DRAFT

RIO NUEVO
MULTIPURPOSE FACILITIES DISTRICT

YEAR ENDED JUNE 30, 2012

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

YEAR ENDED JUNE 30, 2012

CONTENTS

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RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental activities
Assets:	
Cash and cash equivalents	$ 9,084,629
Pooled cash and investments with City of Tucson (note 2)	5,734,929
Cash and investments with fiscal agent, restricted (note 2)	21,299,640
Taxes receivable	5,524,136
Due from City of Tucson (note 10)	13,702,386
Other current assets	56,239
Debt issuance costs, net	1,559,457
Long-term Fox note receivable (note 9)	2,900,000
Capital assets, not depreciated (note 3)	8,086,872
Capital assets, depreciated, net (note 3)	26,921,769
Total assets	94,870,057
Liabilities:	
Accounts payable	107,316
Accrued expenses	98,719
Due to City of Tucson (note 9)	2,180,455
Liabilities payable from restricted assets	9,375,198
Noncurrent liabilities:	
Due within one year (note 4)	7,771,494
Due in more than one year (note 4)	81,910,891
Total liabilities	101,444,073
Commitments and contingencies	
Net assets:	
Invested in capital assets, net of related debt	29,373,555
Restricted for debt service	11,483,127
Unrestricted	(47,430,698)
Total net assets	$ (6,574,016)

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

	Governmental activities
Expenses:	
Downtown development:	
Amortization	$ 192,395
Depreciation	883,648
Insurance	48,421
Interest	5,520,041
Other	36,724
Professional and consulting	860,173
Prior suspended project costs	2,180,455
Write-down of Fox note receivable	3,617,577
Total program expenses	13,339,434
Program revenues:	
Charges for services	3,822,536
Net program expense	9,516,898
General revenues:	
Sales taxes	12,170,533
Investment earnings	21,382
Total general revenues	12,191,915
Change in net assets	2,675,017
Net assets, beginning of year, as restated	(9,249,033)
Net assets, end of year	$ (6,574,016)

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2012

ASSETS

	General	Series 2008 revenue bonds	Series 2009 COPs	Total governmental funds
Assets:				
Cash and cash equivalents	$ 4,084,629	$ 5,000,000		$ 9,084,629
Pooled cash and investments with City of Tucson	4,208,080	1,527,724	$ (875)	5,734,929
Cash and investments with fiscal agent, restricted	20,858,326		441,314	21,299,640
Taxes receivable	5,524,136			5,524,136
Other current assets	51,778	4,461		56,239
Total assets	$ 34,726,949	$ 6,532,185	$ 440,439	$ 41,699,573

LIABILITIES AND FUND BALANCES

	General	Series 2008 revenue bonds	Series 2009 COPs	Total governmental funds
Liabilities:				
Accounts payable	$ 107,316			$ 107,316
Accrued expenses	98,719			98,719
Liabilities payable from restricted assets	9,375,198			9,375,198
Total liabilities	9,581,233			9,581,233
Commitments				
Fund balances:				
Nonspendable	51,778			51,778
Restricted	11,483,127			11,483,127
Committed		$ 6,532,185	$ 440,439	6,972,624
Unassigned	13,610,811			13,610,811
Total fund balances	25,145,716	6,532,185	440,439	32,118,340
Total liabilities and fund balances	$ 34,726,949	$ 6,532,185	$ 440,439	$ 41,699,573

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total fund balances - governmental funds	$ 32,118,340
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	35,008,641
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Due from City of Tucson	13,702,386
Long-term Fox note receivable	2,900,000
The unamortized portion of debt issuance costs is not available to pay for current period expenditures and, therefore, is not reported in the funds.	1,559,457
Certain liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Revenue bonds	(75,528,216)
Certificates of participation	(12,437,675)
City of Tucson loan	(1,716,494)
Due to City of Tucson	(2,180,455)
Net assets of governmental activities	$ (6,574,016)

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2012

	General	Series 2008 revenue bonds	Series 2009 COPs	Total governmental funds
Revenues:				
Sales taxes	$ 12,851,679			$ 12,851,679
Charges for services	3,822,536			3,822,536
Investment earnings	21,335		$ 47	21,382
Total revenues	16,695,550		47	16,695,597
Expenditures:				
Downtown development	945,179		36	945,215
Debt service:				
Principal	6,809,629			6,809,629
Interest	5,520,041			5,520,041
Total expenditures	13,274,849		36	13,274,885
Net change in fund balances	3,420,701		11	3,420,712
Fund balances, beginning of year	21,725,015	$ 6,532,185	440,428	28,697,628
Fund balances, end of year	$ 25,145,716	$ 6,532,185	$ 440,439	$ 32,118,340

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

Net change in fund balances - governmental funds	$ 3,420,712
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Depreciation expense	(883,648)
Certain revenues relating to sales taxes in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(681,146)
Changes in the allowance for doubtful account on a long-term note receivable does not require the use of current financial resources and, therefore, is not reported in the governmental funds.	(3,617,677)
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(2,180,455)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the statement of net assets. In the current year, the amounts consist of:	
Principal paid	6,815,000
Amortization of discount	88,367
Amortization of premium	(93,741)
Issuance costs are deferred in the statement of net assets and amortized over the life of the debt. In the governmental funds, they represent an expenditure at the time of debt issuance. The following represents the amount by which issuance costs exceeded amortization expenses:	
Amortization of debt issuance costs	(192,395)
Change in net assets of governmental activities	$ 2,675,017

See notes to financial statements.

1. Description of organization and summary of significant accounting policies:

The accounting policies of Rio Nuevo Multipurpose Facilities District (the District) conform to U.S. generally accepted accounting principles applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB) and the regulatory requirements of the State of Arizona.

Reporting entity:

The District was established in 1999 with the passage of Proposition 400 by the voters in the Cities of Tucson and South Tucson. Under applicable Arizona Revised Statutes, the District can utilize tax incremental financing to help develop multipurpose facilities in the downtown Tucson area. The original life of the District was 10 years. In 2006, passage of House Bill 2702 extended the life of the District to 25 years. Prior to March 2010, the District was governed by a Board of Directors appointed by the Mayors and Councils of the Cities of Tucson and South Tucson. Through a weighted-average voting system, the City of Tucson (the City) maintained control of the District. Although the District is a legally separate entity, ultimate financial accountability was with the City of Tucson. In prior years, the District was included in the financial statements of the City of Tucson as a discretely presented component unit and separately issued financial statements were not prepared.

In November 2009, the Arizona State Legislature passed Senate Bill 1003, which changed the configuration of the District's Board. The legislation increased the size of the Board from four to nine members, with five members appointed by the Governor, two members appointed by the President of the Senate, and the remaining two members appointed by the Speaker of the House of Representatives. In March 2010, the newly reconstituted Board met for the first time. As a result of this change, it was determined that ultimate financial accountability for the District is now with the State, rather than the City, and the District will be included in the financial statements of the State of Arizona.

Government-wide and fund financial statements:

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between entities to enhance the usefulness of the information.

The government-wide statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall District.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges to customers for services provided.

1. *Description of organization and summary of significant accounting policies (continued):*

Government-wide and fund financial statements (continued):

Revenues that are not classified as program revenues, including all taxes and internally dedicated resources, are reported as general revenues.

Fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds, if any, are aggregated and reported as nonmajor funds.

Measurement focus, basis of accounting and financial statement presentation:

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The District receives Tax Increment Financing (TIF) from the state transaction privilege tax revenue (sales tax or TIF revenue) generated within the District's boundaries that exceed the 1999 base year. All sales taxes are collected by the Arizona Department of Revenue and remitted to the City, on behalf of the District. In the government-wide financial statements, sales taxes are recognized as revenue in the fiscal period in which related sales take place. In the governmental fund financial statements, sales taxes are reflected as revenues in the fiscal period for which the sales relate, provided they are due, or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days). Otherwise they are reported as deferred revenues.

Leases and investment earnings associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

1. Description of organization and summary of significant accounting policies (continued):

Measurement focus, basis of accounting and financial statement presentation (continued):
The District reports the following major governmental funds:

The general fund accounts for all financial resources except those required to be accounted for in another fund.

The series 2008 revenue bond fund is used to account for revenue bond proceeds to be used for the acquisition or construction of various major capital assets within the downtown Tucson area, of which the remaining cash balance has been committed by the District.

The series 2009 Certificates of Participation (COPs) fund is used to account for the COP proceeds to be used for the acquisition or construction of major capital assets relating specifically to the Tucson Convention Center (TCC) improvements and design of a hotel adjacent to the TCC, whose cash with the fiscal agent has been committed by the District.

Estimates:
The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic 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:
The District has cash and cash equivalents with two credit institutions. The District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Pooled cash and investments:
The District has cash and investments held by and in the City of Tucson's pooled account. Investments, as managed and administered by the City of Tucson, are reported at fair value. The fair value of the pooled investments is based on current market prices. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market price are reported at estimated fair value. Estimated fair value for real estate investments are established by third party appraisers.

Income from pooled investments is allocated to the District's funds based on each City fund's monthly average daily cash balance in relation to the total pooled investments. Income from nonpooled investments is recorded based on the specific investments held by the fund. All other interest income is recorded in the fund that earned the interest.

1. Description of organization and summary of significant accounting policies (continued):

Cash and investments with fiscal agent, restricted:

Certain proceeds of the District's long-term debt are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

Receivables and deferred revenue:

Accounts receivable consists primarily of amounts due from the State of Arizona for sales taxes. Sales taxes receivable for the governmental funds, which have been received from the state within 60 days subsequent to year end, are considered measurable and available and recognized as revenues. All other sales taxes are offset by deferred revenues and, accordingly, have not been recorded as revenue, if any.

Debt issuance costs:

In the government-wide financial statements, the costs of issuing debt are deferred and amortized over the life of the debt using the straight-line method. In the fund financial statements, debt issuance costs are recognized when incurred as debt service expenditures and not deferred.

Capital assets:

Capital assets, which include land, buildings and improvements, and equipment are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation, if and when they occur.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land	Not depreciated
Buildings and improvements	10 to 50 years
Equipment	6 years

1. Description of organization and summary of significant accounting policies (continued):

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as noncurrent liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, the face amount of debt issued is reported as other financing sources and principal and interest payments are recognized as expenditures in the statement of revenues, expenditures and changes in fund balances. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund balance:

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints
- Restricted – includes fund balance amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, the Governing Board
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the executive members of the Governing Board
- Unassigned – includes positive fund balance within the general fund, which has not been classified within the above mentioned categories, and negative fund balances in other governmental funds

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

1. Description of organization and summary of significant accounting policies (continued):

Subsequent events:

The District's management has evaluated the events that have occurred subsequent to June 30, 2012 through February 5, 2013, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Cash and investments:

Cash and investments consist of the following:

Cash and cash equivalents:	
Unrestricted	$ 4,084,629
Restricted for purchase of capital assets	5,000,000
	9,084,629
City of Tucson investment pool:	
Unrestricted	4,208,080
Restricted for purchase of capital assets	1,526,849
	5,734,929
Cash and investments with fiscal agent:	
Restricted for purchase of capital assets	441,314
Restricted for debt service requirements	20,858,326
	21,299,640
	$ 36,119,198

The District has $5,734,929 of cash on deposit in the City of Tucson's pooled investment account per City of Tucson accounting management that is available on demand at June 30, 2012. The City pools the District's cash with other City departments for investment. The District's deposit is not identified with specific investments.

For the City investment pool, the City Charter and State Statutes authorize the City to invest in obligations of the U.S. Government, its agencies and instrumentalities, money market funds, repurchase agreements, bank certificates of deposit, commercial paper rated A-2/P-2 (or better), corporate bonds and notes rated AAA or AA, and the State of Arizona Local Government Investment Pool.

The District does not have a formal investment policy regarding exposure to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. However, the District's investments in the City of Tucson investment pool followed the City of Tucson's formal investment policy, as explained below.

2. Cash and investments (continued):

Credit risk, concentration of credit risk and custodial credit risk - as defined by GASB Statement 40, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Associated with credit risk is concentration of credit risk and custodial credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The City has the following investment policies governing the City investment pool account that addresses the various credit risks defined above. Investments shall be limited to the following instruments and percentages:

- Obligations of the U.S. Government, its agencies and instrumentalities
- Repurchase agreements whose underlying collateral is commercial paper rated A-1/P-1 with maturities not to exceed 180 days or rated A-2/P-2 with maturities not to exceed 60 days
- Bonds, notes and debentures issued by U.S. corporations rated "AAA" or "AA" by Moody's and Standard & Poors
- Money market funds, CD's, etc., either insured by an agency of the federal government or collateralized by obligations of the U.S. Government, its agencies and instrumentalities or General Obligation municipal bonds rated A or better at 105% of the amount on deposit calculated on market values. The collateral must be held by the Trust department of the financial institution or delivered to the City's agent
- Except for direct obligations of the U.S. Treasury, not more than 25% of the portfolio shall be invested in securities issued by a single agency or instrumentality of the United States. Not more than 5% of the portfolio shall be invested in securities of any other entity
- A minimum of 15% of the portfolio shall be in highly liquid securities
- Not more that 25% of the portfolio shall be invested in corporate bonds, notes and commercial paper

2. Cash and investments (continued):

Interest rate risk - as defined by GASB Statement 40, interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The City's investment pool account maintains the following investment policy with regard to interest rate risk:

- Surplus and idle money related to the day-to-day operation of the City may be invested in authorized investments with a final maturity not exceeding two years from the date of investment
- Monies not related to the day-to-day operation of the City may be invested for periods up to three years with maturities base upon anticipated needs
- Not more than 25% of the portfolio shall be invested in securities with a maturity longer than two years
- Not more than 50% of the portfolio shall be invested in securities with a maturity longer than eighteen months.

Foreign currency risk - The City's investment policy does not allow foreign investments.

3. Capital assets:

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning balance, as restated	Increases	Decreases	Ending balance
Capital assets, not depreciated:				
Land	$ 8,086,872			$ 8,086,872
Total capital assets, not depreciated	8,086,872			8,086,872
Capital assets, depreciated:				
Buildings and improvements	34,662,809			34,662,809
Equipment	5,800			5,800
Total capital assets, depreciated	34,668,609			34,668,609
Less accumulated depreciation for:				
Buildings and improvements	(6,857,636)	$ (883,404)		(7,741,040)
Equipment	(5,556)	(244)		(5,800)
Total accumulated depreciation	(6,863,192)	(883,648)		(7,746,840)
Total capital assets, depreciated, net	27,805,417	(883,648)		26,921,769
Total capital assets, net	$ 35,892,289	$ (883,648)		$ 35,008,641

4. Changes in noncurrent liabilities:

A summary of the changes in noncurrent liabilities for the year ended June 30, 2012 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds, series 2005	$ 2,380,000		$ (670,000)	$ 1,710,000	$ 1,710,000
Revenue bonds, series 2008	77,510,000		(2,620,000)	74,890,000	3,585,000
COPs, series 2002	3,525,000		(3,525,000)		
COPs, series 2009	12,560,000			12,560,000	760,000
City of Tucson loan	1,716,494			1,716,494	1,716,494
Deferred amount:					
on premiums	88,366		(88,366)		
on discounts	(1,287,847)		93,738	(1,194,109)	
	$ 96,492,013		$ (6,809,628)	$ 89,682,385	$ 7,771,494

The District follows a historical policy that reports payments scheduled to be made in July 2013 as due within one year.

5. Certificates of participation:

In November 2009, the District issued COPs, Series 2009, in the amount of $12,560,000. The District used the proceeds from the COPs to pay the costs of certain improvements to the Tucson Convention Center (TCC) and costs of the design and development of a hotel adjacent to the TCC through a trustee (Wells Fargo Bank, N.A.) who, in turn, leases the assets to the District. The District's lease payments to the trustee repay the COPs. The lease payments are payable in semi-annual installments of principal and interest, with rates ranging from 3% to 4.5% through July 1, 2025. The COPs are secured by the leased property and guaranteed by the City of Tucson.

This debt incurred a discount of $147,268 and the costs of issuance of $312,065 that is being amortized over the life of the debt.

5. Certificates of participation (continued):

Future principal and interest payments on the series 2009 COPs are as follows:

Year ending June 30,	Principal	Interest	Total
2013	$ 760,000	$ 521,400	$ 1,281,400
2014	785,000	498,600	1,283,600
2015	810,000	471,125	1,281,125
2016	845,000	438,725	1,283,725
2017	880,000	404,925	1,284,925
2018 - 2022	4,955,000	1,456,250	6,411,250
2023 - 2026	3,525,000	321,750	3,846,750
	$ 12,560,000	$ 4,112,775	$ 16,672,775

In April 2002, the District issued COPs, Series 2002, in the amount of $33,575,000. The District used the proceeds to acquire the TCC through a trustee (Wells Fargo Bank, N.A.) who, in turn, leases the assets to the District. The District's lease payments to the trustee repay the COPs. The lease payments are payable in semi-annual installments of principal and interest, with rates ranging from 4% to 5% through July 1, 2012. The COPs are secured by the leased property and guaranteed by the City of Tucson.

This debt incurred a premium of $908,117 and the costs of issuance of $527,381 that was amortized over the life of the debt.

The final principal and interest payment of $3,613,125 on these COPs was made on July 1, 2012 and is included in liabilities payable from restricted assets at June 30, 2012.

6. Revenue bonds:

In December 2008, the District issued $80,000,000 Subordinate Lien Excise Tax Revenue Bonds, Series 2008 to fund certain projects and for partial repayment to the City for moneys advanced for these and other projects in previous fiscal years. Principal and interest is payable semiannually on July 15 and January 15 each year through July 15, 2025, with interest rates ranging from 5% to 6.6%. The District has pledged to the trustee (Wells Fargo Bank, N.A.) future sales tax revenues to repay the bonds. The District must also maintain a reserve fund equal to the lessor of 10% of the original par value, the maximum annual debt service, or 125% of the average annual debt service on the 2008 bonds.

This debt incurred a discount of $1,356,374 and the costs of issuance of $1,619,680 that is being amortized over the life of the debt.

6. Revenue bonds (continued):

Future principal and interest payments on the series 2008 revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2013	$ 3,585,000	$ 4,538,031	$ 8,123,031
2014	3,870,000	4,349,819	8,219,819
2015	4,020,000	4,136,969	8,156,969
2016	4,230,000	3,935,969	8,165,969
2017	4,465,000	3,713,894	8,178,894
2018 - 2022	26,735,000	14,361,206	41,096,206
2023 - 2026	27,985,000	4,230,381	32,215,381
	$ 74,890,000	$ 39,266,269	$114,156,269

In November 2005, the District issued $5,800,000 Junior Lien Excise Tax Revenue Bonds, Series 2005 to renovate the historic Fox Theatre. Principal and interest is payable semiannually on July 1 and January 1 each year through July 1, 2013, with interest rates ranging from 4.9% to 6%. The District has pledged to the trustee (Wells Fargo Bank, N.A.) future sales tax revenues to repay the bonds. The District must also maintain a $1 million reserve fund.

This debt incurred a discount of $17,775 and the costs of issuance of $177,691 that is being amortized over the life of the debt.

Future principal and interest payments on the series 2005 revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2013	$ 1,710,000	$ 102,600	$ 1,812,600

7. Rental income:

As noted in note 5, the District leases the TCC from the trustee. The District subleases the TCC to the City of Tucson with the City's lease payments matching the District's lease payments to the trustee. The City is also responsible for paying all taxes, insurance and maintenance expenses that arise from the use of the property. The original term of the lease was through June 30, 2012; however, the lease was amended in November 2009 and extended to June 30, 2025 with the issuance of the 2009 COPs. Rental income attributable to this lease was $3,701,250 for 2012.

7. Rental income (continued):

The District leases land to an unrelated party on a month-to-month agreement, with monthly rent of $1,716, which increases 3% every February. This land lease is in the name of the City of Tucson; however, the District and City believe that the rental income is most appropriate on the District's books. As part of a settlement agreement between the City and District, as more fully disclosed at note 10, the City will convey title of the property to the District, of which the cost basis was already included in capital assets on the District's books at June 30, 2012. Rental income attributable to this lease was $20,588 for 2012.

The District also leases land to an unrelated party in an agreement expiring in March 2013. Monthly rental income on this lease is $848 and increases 5% every April. This land lease is in the name of the City of Tucson. During 2012, the District instructed the City they did not want to receive this rental income as the District has no claim to the land. Rental income attributable to this lease was $1,738 for 2012.

As noted in note 9, the District owns the building that houses the historic Rialto Theatre and leases the theatre to the Rialto Theatre Foundation (Rialto Foundation). Lease payments are $3,690 per month for ten years ending May 2015. For the subsequent 40 years of the lease, payments will be the greater of $3,690 or 3% of gross receipts generated by operation of the Rialto. Rental income attributable to this lease was $44,280 for 2012.

The District has a 14th Extension of the Temporary Parking Agreement for the Depot Plaza Garage with the City of Tucson, expiring December 30, 2012. The District helped fund the construction of the Depot Plaza Garage; however, the City maintains title to the property. Recognition for monies expanded by the District is finalized in the settlement agreement between the City and District (see note 10). Income from this agreement was $56,585 for 2012.

The District owns a building used as administrative offices for the Presidio and leases the building to an unrelated party in an agreement that renews annually. Rental income is $5 per year and the tenant is responsible for paying all taxes, insurance and maintenance expenses that arise from the use of the property.

8. City of Tucson:

The District, as of the first meeting of the reconstituted Board on March 10, 2010, was no longer to be treated or managed as a component unit of the City. Both the District and the City work to make improvements aimed at revitalizing and generating economic development opportunities in the downtown Tucson area. In March 2011, the District and City signed a revised Intergovernmental Agreement (IGA) relating to District governance and operations. The City still assists the District with certain financial accounting services, such as facilitating the Arizona Department of Revenue's collection and remittance of the TIF revenue, tracking cash pooled at the City of Tucson, and handling debt service payments out of the various restricted fiscal agent accounts.

8. City of Tucson (continued):

Prior to the creation of the reconstituted Board, the City either created loans to the District or allocated funds per a statutory "match" requirement of approximately $14 million to cover certain disputed project/development expenses incurred prior to the District receiving the TIF revenue stream, of which $1,716,494 was outstanding at June 30, 2012. The interest rate charged on this loan, 4.5%, was currently at issue, as the original IGA dictates that interest should be based on short-term rates of the City. It was reported by the October 2010 Performance Audit that the District overpaid approximately $442,000 in interest. The settlement agreement (note 10), instructs the City to waive and release any claims it has to these loans. As a result, $1,716,494 will be removed as a liability and a settlement gain recognized in the financial statements during 2013.

9. *Commitments and contingencies:*

Intergovernmental agreements:

The District is party to a variety of intergovernmental agreements (each an "IGA") it inherited that were primarily entered into by the City of Tucson when it administered and managed the District prior to March 2010.

The District has an agreement with the Fox Tucson Theatre Foundation (Foundation) in which the District agreed to provide funding and assistance in support of the restoration of the historic Fox Theatre in downtown Tucson. As part of the agreement, the District owns the theatre and the Foundation leases the theatre from the District. The total repayment of this loan was scheduled over a 15-year period, and equals the total amount of principal ($5.8 million) and interest ($1,680,224) payments the District will make on the series 2005 bonds, for a total sum of $7,480,224. The loan payments are due in $1.5 million installments every five years and, at the end of the 15-year period, the Foundation shall pay an amount determined by the District based on the outstanding balance of the amount paid to the Foundation plus the interest accumulated on the debt services of the funds. The first installment was due in September 2011. The Foundation is currently in default as it did not make this first principal installment of $1.5 million.

Annual interest on this agreement was recorded as interest income on the government-wide financial statements through June 30, 2011. Interest was not recorded in the governmental funds because it was not collectable within 60 days of year-end. The Foundation has not paid any interest payments to date, therefore, no interest income is recorded in the funds. The District has subsequently agreed to negotiate with the Foundation on restructuring the debt repayment schedule.

The principal and accrued interest are recorded as long-term note receivable on the statement of net assets. The District has evaluated the collectability of this outstanding receivable and determined to place the account on non-accrual status. The District has established an allowance for the entire accrued interest and half of the principal at June 30, 2012.

9. Commitments and contingencies (continued):

Intergovernmental agreements (continued):

Principal balance	$ 5,800,000
Accrued interest	717,677
	6,517,677
Less allowance for doubtful account	3,617,677
	$ 2,900,000

The District also has an agreement with the Rialto Theatre Foundation, formally known as Congress Street Historic Theatres Foundation (Rialto Foundation) in which the District agreed to provide funding and assistance in support of the restoration of the historic Rialto Theatre in downtown Tucson. As part of the agreement, the District owns the theatre and Rialto Foundation leases the theatre from the District. Lease payments are $3,690 per month for ten years beginning May 2, 2005. For the subsequent 40 years of the lease, payments will be the greater of $3,690 or 3% of gross receipts generated by operation of the Rialto Theatre. As of June 30, 2010, Rialto Foundation had not made any monthly lease payments and owed the District approximately $110,000 in back rent. Effective Fall 2010, the District entered into a revised agreement with Rialto Foundation, whereby future improvements to the Rialto Theatre can offset the outstanding back rent.

The pre-2010 District entered into an IGA with the City of Tucson and the Arizona Board of Regents acting on behalf of the University of Arizona (UA) in 2004. It was subsequently amended in 2007 to state that the District would be responsible for up to $130,000,000 of the cost of the project. The agreement was entered into for the construction and operation of a science center to be owned and operated by the UA. As of June 30, 2012, the District has contributed approximately $7.5 million to the project. The agreement has termination clauses and the reconstituted Board believes this agreement has been terminated by all parties.

Prior suspended project costs:

Previously, the reconstituted Board determined to suspend payment on various projects associated and not associated with the TCC, regarding contracts where the District was not a party to the contract or otherwise in contravention of the District's legislative mandate. Invoices relating to the years ended June 30, 2010 and 2011 that were received after the Board's decision were not recorded in the District's financial statements as of June 30, 2011. The Board's position, at that time, was that the funds were not an obligation of the District and not considered due and owing. During 2012, the current Board re-evaluated the suspended project costs. The current Board's assessment, based on advice of legal counsel, is that these project costs are valid claims and are payable by the District. The District recorded a liability of $2,180,455 at June 30, 2012 to reflect amounts due to the City as reimbursement for payments made on behalf of the District. The settlement agreement (note 10) addressed these suspended project costs and specifically stipulates the District will reimburse the City $2,180,455 for these costs.

9. Commitments and contingencies (continued):

Prior suspended project costs (continued):

In connection with the TCC, while under review and dispute, the District believes the approved guaranteed maximum price budget has been paid in full to date.

Litigation:

The District is engaged in various lawsuits, either as plaintiff or defendant, involving breach of contract and defamation. In the opinion of management, based upon advice of counsel, the ultimate outcome of these lawsuits may have a material impact on the District's financial statements and the amounts, if any, cannot reasonably be determined at the present time.

10. Settlement agreement:

The District continued to claim ownership of several parcels of land and developed projects within the District boundaries that were funded with District funds, which are not recorded as capital assets at June 30, 2011. The City presently holds title to these properties and disagreed that the District was entitled to any ownership interest. The District has filed a number of legal proceedings to support its contention. The District and City reached a resolution regarding these disputed properties in a settlement agreement (the agreement) during 2013.

As a result of the agreement, the District has agreed to expend no less than $6,000,000 on renovation costs for the Tucson Convention Center (TCC).

The City will represent to the District all known claims relating to the Arena Site (the Site) within 30 days of the date of execution of this agreement. The District will then elect to accept or reject title of the Site. If the District accepts title, the City will convey fee title to the District. If the District rejects title, the City will continue to own the Site and the District will be reimbursed for its prior expenditures relating to the property, totaling $894,000, upon the sale, long-term lease or other disposition of the Site by the City. The City's obligation expires in Janaury 2050 or upon termination of the District.

The City will retain ownership of the Depot Garage (the Garage) and shall be responsible for operation and maintenance of the Garage. However, in recognition of the $13,702,386 already expended by the District for construction of the Garage, a due from the City of Tucson is recorded as of June 30, 2012. The City shall pay the District a monthly fee with increasing payments through 2016 and, starting in 2017, payments increase 4% over the prior year through 2050, or through the termination of the District.

10. Settlement agreement (continued):

The future payments to be received under this agreement are as follows:

Year ending June 30,	
2013	$ 29,000
2014	82,000
2015	144,500
2016	234,000
2017	290,700
2018 - 2022	1,637,506
2023 - 2027	1,992,276
2028 - 2032	2,423,909
2033 - 2037	2,949,056
2038 - 2042	3,587,977
2043 - 2047	4,365,323
2048 - 2050	3,601,637
	$21,337,884

Further, if the City sells the Garage, the District will be entitled to receive the lessor of the total sales proceeds or $16 million less the total amount of the above payments received by the District as of the date of sale.

As a further result of the agreement, the City shall convey title to the Westside Parcel. This asset was not recorded on the District's books at June 30, 2012; however, will be recorded during 2013. Further, the District agrees to complete the Mission Gardens project, with total funding not to exceed $1,100,000. The District also agrees to fund within the next two years, in an amount not to exceed $750,000, City-approved streetscape improvements downtown.

11. Concentrations:

The District derives the majority of its revenue from tax increment financing revenue and the lease revenue from the TCC. For the year ended June 30, 2012, sales tax revenue comprised 76% of total revenues and TCC lease revenue comprised 23% of total revenues in the government-wide financial statements.

12. Accounting restatements:

During the year ended June 30, 2012, the District determined that certain assets recorded on the books were not legally titled to the District. As a result, construction in progress, buildings and improvements, equipment, land and accumulated depreciation were overstated at June 30, 2011. The District also determined certain construction in progress related to canceled jobs was not written off in a prior year. As a result, construction in progress was overstated in prior years. Further, the District determined certain amounts expended in prior years on projects should have been recorded as due from the City of Tucson. As a result, assets were understated. These adjustments resulted in the following change to net assets as of June 30, 2011.

	Governmental activities
Net assets, beginning of year, as previously stated	$ 10,530,870
Adjustment to construction in progress	(32,643,614)
Adjustment to buildings and improvements	(110,556)
Adjustment to equipment	(25,693)
Adjustment to land	(1,162,022)
Adjustment to accumulated depreciation	459,596
Adjustment to due from City of Tucson	13,702,386
Net assets, beginning of year, as restated	$ (9,249,033)

These adjustments do not affect fund balances at June 30, 2011 in the governmental funds.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL - ALL FUNDS

YEAR ENDED JUNE 30, 2012

	Budgeted amounts			
	Original	Final	Actual	Variance with final budget
Revenues:				
Sales taxes	$ 10,198,382	$ 10,198,382	$ 12,851,679	$ 2,653,297
Miscellaneous	2,989,599	2,989,599	3,843,918	854,319
Total revenues	13,187,981	13,187,981	16,695,597	3,507,616
Expenditures:				
Administration	863,500	863,500	945,215	81,715
Debt service	12,324,481	12,324,481	12,329,670	5,189
Total expenditures	13,187,981	13,187,981	13,274,885	86,904
Net change in fund balance	$ 0	$ 0	3,420,712	3,420,712
Fund balance, beginning of year			28,697,628	28,697,628
Fund balance, end of year			$ 32,118,340	$ 32,118,340

NOTES TO BUDGETARY COMPARISON SCHEDULE

1. Budgetary basis of accounting:

The District prepares its annual budget on a basis consistent with the requirements of the Arizona Revised Statutes 48.4232. The budget is prepared for all funds (general fund, series 2009 revenue bond, and series 2008 COPs) combined.