)
RAD Sales Tax Revenue Bonds, Refunding Series 2010	Sept-2010	Feb-2031	\$ 119,655,000	AAA (negative outlook)	Aa3 (negative outlook)
Taxable Ticket Surcharge Revenue Bonds, Series of 2000	Aug-2000	Jul-2030	\$ 11,630,000	AAA	Aaa
Guaranteed Revenue Bonds, Taxable Series of 2014	Oct-2014	Jun-2029	\$ 18,080,000	A+ (stable outlook)	A1

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

In 2019, principal payments totaling \$15,095,000 were made (\$6,505,000, \$35,000, \$7,390,000, \$555,000, and \$1,340,000, respectively), leaving outstanding debt of \$293,375,000.

The RAD Sales Tax Bonds, Refunding Series 2005 (2005 RAD Bonds) relates to the refinancing of the 1999 Auditorium Bonds that related to earlier financings used to pay costs of improvements to the Civic Arena. \$655,000 of principal was paid on the 2005 RAD Bonds in 2019, which was the final payment due on the bonds.

The Authority issued three series of bonds to finance the construction of the New Arena project: Commonwealth Lease Revenue Bonds, Series A of 2007, Taxable Series B of 2007, and Taxable Series of 2010. Principal payments of \$6,790,000, \$1,350,000, and \$345,000, respectively, were made in 2019. The outstanding balance on these bonds as of December 31, 2019 is \$186,740,000, \$50,835,000, and \$14,555,000, respectively.

Sports & Exhibition Authority of
Pittsburgh and Allegheny County

Management's Discussion and Analysis

Bond Issue	Issue Date	Maturity Date	Outstanding Principal Amount	Bond Ratings *	
				Standard & Poor's	Moody's
Commonwealth Lease Revenue Bonds, Series A of 2007	Oct-2007	Nov-2038	\$ 186,740,000	A-1	VMIG 1
Commonwealth Lease Revenue Bonds, Taxable Series B of 2007	Oct-2007	Nov-2039	\$ 50,835,000	A-1	VMIG 1
Commonwealth Lease Revenue Bonds, Taxable Series of 2010	Apr-2010	Nov-2039	\$ 14,555,000	A	Aa3

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

In November 2017, the Authority issued its Parking System Revenue Bonds, Series of 2017 (2017 Parking Bonds) in the amount of \$41,670,000 to pay off both the Authority and the Stadium Authority 2017 notes. The bonds are secured by a pledge of certain net parking revenues of the Authority and of the Stadium Authority. Of the total remaining principal, \$20,680,000 is to be paid from money to be received from the Stadium Authority.

Bond Issue	Issue Date	Maturity Date	Outstanding Principal Amount	Bond Rating *
				Standard & Poor's
Parking System Revenue Bonds, Series of 2017	Nov-2017	Jun-2037	\$ 39,070,000	A-

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

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

Economic Factors

Certain factors were considered in preparing the Authority's budget for the 2020 fiscal year. The Convention Center operating revenues, as well as a discretionary portion of the revenues of the Allegheny County hotel room excise tax, would be used to fund the operating activity and administration of the Convention Center. The Authority endeavors to minimize the need for supplemental revenue by maximizing operating revenues such as building income from rentals, food and beverage, and other ancillary services, and minimizing expenses with the overriding goal of the Convention Center being to create economic benefit to the region. The Authority's 2020 operating budget is balanced; however, it did not anticipate the economic downturn in Convention Center parking, ticket surcharge, and other revenues resulting from the impacts of the Coronavirus in 2020. To partially offset this downturn, cost reduction initiatives have been undertaken.

If, in the future, the unrestricted portion of the hotel room excise tax revenues is not sufficient or is unavailable, and other revenue streams do not materialize, the Authority will have cash flow difficulties. In such case, it may then be forced to call upon the Cooperation Agreement with the City of Pittsburgh and Allegheny County. This agreement, dated January 23, 1978, approves a shared payment by the City of Pittsburgh and Allegheny County to cover the Authority's operating deficit with respect to the Convention Center.

Future Events that will Financially Impact the Authority

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

In support of the development of the 28-acre site, the Authority constructed a road grid at the Lower Hill site, which was dedicated to the City of Pittsburgh in 2019. The Authority has and is facilitating the development of the I-579 CAP project by undertaking the design and by taking the lead on obtaining and managing the funding.

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

The Authority has certain capital obligations associated with each of the facilities that it owns, excluding the Benedum Center and Heinz History Center. The Authority holds various capital reserve funds related to these obligations. The Authority has responsibility for its capital obligations, should the reserve funds not be sufficient. While the extent and timing of its future capital obligations is impossible to predict with certainty, the Authority is able to cover what it considers to be its current obligations and those of the foreseeable future.

In early 2020, an outbreak of a novel strain of coronavirus was identified and infections have been found in a number of countries around the world, including the United States. The coronavirus and its impact on trade including customer demand, travel, employee productivity, and other economic activities has had, and may continue to have, a significant effect on financial markets and business activity. The extent of the impact of the coronavirus on our operational and financial performance is currently uncertain and cannot be predicted. As a result of these events it is expected that bond rating agencies will reevaluate their debt ratings including the ratings of the Authority's bonds.

Sports & Exhibition Authority of
Pittsburgh and Allegheny County

Management's Discussion and Analysis

Contacting the Authority's Financial Management

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

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

STATEMENTS OF NET POSITION

DECEMBER 31, 2019 AND 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 3,471,492	\$ 2,709,662
Restricted cash and cash equivalents	76,475,591	76,090,721
Receivables:		
Trade (no allowance for doubtful accounts necessary)	2,200,928	2,522,460
Restricted contributions and grants	2,497,300	1,259,395
Other	411,185	519,338
Prepaid expenses	215,251	164,277
Total current assets	<u>85,271,747</u>	<u>83,265,853</u>
Noncurrent assets:		
Restricted cash and cash equivalents	4,872,275	4,966,359
Note receivable, net	21,769,784	22,677,278
Other receivables	186,622	100,000
Capital assets, net	828,414,866	871,749,263
Construction in progress	12,708,464	22,280,752
Total noncurrent assets	<u>867,952,011</u>	<u>921,773,652</u>
Total Assets	<u>953,223,758</u>	<u>1,005,039,505</u>
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	62,053,183	46,878,406
Deferred charges on bond refundings	3,639,187	3,918,232
Total Deferred Outflows of Resources	<u>65,692,370</u>	<u>50,796,638</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	8,976,538	4,330,043
Unearned revenue	1,200,101	1,207,189
Interest payable	6,162,429	6,396,883
Current portion of bonds payable	26,745,000	26,325,000
Total current liabilities	<u>43,084,068</u>	<u>38,259,115</u>
Noncurrent liabilities:		
Accrued liabilities	584,195	1,051,412
Unearned revenue	486,959	407,095
Fair value of hedging derivatives	62,053,183	46,878,406
Bonds payable	576,636,452	604,691,540
Loans/notes payable	3,366,672	3,633,340
Total noncurrent liabilities	<u>643,127,461</u>	<u>656,661,793</u>
Total Liabilities	<u>686,211,529</u>	<u>694,920,908</u>
Net Position		
Net investment in capital assets	259,887,232	286,580,736
Restricted for facilities and debt service	72,422,220	73,014,762
Unrestricted	395,147	1,319,737
Total Net Position	<u>\$ 332,704,599</u>	<u>\$ 360,915,235</u>

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating Revenues:		
Restricted:		
Surcharges/rents	\$ 11,871,618	\$ 12,457,544
North Shore parking garage, net	1,741,555	1,735,316
Parking lot revenue, net	609,740	625,988
Unrestricted:		
Ticket surcharges	515,532	728,070
Convention Center parking garage, net	2,413,462	2,269,189
License fees	2,983,191	3,060,070
Event service revenue	1,653,952	1,400,919
Ancillary revenue	7,184,097	6,850,396
Other revenue	388,805	591,477
Total operating revenues	29,361,952	29,718,969
Operating Expenses:		
Operations and maintenance	15,299,023	15,133,034
General and administrative	1,419,015	1,391,531
Depreciation and amortization	48,615,796	48,193,400
Total operating expenses	65,333,834	64,717,965
Operating Loss	(35,971,882)	(34,998,996)
Non-operating Revenues (Expenses):		
Restricted:		
Allegheny Regional Asset District	14,200,000	14,085,000
PA Gaming Economic Development & Tourism Fund	10,100,000	10,900,000
Other Commonwealth of PA Grants	1,445,508	1,395,049
Pittsburgh casino operator	7,642,977	7,637,760
Hotel rooms tax	18,780,000	18,280,000
City of Pittsburgh and Allegheny County	-	254,800
Federal grants	4,596,728	223,757
Foundation and other grants	294,104	560,910
Other revenue (expense)	1,778,703	222,262
Interest expense	(27,359,899)	(28,528,574)
Interest revenue	954,946	616,908
Lower Hill grant and development expense	(24,805,823)	-
Unrestricted:		
Other revenue	129,621	124,388
Project development revenue	32,000	29,333
Financing expenses	(27,619)	(23,819)
Total non-operating revenues, net	7,761,246	25,777,774
Change in Net Position	(28,210,636)	(9,221,222)
Net Position:		
Beginning of year	360,915,235	370,136,457
End of year	\$ 332,704,599	\$ 360,915,235

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities:		
Cash received from operations	\$ 29,287,591	\$ 30,012,225
Cash paid for operating expenses	(9,588,147)	(10,532,753)
Cash paid to employees	(6,833,988)	(7,055,269)
Cash received from other income	388,805	591,477
Net cash provided by (used in) operating activities	13,254,261	13,015,680
Cash Flows From Non-Capital Financing Activities:		
Cash received from hotel tax distributions	5,000,000	4,500,000
Cash received from PA Gaming Economic Development & Tourism Fund	1,300,000	1,700,000
Cash received (paid) for development funds	1,123,585	687,178
Other receipts (payments)	496,054	75,557
Net cash provided by (used in) non-capital financing activities	7,919,639	6,962,735
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(9,169,170)	(11,594,718)
Cash received on note receivable to Stadium Authority	655,000	655,000
Interest payments on bonds, notes/loans payable, and capital lease obligations	(28,447,381)	(29,493,730)
Cash received from Allegheny Regional Asset District for bond payments and capital	14,200,000	14,085,000
Cash received from hotel rooms tax for bond payments	13,780,000	13,780,000
Cash received from PA Gaming Economic Development & Tourism Fund for capital items and bond and loan payments	8,800,000	9,200,000
Cash received from Pittsburgh casino operator for bond payments	7,642,977	7,637,760
Cash received from City of Pittsburgh and Allegheny County	-	254,800
Cash received from other capital related grants	5,098,435	3,262,364
Cash paid for Lower Hill Development	(7,046,146)	-
Principal payments on bonds payable	(26,337,143)	(25,620,000)
Principal payments on loans/notes payable	(266,668)	(233,334)
Net cash provided by (used in) capital and related financing activities	(21,090,096)	(18,066,858)
Cash Flows From Investing Activities:		
Interest income received	996,431	653,160
Bank/trustee fees paid	(27,619)	(23,819)
Net cash provided by (used in) investing activities	968,812	629,341
Net Increase (Decrease) in Cash and Cash Equivalents	1,052,616	2,540,898
Cash and Cash Equivalents:		
Beginning of year	83,766,742	81,225,844
End of year	\$ 84,819,358	\$ 83,766,742
Consists of:		
Restricted cash and cash equivalents	\$ 81,347,866	\$ 81,057,080
Unrestricted cash and cash equivalents	3,471,492	2,709,662
	\$ 84,819,358	\$ 83,766,742
Reconciliation of Operating Loss to Net Cash Flows Provided By (Used In) Operating Activities:		
Operating loss	\$ (35,971,882)	\$ (34,998,996)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	48,615,796	48,193,400
Change in operating assets and liabilities:		
Operating receivables	321,532	868,918
Prepaid operating expenses	(50,974)	(29,984)
Operating liabilities	339,789	(1,017,658)
Total adjustments	49,226,143	48,014,676
Net cash provided by (used in) operating activities	\$ 13,254,261	\$ 13,015,680
Noncash Items:		
Capital contributed to the City of Pittsburgh	\$ 16,506,917	\$ -

See accompanying notes to financial statements.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Nature of Operations and Reporting Entity

The Public Auditorium Authority of Pittsburgh and Allegheny County was incorporated on February 3, 1954, pursuant to the Public Auditorium Authorities Law, as a joint authority organized by the City of Pittsburgh (City) and Allegheny County (County). Effective November 1999, the Authority's name was legally changed to the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority). The Public Auditorium Authorities Law was re-codified in 2000, and the Authority is now authorized and exists under the Sports and Exhibition Authority Act. The Authority's term of existence extends until April 5, 2049.

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

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

The Authority and the Urban Redevelopment Authority of Pittsburgh (URA) are owners of a 28-acre site in the Lower Hill where the Civic Arena had been located. The Authority and

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

the URA have entered into an option agreement (Lower Hill Option Agreement) with PAR (as defined below), a related entity of the Pittsburgh Penguins. The Authority, with the URA, is responsible for overseeing development in accordance with the Lower Hill Option Agreement.

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

The Stadium Authority of the City of Pittsburgh (Stadium Authority) is now responsible for the development of the land between Heinz Field and PNC Park (North Shore Option Area). Pending development, the land is used for surface parking with a portion of the Stadium Authority's revenue from the surface parking lots pledged to the debt service on the Authority's Parking System Revenue Bonds, Series of 2017 (see Note 6). The Stadium Authority has a separate board appointed by the Mayor of the City. An Administrative Services Agreement was entered into in November 2002 and amended November 2017 between the Stadium Authority and the Authority, whereby the Authority staff performs all administrative services required for the Stadium Authority to fulfill its duties and obligations.

2. Summary of Significant Accounting Policies

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Basis of Accounting and Measurement Focus

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

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

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Capital Assets

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

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

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

Interest expense incurred during the construction phase of a capital asset is included as part of the capitalized value of the asset constructed and amortized over the useful life of the asset. During the years ended December 31, 2019 and 2018, there was no net capitalized interest.

Refunding Transactions

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Noncurrent Accrued Liabilities

Noncurrent accrued liabilities, which represent monies held on behalf of the Stadium Authority in a Stadium Authority development fund, totaled \$584,195 in 2019. Monies held for the Stadium Authority in a Stadium Authority development fund as well as in separate Pirates and Steelers development funds totaled \$1,051,412 in 2018. The Steelers development fund and the Pirates development fund were closed in 2019 (see Notes 17 and 18). The Stadium Authority development fund can be used by the Stadium Authority for capital projects and financing of parking garages on the North Shore.

Revenues

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

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

Surcharges/Rent

Surcharges are certain revenues derived from tickets or parking at the various facilities imposed by the Authority in accordance with the team leases. Additionally, the team leases provide that the Steelers, Pirates, and Penguins pay rent and/or other amounts to the Authority annually. See Note 13, PPG Paints Arena; Note 17, PNC Park; and Note 18, Heinz Field for the specific terms of each lease as it relates to the surcharges, rents, and/or other amounts and the restricted uses of the funds.

Parking Revenues

Parking revenues are generated from parking services at the North Shore parking garage, the Convention Center parking garage, and Authority lots in both downtown and on the North Shore, net of the related expenses (see accompanying Parking System Report). Currently, the net revenues of the North Shore Garage, Authority lots, and

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

revenues from the Stadium Authority West General Robinson Street Garage, Gold 1 Garage, and lots (Lots 1 through 5 and 7A through 7J) are fully restricted for purposes of repaying the Authority's Parking System Revenue Bonds, Series of 2017 described in Note 6. Net revenues of the Convention Center parking garage are used for operations of the Authority and not pledged to bonds.

Pennsylvania Gaming Economic Development & Tourism Fund (EDTF)

Section 14.07 of Act 71 of 2004 (PA Race Horse Development and Gaming Act) provided for the creation of the EDTF. Act 53 of 2007, known as the Capital Budget Itemization Act of 2007, authorized recurring funding to the Authority for certain projects from the EDTF. That funding totaled \$10.1 million and \$10.9 million in 2019 and 2018, respectively, and were recognized as non-operating revenue. The funding to be provided under this Act will total \$7.5 million annually from 2020 to 2036.

Casino Operator Revenue

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

Hotel Room Excise Tax

The County imposes a 7% hotel room excise tax on the temporary use or occupancy of hotel rooms within the County. The tax is composed of a 5% Basic Levy and a 2% Added Levy. From the 5% Basic Levy, the County is required to collect the tax and to distribute the funds, in accordance with state law (16 P.S. Section 4970.2 et seq) as follows: (1) provide the Municipality of Monroeville with 1/3 of the revenues generated in that jurisdiction, (2) fund the debt service on the Authority's Hotel Room Excise Tax Revenue Bonds, Series of 2010 and 2012, and reimburse the County for a collection fee of 5%, (3) make available 2/5 of the Basic Levy to the Greater Pittsburgh Convention and Visitor's Bureau and (4) remaining funds, if any, to fund Convention Center operations and regional tourist promotional activities. The 2% Added Levy is applied in accordance with state law (53 Pa.C.S.A. Section 8721) as follows: (1) to the Municipality of Monroeville,

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

Classification of Net Position

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

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

Adopted Pronouncement

The requirements of the following Governmental Accounting Standards Board (GASB) Statement were adopted for the financial statements:

GASB Statement No. 88, “*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*,” to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this statement have been adopted and incorporated into these financial statements.

Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 87 (Leases), 89 (Accounting for Interest Cost Incurred before the End of a

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Construction Period), 91 (Conduit Debt Obligations), and 92 (Omnibus 2020). Management has not yet determined the impact of these statements on the financial statements.

3. Cash, Cash Equivalents, and Investments

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

The following is a summary of the Authority's cash and cash equivalents for the year ended December 31, 2019:

2019 Cash and Cash Equivalents	Unrestricted	Restricted	Total
Cash	\$ 3,471,492	\$ 3,772,367	\$ 7,243,859
Money market funds	-	38,508,398	38,508,398
PA INVEST	-	39,067,101	39,067,101
Total cash and cash equivalents	<u>\$ 3,471,492</u>	<u>\$ 81,347,866</u>	<u>\$ 84,819,358</u>

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

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

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

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

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

Custodial Credit Risk – Deposits. In the case of cash, this is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2019 and 2018, \$8,436,396 and \$12,925,423 of the Authority's bank balance of \$8,968,798 and \$13,464,489, respectively, was exposed to custodial credit risk because it was uninsured but collateralized in accordance with Act 72 of 1971, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2019, \$27.6 million of money markets were rated A-1+, and the remaining \$49.9 million of investments were rated AAA by Standard & Poor's. As of December 31, 2018, \$28.7 million of money markets were rated A-1+, and the remaining \$42.2 million of investments were rated AAA by Standard & Poor's.

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

4. Capital Assets

Capital assets and accumulated depreciation consist of the following:

	2019	2018	Useful Lives (in years)
Land and improvements	\$ 126,192,850	\$ 126,192,850	
Infrastructure	143,912,168	143,687,828	40-50
Building and improvements	1,242,417,997	1,239,069,954	10-50
Equipment	74,757,772	73,052,271	5-10
Other assets	8,657,038	8,657,038	30
Total capital assets	1,595,937,825	1,590,659,941	
Accumulated depreciation/amortization	(767,522,959)	(718,910,678)	
Capital assets, net	<u>\$ 828,414,866</u>	<u>\$ 871,749,263</u>	

Capital assets included above that are not being depreciated totaled \$126 million for the years ended December 31, 2019 and 2018.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

	January 1, 2019	Depreciation	Additions (Deletions)	December 31, 2019
Lower Hill Redevelopment	\$ 8,073,879	\$ 366,994	\$ -	\$ 7,706,885
Benedum Center	11,086,640	14,255	-	11,072,385
John Heinz History Center	1,676,500	52,400	-	1,624,100
PNC Park	124,312,753	8,878,145	446,623	115,881,231
North Shore Garage	11,821,599	935,272	68,357	10,954,684
Heinz Field	155,415,781	10,996,585	2,340,775	146,759,971
Convention Center	217,776,126	14,234,033	607,253	204,149,346
Convention Center Riverfront Plaza	9,061,346	-	-	9,061,346
North Shore Riverfront Park	25,921,906	78,179	224,338	26,068,065
PPG Paints Arena	263,451,324	11,132,476	1,590,540	253,909,388
North Shore Infrastructure	37,983,942	1,582,423	-	36,401,519
Other	5,167,467	341,521	-	4,825,946
Total	\$ 871,749,263	\$ 48,612,283	\$ 5,277,886	\$ 828,414,866

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

5. Construction in Progress

Construction in progress of \$12.7 million and \$22.3 million as of December 31, 2019 and 2018, respectively, relates to the costs associated with the I-579 Cap project and various Convention Center projects. Infrastructure associated with the Lower Hill redevelopment of approximately \$16.5 million was dedicated to the City in 2019 and removed from CIP.

6. Bonds Payable

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Principal Outstanding		
	January 1, 2019	Additions (Reductions)	December 31, 2019
Allegheny Regional Asset District Sales Tax Revenue Bonds, Refunding Series 2005 of \$13,250,000, due in annual installments ranging from \$650,000 to \$2,695,000 through February 2019, interest payable semi-annually on February 15 and August 15 at rates ranging from 3% to 4.125%, issued in January 2005 to partially refinance the 1999 Series Auditorium Bonds and to fund certain costs of the Convention Center. Funding Source: Allegheny Regional Asset District Sales Tax, paid directly to the Trustee.	\$ 655,000	\$ (655,000)	\$ -
Commonwealth Lease Revenue Bonds Series A of 2007 of \$252,000,000, due in annual installments ranging from \$4,260,000 to \$13,950,000 through November 2038, interest payable semi-annually on May 1 and November 1 at synthetic fixed rate of 4.020% pursuant to a related interest rate swap, issued in October 2007 to fund the construction of a new multi-purpose arena and related facilities. Funding Source: \$7.5 million annually from PA Economic Development and Tourism Fund and \$7.5 million annually by casino operator, paid directly to the Trustee.	193,530,000	(6,790,000)	186,740,000
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. Funding Source: Pittsburgh Penguins, paid directly to the Trustee.	52,185,000	(1,350,000)	50,835,000
Commonwealth Lease Revenue Bonds Taxable Series of 2010 of \$17,360,000 due in annual installments ranging from \$225,000 to \$1,300,000 through November 2039, interest payable semi-annually on May 1 and November 1 at rates ranging from 3.98% to 7.04%, issued April 28, 2010 to fund the construction of a new multi-purpose arena and related facilities. Funding Source: Pittsburgh Penguins, paid directly to the Trustee.	14,900,000	(345,000)	14,555,000
Allegheny Regional Asset District Sales Tax Revenue Bonds, Refunding Series 2010 of \$173,765,000, due in annual installments ranging from \$3,420,000 to \$12,760,000 through February 2031, interest payable semi-annually on February 1 and August 1 at rates ranging from 2% to 5%, issued in September 9, 2010 to refinance the Regional Asset District Sales Tax Revenue Bonds Series of 1999. Funding Source: Allegheny Regional Asset District Sales Tax, paid directly to the Trustee.	127,045,000	(7,390,000)	119,655,000 (Continued)

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Principal Outstanding		
	January 1, 2019	Additions (Reductions)	December 31, 2019
Hotel Room Excise Tax Revenue Bonds, Refunding Series 2010 of \$146,465,000 due in annual installments ranging from \$65,000 to \$12,135,000 through February 2035, interest payable semi-annually on February 1 and August 1 at rates ranging from 2.00% to 5.00%, issued to refinance a portion of the Hotel Room Excise Tax Revenue Bonds, Series 1999 (which financed the expansion of DLLCC). Funding Source: County Hotel Room Excise Tax, paid directly to the Trustee.	107,265,000	(6,505,000)	100,760,000
Hotel Room Excise Tax Revenue Bonds, Refunding Series 2012 of \$44,160,000 due in annual installments ranging from \$30,000 to \$9,590,000 through February 2029, interest payable semi-annually on February 1 and August 1 at rates ranging from 2.00% to 5.00%, issued to refinance all of the outstanding Hotel Room Excise Tax Revenue Bonds, Series 1999 (which financed the expansion of DLLCC). Funding Source: County Hotel Room Excise Tax, paid directly to the Trustee.	43,285,000	(35,000)	43,250,000
Taxable Ticket Surcharge Revenue Bonds, Series of 2000 of \$17,175,000, due in annual installments ranging from \$145,000 to \$2,835,000 through July 2030, interest payable semi-annually on January 1 and July 1 at rates ranging from 7.72% to 7.92%, issued in August 2000 to finance the construction of Heinz Field. Funding Source: Heinz Field Ticket Surcharge, paid directly to the Trustee.	12,185,000	(555,000)	11,630,000
Guaranteed Revenue Bonds Taxable, Series of 2014 of \$23,300,000, due in annual installments ranging from \$1,280,000 to \$1,990,000 through December 2030, interest payable semi-annually on June 15 and December 15 at rates ranging from 1.084% to 4.521%, issued in October 2014 to finance certain renovations and improvements of Heinz Field. Funding Source: Steelers Rent, paid directly to the Trustee.	19,420,000	(1,340,000)	18,080,000
Parking System Revenue Bonds, Series of 2017 of \$41,670,000 due in annual installments ranging from \$1,240,000 to \$3,175,000 through December 2037, interest payable semi-annually on June 15 and December 15 at rates ranging from 3% to 5%, issued in November 2017 to refund Authority Bank Notes and refund Stadium Authority Bank Notes. Funding Source: Net Revenues of the Parking System.*	40,430,000	(1,360,000)	39,070,000
Total bonds payable	<u>610,900,000</u>	<u>(26,325,000)</u>	<u>584,575,000</u>
Deferred amounts:			
For issuance premiums	<u>20,116,540</u>	<u>(1,310,088)</u>	<u>18,806,452</u>
Bonds payable, net	<u>\$ 631,016,540</u>	<u>\$ (27,635,088)</u>	<u>\$ 603,381,452</u>

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

	Total Principal	Interest	Total
2020	\$ 26,745,000	\$ 27,086,709	\$ 53,831,709
2021	28,010,000	25,820,886	53,830,886
2022	29,370,000	24,487,250	53,857,250
2023	30,795,000	23,070,061	53,865,061
2024	32,310,000	21,630,955	53,940,955
2025-2029	181,045,000	84,381,784	265,426,784
2030-2034	169,640,000	41,197,796	210,837,796
2035-2039	86,660,000	9,175,575	95,835,575
Total	\$ 584,575,000	\$ 256,851,016	\$ 841,426,016

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

Arbitrage

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

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

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

The 2005 RAD Bonds are payable from, and secured by, payments and other revenues to be received by the Authority through 2018 under an Amended and Restated Cooperation and Support Agreement among the Authority, the City, the County, and RAD. In calendar years 2019 and 2018, \$0 and \$685,000, respectively, was received by the Authority and used to pay debt service.

The final principal payment on the 2005 RAD Bonds was due and paid on February 15, 2019.

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

On October 4, 2007, the Authority issued \$252,000,000 of variable interest rate Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Series A of 2007 and \$61,265,000 of variable interest rate Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (together, the New Arena Bonds) to acquire, construct, and equip a multi-purpose public auditorium and related facilities (New Arena Project). In conjunction with this transaction, the Authority has entered into a Standby Bond Purchase Agreement which has been extended through May 1, 2020. The Authority is currently working to extend this agreement. The 2007 bonds are to be repaid from (1) rent payments due from the sublease of the new arena to the Pittsburgh Penguins, (2) annual payments from the Commonwealth and (3) annual payments from the holder of the gaming license for the casino located in the City.

The Authority subleased the new arena to the Pittsburgh Penguins and, pursuant thereto, the Pittsburgh Penguins are obligated to pay the Authority annual lease payments of \$4.3 million (with final payment on September 25, 2039). The lease payments are pledged to support the 2007 bonds. \$4.3 million was received in both 2019 and 2018.

The Commonwealth has appropriated \$7.5 million per year for 30 years (ending September 2036) from the EDTF to support the debt service on the 2007 bonds (Note 2). \$7.5 million was received in both 2019 and 2018.

A Payment Agreement between the Authority and Holdings Acquisition Co, LLC, (d/b/a Rivers Casino), the holder of the gaming license for the casino located in the City, was executed November 10, 2009, requiring semi-annual payments to begin October 2009 and ending October 2038, with such payment pledged to secure the 2007 bonds. Payments in

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

the amount of \$7.643 million and \$7.638 million were received in 2019 and 2018, respectively.

The Authority entered into interest rate swap agreements with PNC Bank, National Association (Counterparty) in connection with the 2007 bonds. Pursuant to the swap agreements, the Authority pays a fixed rate of interest to the Counterparty and the Counterparty then pays a variable rate of interest to the bond trustee to pay debt service on the 2007 bonds (Note 9). At December 31, 2019, the variable rate on the Series A and B bonds approximated 1.302% and 1.714%, respectively. At December 31, 2018 the variable rate on the Series A and B bonds approximated 1.688 % and 2.485%, respectively.

The Authority has leased the New Arena Project to the Commonwealth and the Commonwealth has subleased it back to the Authority. The Commonwealth is obligated to pay rent under the lease to the extent there is a deficiency or delay in receipt of any amounts needed to pay debt service. The Commonwealth paid \$695,393 and \$754,060 in 2019 and 2018, respectively, pursuant to the Commonwealth lease.

Commonwealth Lease Revenue Bonds, Taxable Series of 2010

In 2010, the Authority issued \$17,360,000 of fixed rate Sports & Exhibition Authority of Pittsburgh and Allegheny County Commonwealth Lease Revenue Bonds, Taxable Series of 2010 to pay costs to complete the acquisition, construction and equipping of the New Arena Project. The Series 2010 Bonds are to be repaid from additional rent payments (\$1.36 million per year) due from the Pittsburgh Penguins per the Second Amendment to the New Arena Lease. These additional payments in the amount of \$1,360,000 were received in both 2019 and 2018.

Hotel Room Excise Tax Revenue Bonds

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

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

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

The Authority received hotel room excise tax revenues, in the amount of \$13,780,000, in each of the calendar years 2019 and 2018, for payment of indebtedness on the 2010 and Hotel 2012 Bonds.

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

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

The 2010 refunding resulted in deferred refunding losses of \$2,908,000 which is being amortized over the life of the RAD Bonds. The Authority received \$13,400,000 from RAD for each of the calendar years 2019 and 2018 for payment of indebtedness on the 2010 RAD Bonds.

Taxable Ticket Surcharge Revenue Bonds

In September 2000, the Authority issued \$17,175,000 of Sports & Exhibition Authority of Pittsburgh and Allegheny County Taxable Ticket Surcharge Revenue Bonds, Series 2000 (Ticket Surcharge Bonds). In connection with the issuance of the Ticket Surcharge Bonds, the Authority entered into a Security, Pledge, and Assignment Agreement with the Pittsburgh Steelers Sports, Inc. (PSSI) to facilitate the collection and receipt of a 5% ticket surcharge (not to exceed \$3 per ticket) on each ticket sold for all exhibition, regular season, and post-season National Football League (NFL) games in which PSSI's NFL franchise is designated to be the "home team" by the rules of the NFL. For each football season beginning with the 2002 NFL season, the first \$1,400,000 of total ticket surcharge monies collected for these NFL events is made available for payments of principal and interest on these bonds. This payment was received in 2019 and 2018.

Guaranteed Revenue Bonds, Taxable Series of 2014

On October 15, 2014, the Authority issued \$23,300,000 of Sports & Exhibition Authority of Pittsburgh and Allegheny County Guaranteed Revenue Bonds, Taxable Series of 2014 (Series of 2014 Bonds). The Series 2014 Bonds are to be repaid from increased rent payments (2014 Rent) of \$2.11 million per year, due from PSSI per an Amendment to the Heinz Field lease agreement, dated October 15, 2014. Payments were due beginning June 1, 2015 through and including June 1, 2029 and cover costs of principal, interest, ongoing fees and transaction expenses. Pursuant to a Third Amendment to the Cooperation and Support Agreement with the Authority, the City, the County and RAD, dated October 15, 2014, RAD guarantees payment of the Series 2014 Bonds should 2014 Rent be insufficient or not received. The bond proceeds were used to finance a portion of the costs of the South Plaza Expansion project (see Note 18). \$2,110,000 was received from PSSI in 2019 and 2018 for payment of indebtedness and expenses on these bonds.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Parking System Revenue Bonds, Series of 2017

On November 30, 2017, the Authority issued the Sports & Exhibition Authority of Pittsburgh and Allegheny County Parking System Revenue Bonds, Series of 2017 (2017 Parking Bonds). The 2017 Parking Bonds are payable from, and are secured solely by, net revenues of a "Parking System" comprised of specified parking facilities of the Authority and specified parking facilities of the Stadium Authority.

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

While the Authority issued the bonds, the Stadium Authority has certain obligations with respect to the bonds, as provided for in the Collateral Assignment Agreement and the Joinder Agreement, each dated as of November 1, 2017 and each between the Stadium Authority and the bond trustee. Pursuant thereto, the Stadium Authority has recorded a note payable to the Authority and the Authority recorded a long-term receivable from the Stadium Authority, related to the 2017 Parking Bonds in the amount of the principal and original issue discount, less bond reserves. As of December 31, 2019 and 2018, that note receivable was \$21,769,784 and \$22,677,278, respectively.

	Note Receivable (Net)	
	2019	2018
Principal	\$ 20,680,000	\$ 21,400,000
Original issue discount	3,359,284	3,546,778
Bond reserve funds payable	<u>(2,269,500)</u>	<u>(2,269,500)</u>
Total	<u>\$ 21,769,784</u>	<u>\$ 22,677,278</u>

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

As of December 31, 2019, the aggregate annual amount of principal and interest payments due from the Stadium Authority for the Parking System Revenue Bonds, Series of 2017 is as follows:

	Total Principal	Interest	Total
2020	\$ 750,000	\$ 1,018,750	\$ 1,768,750
2021	775,000	988,750	1,763,750
2022	810,000	957,750	1,767,750
2023	850,000	917,250	1,767,250
2024	895,000	874,750	1,769,750
2025-2029	5,185,000	3,656,500	8,841,500
2030-2034	6,610,000	2,225,250	8,835,250
2035-2037	4,805,000	488,250	5,293,250
Total	\$ 20,680,000	\$ 11,127,250	\$ 31,807,250

7. Loans and Notes Payable

Terms of the loans and notes payable are as follows:

	Principal Outstanding - Fixed Loans		
	January 1, 2019	Additions/ Reductions	December 31, 2019
Loan from Heinz Endowments in the amount of \$3,000,000, issued December 2002, 1% interest, annual payments due through December 2023.	\$ 533,340	\$ (266,668)	\$ 266,672
Total loans/notes payable - Fixed	\$ 533,340	\$ (266,668)	\$ 266,672
	Principal Outstanding - Open Ended Loans		
	January 1, 2019	Additions/ Reductions	December 31, 2019
Loan from Allegheny County in the amount of \$3,100,000, issued October 1991, 0% interest, no stated repayment terms.	\$ 3,100,000	\$ -	\$ 3,100,000
Total loans/notes payable - Open Ended	\$ 3,100,000	\$ -	\$ 3,100,000

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

Year	Principal	Interest	Total Debt Service
2020	\$ -	\$ 2,667	\$ 2,667
2021	-	2,667	2,667
2022	133,334	2,667	136,001
2023	133,338	1,333	134,671
No Maturity	3,100,000	-	3,100,000
Total	\$ 3,366,672	\$ 9,334	\$ 3,376,006

Heinz Endowment Loans

In 2002, the Howard Heinz Endowments and the Vira I. Heinz Endowments (Endowments) provided \$3 million in loans to the Authority to support the green building features of the Convention Center. The Endowments forgave the first year's payment of \$230,000 in principal and deferred the interest in 2009. Additionally, the Endowments approved the delay of the second payment until December 31, 2010. On December 21, 2011, the Endowments amended the loan to forgive \$66,666 of principal for each year, reducing the principal payments by one-third and allowing for prepayment of principal, without penalty. The Authority has been prepaying this loan. As of December 31, 2019, no payment is due in 2020 or 2021 due to the prepayment prior to December 31, 2019. On December 31, 2019, the principal balance was \$266,672.

Other Loans

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

8. Net Investment in Capital Assets

Total net position includes net investment in capital assets. The calculations for the years ending 2019 and 2018 are as follows:

	2019	2018
Capital assets, net	\$ 828,414,866	\$ 871,749,263
Construction in progress	12,708,464	22,280,752
Less bonds payable related to capital assets	(603,381,452)	(631,016,540)
Less loans/notes payable related to capital assets	(3,366,672)	(3,633,340)
Plus loan receivable from Stadium Authority	21,769,784	22,677,278
Plus deferred outflows attributable to capital assets	3,639,187	3,918,232
Plus net unspent bond proceeds	103,055	605,091
Net investment in capital assets	\$ 259,887,232	\$ 286,580,736

9. Derivative Financial Instruments - Interest Rate Swaps

The Authority had the following interest rate swaps as of December 31, 2019 and 2018:

	Notional Amount	Effective Date	Maturity Date	Interest Rate Paid	Interest Rate Received	Counterparty Moody's/S&P Rating*	Underlying Bonds
Hedging Derivatives							
Cash flow hedges							
Receive variable - pay fixed:							
Interest rate swaps	\$ 50,835,000	10/4/2007	11/1/2039	5.335%	1M LIBOR	A2/ A	2007 Series B
	186,740,000	10/4/2007	11/1/2038	4.020%	SIFMA	A2/ A	2007 Series A

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Notional Amount	12/31/2017 Market Value **	Change in Market Value	12/31/2018 Market Value **	Change in Market Value	12/31/2019 Market Value **
Hedging Derivatives						
Cash flow hedges						
Receive variable - pay fixed:						
Interest rate swaps	\$ 50,835,000	\$ (16,849,585)	\$ 2,956,800	\$ (13,892,785)	\$ (4,435,411)	\$ (18,328,196)
	186,740,000	<u>(39,980,513)</u>	<u>6,994,892</u>	<u>(32,985,621)</u>	<u>(10,739,366)</u>	<u>(43,724,987)</u>
Total		<u>\$ (56,830,098)</u>	<u>\$ 9,951,692</u>	<u>\$ (46,878,406)</u>	<u>\$ (15,174,777)</u>	<u>\$ (62,053,183)</u>

* Counterparty Ratings as of December 31, 2019

** The market value is an estimated net present value of the expected cash flows calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation. The swap values are considered to be Level 2 in the fair value hierarchy.

Objective of the Interest Rate Swaps

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

Terms

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

Pursuant to the swap contracts, the Authority pays the counterparty semi-annually on each November 1 and May 1, and the counterparty pays the Authority monthly on the first of each month. In accordance with the swap agreements, for the year ended December 31, 2019, the Authority paid \$4,901,000 net fixed interest with respect to the swap on the Series A Bonds, and paid \$1,594,251 net fixed interest with respect to the swap on the

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Taxable Series B Bonds, which are recorded as interest expenses. On December 31, 2019, the SIFMA Municipal Swap Index and 1M LIBOR rates were 1.302% and 1.714%, respectively.

	<u>2019</u>	<u>2018</u>
Net payments under swap agreements	\$ 6,495,251	\$ 7,095,823
Variable interest paid on bonds	<u>4,122,921</u>	<u>3,955,453</u>
Total interest expense on New Arena Bonds	<u>\$ 10,618,172</u>	<u>\$ 11,051,276</u>

Accounting and Risk Disclosures

As noted in the tables above, current period changes in market value for the interest rate swaps that are accounted for as hedges are recorded on the statements of net position as deferred outflows. The cumulative fair market value of the outstanding interest rate swaps of December 31, 2019 and 2018 are reported on the statements of net position as a swap liability.

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

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

- Credit risk is the risk that the counterparty will not fulfill its obligations. The credit ratings by Moody's Investors Service, Inc. and Standard & Poor's, nationally recognized statistical rating organizations for the counterparty, are listed in the table above. If the counterparty fails to perform according to the terms of the interest rate swap agreements, there is some risk of loss to the Authority. This risk includes the potential for the counterparty to fail to make termination payments to the Authority and the counterparty to fail to make termination payments to the

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Authority. If the swaps are terminated and a termination payment is due from the counterparty. If the Authority would need to replace the swaps, it would likely cost the Authority the then fair market values. Because the swaps have negative fair market values, there is no current credit risk to the Authority.

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

Concentration of credit risk: The Authority currently has one counterparty for both of its interest rate swaps. Total fair market value of interest rate swaps held with this counterparty is (\$62,053,183) at December 31, 2019.

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

- 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 is expected to be minimal.
- Termination risk is the risk that the swaps will end before the final maturity of the New Arena Bonds. The stated terms of the swaps are equal to the terms of the

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

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

10. Employee Benefit Plans

The Authority has a defined contribution retirement plan (plan) covering substantially all of its full-time employees. None of its employees are subject to collective bargaining agreements. Participation in the plan requires an employee to have completed six months of service. Employees are required to make mandatory contributions to the plan equal to 5% of their base compensation, on a pre-tax basis. The Authority annually contributes 7% of eligible employee compensation to the plan. Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the remainder of a participant's account is based on years of continuous service. A participant is 100% vested after five years of service. The Authority contributed \$64,572 and \$76,721 to the plan for the years ended December 31, 2019 and 2018, 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,

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

employees may voluntarily contribute additional pre-tax monies up to allowable federal limits. In 2016 the Plan was expanded to add a post-tax Roth 457 option. Eligibility for the deferred compensation plan is consistent with the defined contribution plan and employees are immediately 100% vested in any contributions and earnings thereon. The Authority does not make matching contributions to the deferred compensation plan.

11. Operation of David L. Lawrence Convention Center

By agreement dated January 1, 2002, the Authority entered into a management agreement with SMG, a Pennsylvania general partnership, to provide management services for the Convention Center. Subsequent agreements with SMG have been approved by the Board, with the current agreement expiring December 31, 2020 with an Authority option to extend until December 31, 2025. SMG is paid a fixed fee as base compensation for providing the management services, which is increased annually by the percentage increase in the CPI, and capped at 3% per year. SMG may be entitled to an annual incentive fee based on the adjusted gross income in excess of the average of the adjusted gross income for the prior three years.

The Convention Center generates revenue through rental contracts and various ancillary services charged directly to the customer. The largest component of ancillary services is food and beverage (F & B), which generated 55.8% of the Center's revenue in 2019. The Authority first entered into a contract with Levy Premium Food Service L.P. (Levy) on June 1, 2003 to provide food and beverage services for the Convention Center. In the ensuing years, the Board has approved amendments and agreements for Levy to continue to manage the F & B services at the Convention Center. The current agreement is for five years effective through December 31, 2023.

12. Parking System

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

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

combined parking revenues from 1,529 parking spaces are pledged as security for the Parking System Revenue Bonds, Series of 2017 (Note 6).

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

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

13. PPG Paints Arena Operating Lease

Pursuant to the New Arena development agreement dated September 30, 2007, as amended, and the sublease agreement dated September 18, 2007, as amended (the New Arena Lease), the annual rent and additional rent due from the Pittsburgh Penguins is (a) \$4.3 million per year to pay the debt service on Commonwealth Lease Revenue Bonds, Taxable Series B of 2007 (Note 6), (b) \$1.4 million to pay the debt service on the Commonwealth Lease Revenue Bonds, Taxable Series of 2010, and (d) \$100,000 for the use of an expanded service yard to be deposited in the Authority's restricted New Arena capital reserve account .

A parking surcharge in the amount of \$400,000 is due from the Pittsburgh Penguins each year and is deposited into the Authority restricted New Arena capital reserve account.

Under the conditions of the New Arena Lease, the Pittsburgh Penguins are granted naming and advertising rights pertaining to the New Arena. The Pittsburgh Penguins are obligated to pay all expenses in connection with the maintenance, use, repair, and occupancy of the New Arena. The Authority has certain obligations for capital repairs as defined in the Lease and paid from the Authority's New Arena capital reserve fund.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

14. Lower Hill Redevelopment

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

Pursuant to the Lower Hill Option Agreement (Original Option Agreement) dated September 18, 2007, and further amended in 2014 and 2019, between the Authority, the URA, and the Lemieux Group LP (as assigned to Pittsburgh Arena Real Estate Redevelopment LP, an affiliate of the Pittsburgh Penguins) (PAR), PAR was given rights to develop the Lower Hill site (approximately 28 acres, of which 2/3 is owned by the Authority and 1/3 by the URA), on certain terms and conditions.

15. Benedum Center Operating Lease

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

16. Historical Society of Western Pennsylvania Operating Lease

On October 22, 1991, the Authority acquired the former Chautauqua Ice Company property and entered into an agreement to lease the property to the Historical Society of Western Pennsylvania (Society). The Society has established the Heinz History Center and supporting facilities that operate as a museum, research center and cultural facility for the benefit of the general public. The lease agreement provides for annual rental of one dollar and requires the Society to pay for improvements, maintenance, utilities and insurance. The

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

lease is for a period of 25 years and was due to expire in October 2016, with options to renew for three consecutive periods of 25 years each. On August 4, 2015, the Society exercised their option for the first 25-year period, extending the lease through October 21, 2041.

17. PNC Park Operating Lease

The Authority entered into a lease agreement with Pittsburgh Associates (Pirates) with an initial term of 29.5 years, commencing in March 2001 and ending on October 31, 2030. Obligated payments to the Authority include the following components: (a) base rent of \$100,000 per year, (b) excess gate revenues ((i) 5% of gate revenues over \$44.5 million up to and including \$52 million and, (ii) 10% of gate revenues over \$52 million increased annually by the percentage increase in the average ticket price), (c) excess concession revenue ((i) if the Pirates' arrangement with its concessionaire(s) entitles the team to receive more than 42% of the aggregate gross concession revenues, the Pirates shall pay the Authority 5% of the excess over the 42% and 10% of the excess over 45% and (ii) 5% of gross food and beverage revenues in excess of \$9.00 per capita (adjusted annually by CPI increases)) and (d) ticket surcharges (the team shall receive and retain the first \$1,500,000 of ticket surcharges each year, with the next \$375,000 (adjusted annually by CPI increases) paid to the Authority for deposit into the PNC Park capital reserve fund, and the next \$250,000 paid directly to the Authority to be used at the Authority's discretion. The Pirates shall retain any ticket surcharges collected above these amounts. In fiscal year 2019, the Authority recognized \$100,000 in base rent and \$628,630 in ticket surcharges. In fiscal year 2018, the Authority recognized \$100,000 in base rent and \$780,847 in ticket surcharges. No money was received in either year for excess gate and/or excess concession revenues.

Under the conditions of the operating lease, the Pirates are granted naming, advertising, broadcasting, and telecommunications rights pertaining to PNC Park. The Pirates are obligated to pay all expenses in connection with the maintenance, use, repair, and occupancy of PNC Park. Since the opening of the facility, the Pirates have paid for certain leasehold improvements and furniture, fixtures, and equipment. Although these leasehold improvements and fixed asset purchases would remain with the building as property of the Authority upon termination of the lease, they are not capitalized by the Authority. The Authority has certain obligations for capital repairs as defined in the Lease and paid from the Authority's PNC Park capital reserve fund.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Pursuant to the lease agreement, \$650,000 per lease year is to be deposited into a PNC Park capital reserve fund.

In accordance with the Option Agreement (North Shore Option Agreement), the Stadium Authority deposited certain Pirates event parking revenues in the PNC Park development fund maintained by the Authority. Pursuant to the North Shore Option Agreement, these funds remained in the Authority account until development occurred, at which time they were transferred to the Pirates.

In accordance with the North Shore Option Agreement between the Stadium Authority and North Shore Developers, a joint venture between the Pirates and the Steelers, the Stadium Authority annually deposited certain baseball event parking revenues to the Pirates Development Fund held by the Authority. In accordance with the North Shore Option Agreement, at the direction of the Stadium Authority, these funds were to be transferred to the Pirates as development of the North Shore Option Area occurred. In October 2019, the North Shore Option Agreement was amended and in accordance therewith the Pirates Development Fund was closed and all money then in the fund was transferred and all money that would have been deposited from and after July 7, 2019 is instead deposited to the Authority's PNC Park capital reserve fund.

Pursuant to the PNC Park lease and the North Shore Option Agreement, the Pirates were to annually earn certain baseball event parking revenues (Baseball Permanent Space Revenue). Per the 2019 amendment to the option agreement, the Baseball Permanent Space Revenue is instead deposited to the PNC Park capital reserve fund.

18. Heinz Field Operating Lease

The Authority entered into a lease agreement with PSSI Stadium LLC (PSSI) with an initial term of 29.5 years, commencing in August 2001 and ending February 18, 2031. PSSI (a related entity to the Steelers) subleases the facility to Pittsburgh Steelers Sports, Inc. (Steelers) and the University of Pittsburgh. Obligated payments to the Authority include the following (a) ticket surcharge revenues from NFL events (5% ticket surcharge is imposed by the Authority on all NFL event tickets sold at Heinz Field [capped at \$3]), with the first \$1.4 million of total ticket surcharge monies collected restricted to pay principal and interest on the Ticket Surcharge Bonds and surcharge proceeds over \$1.4 million paid to the Authority for deposit into the Heinz Field capital reserve fund; (b) ticket surcharge revenues from non-

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

NFL Events (5% ticket surcharge is imposed by the Authority on all non-NFL events tickets [capped at \$2.25]) and (c) non-sporting event revenues (15% of net revenues from non-sporting events). In fiscal year 2019, the Authority recognized \$494,595 in ticket surcharge revenue from NFL events (after bond payment), \$479,889 from non-NFL event ticket surcharge, and \$35,643 from 15% non-sporting event revenues. In fiscal year 2018, the Authority recognized \$746,548 in ticket surcharge revenues from NFL events (after Bond payment), \$703,783 from non-NFL event ticket surcharge, and \$24,778 from 15% of non-sporting event revenues.

On October 15, 2014, the Authority and PSSI entered into an Amendment to the Lease Agreement (Amendment) whereby, beginning June 1, 2015, PSSI pays additional annual rent of \$2,110,000, which is pledged to pay principal and interest on the Guaranteed Revenue Bonds, Taxable Series of 2014 (see Note 6). This money was received in 2019 and 2018. Pursuant to the Amendment beginning April 1, 2015 and continuing thereafter if certain conditions are met, an additional, fixed \$1 capital reserve fund ticket surcharge (Additional Surcharge) is imposed on all tickets sold for all NFL events and non-NFL events utilizing the seating bowl of Heinz Field, and is to be deposited into the Heinz Field capital reserve fund. \$991,000 was generated in 2019 and \$1.2 million in 2018 from the \$1 Additional Surcharge and was deposited to the Heinz Field capital reserve fund.

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

Pursuant to the lease agreement, \$650,000 per lease year (increased by CPI) is to be deposited into a Heinz Field capital reserve fund.

In accordance with an option agreement (North Shore Option Agreement) between the Stadium Authority and North Shore Developers, a joint venture between the Pirates and the Steelers, the Stadium Authority annually deposited certain football event parking revenues to the Steelers Development Fund held by the Authority. In accordance with the North Shore Option Agreement, at the direction of the Stadium Authority, these funds were to be transferred to the Steelers as development of the North Shore Option Area occurred. In

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

October 2019, the North Shore Option Agreement was amended and in accordance therewith the Steelers Development Fund was closed and all money then in the fund was transferred and all money that would have been deposited from and after July 7, 2019 is instead deposited to the Authority's Heinz Field capital reserve fund.

Pursuant to the Heinz Field lease and the North Shore Option Agreement, the Steelers were to annually earn certain football event parking revenues (Football Permanent Space Revenue). Per the 2019 amendment to the option agreement, the Football Permanent Space Revenue is instead deposited to the Authority's Heinz Field capital reserve fund.

19. Commitments and Contingencies

Litigation

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

Economic Factors

In early 2020, an outbreak of a novel strain of coronavirus was identified in Wuhan, China. The coronavirus has since spread and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on trade, travel, employee productivity, and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The extent of the impact of the coronavirus on our operational and financial performance is currently uncertain, cannot be predicted, and will depend on certain developments, including, among others, the duration and spread of the outbreak, its impact on our customers, employees and vendors, and governmental, regulatory, and private sector responses, which may be precautionary, to the coronavirus.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Variable Rate Changes

With respect to the New Arena Bonds (Taxable Series B), the interest index on the variable arm of the swap is based on 1M LIBOR (Note 9). While LIBOR has been the most widely used interest rate benchmark, there is now a transition away from the use of LIBOR and an expectation that it will no longer be published by the end of 2021. In 2014, the Federal Reserve formed the Alternative Reference Rates Committee (ARRC) to select a replacement for US Dollar LIBOR. In 2017, ARRC announced the Secured Overnight Financing Rate (SOFR) as its recommended replacement and the New York Federal Reserve Bank is now publishing SOFR. The Federal Reserve has also tasked ARRC with guiding the transition to SOFR. The Taxable Series B swap contract is governed by the International Swaps and Derivatives Association (ISDA) documentation. ISDA has been in the process of consulting with regulators and industry groups in order to publish "Amendments to the 2006 ISDA Definitions and related protocol" that is expected to address the cessation risk of LIBOR and include reference to the new SOFR. In concert with this publication, industry participants and counterparties, the Authority will seek to implement an appropriate transition, agreeing to contractual fallback provisions with respect to the Taxable Series B swap agreement and bond documents, before the cessation of LIBOR.

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Total Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. Department of Transportation</u>				
National Infrastructure Investments	20.933	FHWA FY 2016 TIGER Grant No. 13	\$ 2,408,955	\$ 2,098,414
National Infrastructure Investments	20.933	FHWA FY 2014 TIGER Planning Grant No. 12	<u>166,876</u>	<u>-</u>
Subtotal National Infrastructure Investments - 20.933			<u>2,575,831</u>	<u>2,098,414</u>
Highway Planning and Construction Cluster: Passed Through Pennsylvania Department of Transportation: Highway Planning and Construction	20.205	General Reimbursement Agreement for Federal Aid Agreement No. 118895 MPMS No. 97846	<u>56,805</u>	<u>-</u>
Total U.S. Department of Transportation			<u>2,632,636</u>	<u>2,098,414</u>
Total Expenditures of Federal Awards			<u>\$ 2,632,636</u>	<u>\$ 2,098,414</u>

See accompanying notes to schedule of expenditures of federal awards.

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority) under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Authority.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority has elected to not use the 10-percent de minimis cost rate allowed under the Uniform Guidance.

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

Independent Auditor's Reports
Required by the Uniform Guidance

For the Year Ended December 31, 2019

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sports & Exhibition Authority of Pittsburgh and Allegheny County (Authority), which comprise the statement of net position as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 9, 2020.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maier Duessel

Pittsburgh, Pennsylvania
April 9, 2020

Independent Auditor’s Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for the Major Federal Program

We have audited the Sports & Exhibition Authority of Pittsburgh and Allegheny County’s (Authority) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the Authority’s major federal program for the year ended December 31, 2019. The Authority’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Authority’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority’s compliance.

Board of Directors
Sports & Exhibition Authority of Pittsburgh and Allegheny County
Independent Auditor's Report on Compliance
for the Major Program

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

Board of Directors
Sports & Exhibition Authority of Pittsburgh and Allegheny County
Independent Auditor's Report on Compliance
for the Major Program

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maier Duessel

Pittsburgh, Pennsylvania
April 9, 2020

SPORTS & EXHIBITION AUTHORITY OF PITTSBURGH AND ALLEGHENY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2019

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?

yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?

yes none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

7. Major Programs:

CFDA Number(s)
20.933

Name of Federal Program or Cluster
National Infrastructure Investments

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

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

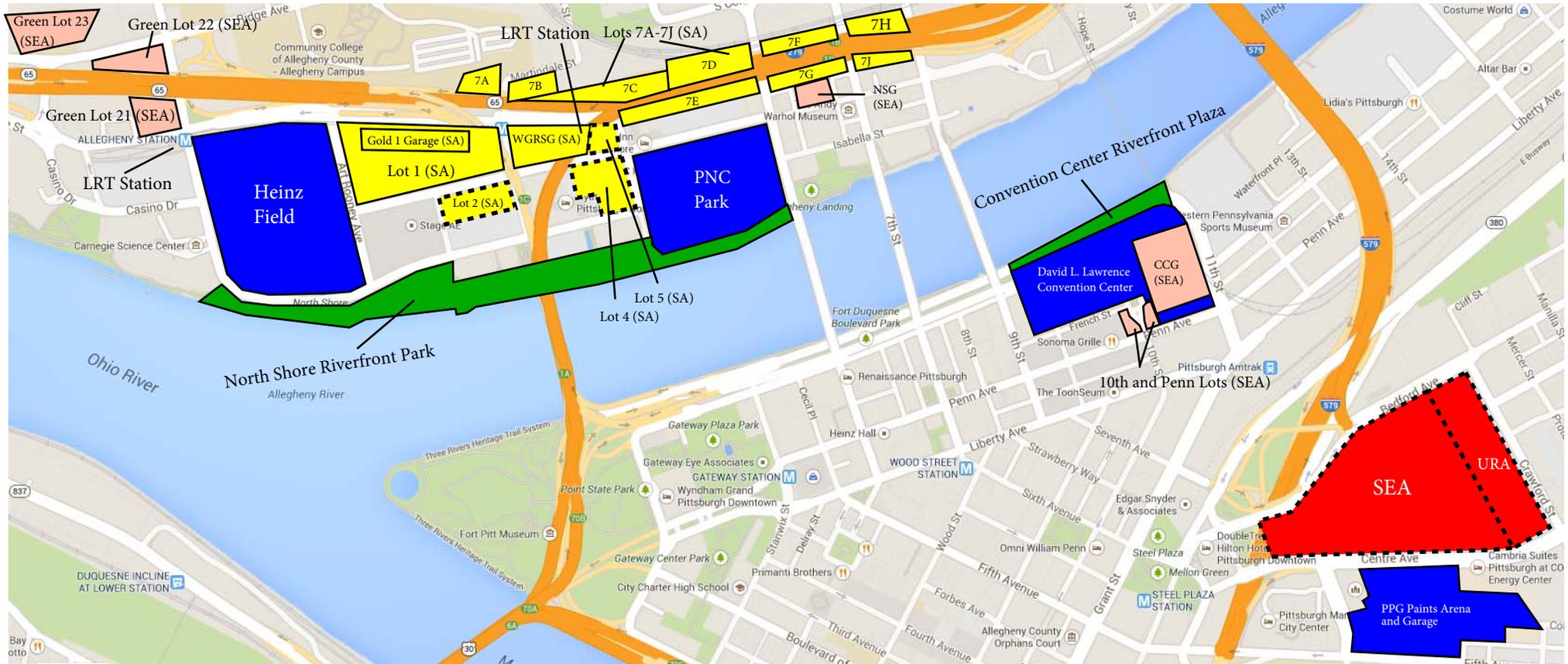
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2019

NONE

OTHER INFORMATION

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



- Sports and exhibition venues owned by SEA (PPG Paints Arena includes a 640 space integral garage leased to the Penguins)
- SA parking lots and garages: land for Lots 7A-7J leased long-term from PennDOT; "WGRSG" refers to West General Robinson Street Garage
- SEA parking lots and garages: "NSG" refers to North Shore Garage; "CCG" refers to Convention Center Garage
- 28-Acre Lower Hill Redevelopment site (19 acres owned by SEA; 9 acres owned by Urban Redevelopment Authority); Penguins hold development option; SEA currently coordinating with City and PennDOT on I-579 Cap Project construction; Penguins currently receive surface parking revenues
- North Shore Riverfront Park and Convention Center Riverfront Plaza, both owned by SEA
- ⚙ Remaining North Shore development parcels (owned by SA); joint venture of Steelers and Pirates holds development option; development of Lot 4 in planning stages