RIO NUEVO
MULTIPURPOSE FACILITIES DISTRICT

YEAR ENDED JUNE 30, 2011

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

YEAR ENDED JUNE 30, 2011

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BFC
BEACHFLEISCHMAN

Independent Auditors' Report

Governing Board
Rio Nuevo Multipurpose Facilities District
Tucson, Arizona

We have audited the accompanying financial statements of the governmental activities and each major fund of Rio Nuevo Multipurpose Facilities District, a component unit of the State of Arizona, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amounts at which capital assets and accumulated depreciation are recorded in the accompanying government-wide financial statements at June 30, 2011 (stated at $76,697,365 and $7,322,786) or the amount of depreciation expense for the year then ended (stated at $1,010,438).

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had accounting records relating to capital assets been adequate, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Rio Nuevo Multipurpose Facilities District as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Management has omitted the Management Discussion and Analysis (MD&A) that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

BeachFleischman PC

January 26, 2012

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RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental activities
Assets:	
Pooled cash and investments with City of Tucson (note 2)	$ 13,081,206
Cash and investments with fiscal agent, restricted (note 2)	23,163,761
Taxes receivable	2,410,721
Interest receivable	4,216
Other current assets	35,286
Debt issuance costs, net	1,751,852
Long-term accounts receivable (note 9)	6,517,677
Capital assets, not depreciated (note 3)	41,892,509
Capital assets, depreciated, net (note 3)	27,482,070
Total assets	116,339,298
Liabilities:	
Accounts payable	75,043
Due to other agencies	118
Refundable deposits	41,488
Liabilities payable from restricted assets	9,199,766
Noncurrent liabilities:	
Due within one year (note 4)	8,531,494
Due in more than one year (note 4)	87,960,519
Total liabilities	105,808,428
Commitments and contingencies	
Net assets:	
Invested in capital assets, net of related debt	29,820,334
Restricted for debt service	13,522,728
Unrestricted	(32,812,192)
Total net assets	$ 10,530,870

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

	Governmental activities
Expenses:	
Downtown development:	
Amortization	$ 192,395
Contributed project costs	25,507
Depreciation	1,010,438
Interest	5,844,365
Other	79,568
Professional and consulting	772,374
Total program expenses	7,924,647
Program revenues:	
Charges for services	3,831,073
Net program expense	4,093,574
General revenues:	
Sales taxes	13,244,773
Interest income	151,090
Investment earnings	44,675
Total general revenues	13,440,538
Change in net assets	9,346,964
Net assets, beginning of year	1,183,906
Net assets, end of year	$ 10,530,870

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

ASSETS

	General	Series 2008 revenue bonds	Series 2009 COPs	Total governmental funds
Assets:				
Pooled cash and investments with City of Tucson	$ 6,554,321	$ 6,527,724	$ (839)	$ 13,081,206
Cash and investments with fiscal agent, restricted	22,722,494		441,267	23,163,761
Taxes receivable	1,729,574			1,729,574
Interest receivable	4,216			4,216
Other current assets	30,825	4,461		35,286
Total assets	$ 31,041,430	$ 6,532,185	$ 440,428	$ 38,014,043

LIABILITIES AND FUND BALANCES

	General	Series 2008 revenue bonds	Series 2009 COPs	Total governmental funds
Liabilities:				
Accounts payable	$ 75,043			$ 75,043
Due to other agencies	118			118
Refundable deposits	41,488			41,488
Liabilities payable from restricted assets	9,199,766			9,199,766
Total liabilities	9,316,415			9,316,415
Commitments				
Fund balances:				
Nonspendable	30,825			30,825
Restricted	13,522,728			13,522,728
Committed		$ 6,532,185	$ 440,428	6,972,613
Unassigned	8,171,462			8,171,462
Total fund balances	21,725,015	6,532,185	440,428	28,697,628
Total liabilities and fund balances	$ 31,041,430	$ 6,532,185	$ 440,428	$ 38,014,043

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, 2011

Total fund balances - governmental funds	$ 28,697,628
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.	69,374,579
Some receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	7,198,824
The unamortized portion of debt issuance costs is not available to pay for current period expenditures and, therefore, is not reported in the funds.	1,751,852
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Revenue bonds	(78,733,888)
Certificates of participation	(16,041,631)
City of Tucson loan	(1,716,494)
Net assets of governmental activities	$ 10,530,870

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, 2011

	General	Series 2008 revenue bonds	Series 2009 COPs	Total governmental funds
Revenues:				
Sales taxes	$ 12,563,627			$ 12,563,627
Charges for services	3,831,073			3,831,073
Investment earnings	44,363		$ 312	44,675
Total revenues	16,439,063		312	16,439,375
Expenditures:				
Downtown development	842,363	$ 9,012	26,074	877,449
Capital outlay, construction in progress		38,068		38,068
Debt service:				
Principal	6,474,629			6,474,629
Interest	5,844,365			5,844,365
Total expenditures	13,161,357	47,080	26,074	13,234,511
Net change in fund balances	3,277,706	(47,080)	(25,762)	3,204,864
Fund balances, beginning of year	18,447,309	6,579,265	466,190	25,492,764
Fund balances, end of year	$ 21,725,015	$ 6,532,185	$ 440,428	$ 28,697,628

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, 2011

Net change in fund balances - governmental funds	$ 3,204,864
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:	
Capital outlay	38,068
Depreciation expense	(1,010,438)
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
Certain revenues relating to interest earned on a long-term accounts receivable in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	151,090
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	6,480,000
Amortization of discount	88,367
Amortization of premium	(93,738)
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	$ 9,346,964

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.

Pooled cash and investments:
The District had its cash and investments held by and in the City of Tucson's pooled account. The District, as its accounts were managed and administered by the City, considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Investments 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.

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.

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.

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

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 fund types, 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

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.

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

Long-term obligations (continued):

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.

Subsequent events:

The District's management has evaluated the events that have occurred subsequent to June 30, 2011 through January 26, 2012, the date that the financial statements were available to be issued. Management has determined that events occurring during this period are appropriately disclosed in the financial statements. 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:

City of Tucson investment pool:	
Unrestricted	$ 6,554,321
Restricted for purchase of capital assets	6,526,885
	13,081,206
Cash and investments with fiscal agent:	
Restricted for purchase of capital assets	441,267
Restricted for debt service requirements	22,722,494
	23,163,761
	$ 36,244,967

The District has $13,081,206 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, 2011. The City pools the District's cash with other City departments for investment. The District's deposit is not identified with specific investments.

In August 2011, $10 million was transferred out of City of Tucson's pooled account to the District's separate bank account. Cash balances remaining with the City of Tucson are still due to the District, which is in the process of being reconciled and is subject to mediation.

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 has followed the City of Tucson's formal investment policy through the end of the year with respect to credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk for investments.

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.

2. Cash and investments (continued):

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

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, 2011 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not depreciated:				
Land	$ 9,248,894			$ 9,248,894
Construction in progress	33,513,064	$ 38,068	$ (907,517)	32,643,615
Total capital assets, not depreciated	42,761,958	38,068	(907,517)	41,892,509
Capital assets, depreciated:				
Buildings and improvements	34,773,364			34,773,364
Equipment	31,492			31,492
Total capital assets, depreciated	34,804,856			34,804,856
Less accumulated depreciation for:				
Buildings and improvements	(6,281,771)	(1,009,523)		(7,291,294)
Equipment	(30,577)	(915)		(31,492)
Total accumulated depreciation	(6,312,348)	(1,010,438)		(7,322,786)
Total capital assets, depreciated, net	28,492,508	(1,010,438)		27,482,070
Total capital assets, net	$ 71,254,466	$ (972,370)	$ (907,517)	$ 69,374,579

4. Changes in noncurrent liabilities:

A summary of the changes in noncurrent liabilities for the year ended June 30, 2011 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds, series 2005	$ 3,010,000		$ (630,000)	$ 2,380,000	$ 670,000
Revenue bonds, series 2008	80,000,000		(2,490,000)	77,510,000	2,620,000
COPs, series 2002	6,885,000		(3,360,000)	3,525,000	3,525,000
COPs, series 2009	12,560,000			12,560,000	
City of Tucson loan	1,716,494			1,716,494	1,716,494
Deferred amount:					
on premiums	176,733		(88,367)	88,366	
on discounts	(1,381,585)		93,738	(1,287,847)	
	$102,966,642		$ (6,474,629)	$ 96,492,013	$ 8,531,494

5. Certificates of participation:

In November 2009, the District issued COPs, Series 2009, in the amount of $12,560,000. The District is using 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.

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

Year ending June 30,	Principal	Interest	Total
2012		$ 521,400	$ 521,400
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 - 2021	4,760,000	1,654,175	6,414,175
2022 - 2025	4,600,000	528,750	5,128,750
	$ 12,560,000	$ 4,634,175	$ 17,194,175

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 is being amortized over the life of the debt.

Future principal and interest payments on the series 2002 COPs are as follows:

Year ending June 30,	Principal	Interest	Total
2012	$ 3,525,000	$ 176,250	$ 3,701,250

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.

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

Year ending June 30,	Principal	Interest	Total
2012	$ 2,620,000	$ 4,669,031	$ 7,289,031
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 - 2021	25,175,000	15,851,706	41,026,706
2022 - 2025	34,010,000	6,453,775	40,463,775
	$ 77,510,000	$ 43,935,300	$121,445,300

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.

6. Revenue bonds (continued):

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

Year ending June 30,	Principal	Interest	Total
2012	$ 670,000	$ 142,800	$ 812,800
2013	1,710,000	102,600	1,812,600
	$ 2,380,000	$ 245,400	$ 2,625,400

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 $3,704,250 for 2011.

The District leases land to an unrelated party on a month-to-month agreement, with monthly rent of $1,707, which increases 3% every February. 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. These two land leases are 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 and it is anticipated a mediation settlement agreement between the City and District will address the ownership status. See note 9 for further discussion on the anticipated agreement. Rental income attributable to these leases was $29,397 for 2011.

As noted in note 9, the District owns the building that houses the historic Rialto Theatre and leases the theatre to the Congress Street Historic Theatres Foundation (Theatres Foundation). 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. Rental income attributable to this lease was $34,022 for 2011.

The District has a 9th Extension of the Temporary Parking Agreement for the Depot Plaza Garage with the City of Tucson, expiring March 1, 2012. Income from this agreement was $59,000 for 2011.

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. The City performed financial accounting services for the District through June 30, 2011. In March 2011, the District and City signed a revised Intergovernmental Agreement (IGA) relating to District governance and operations.

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 $1.7 million may have been outstanding at June 30, 2011. The interest rate charged on this loan, 4.5%, is 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. A resolution to this matter, if possible, is anticipated to be incorporated into the in progress mediation settlement agreement.

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. Pursuant to these, the District may be obligated to cover construction and design expenses and/or receive assistance from other parties. As part of these IGAs, the District is often obligated to indemnify other parties for certain liabilities that arise out of, or relate to, the subject matter of the agreements often without a reciprocal benefit. A resolution to this matter, if possible, is anticipated to be incorporated into the in progress mediation settlement agreement.

9. Commitments and contingencies (continued):

Intergovernmental agreements (continued):

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 is 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 due was in September 2011. The District's interpretation of the agreement is that interest begins to become due as of 2012. Annual interest on this agreement is recorded as interest income on the government-wide financial statements. At June 30, 2011, $6,517,677 was recorded as long-term accounts receivable on the statement of net assets, of which $717,677 represents interest earned to date. Interest is not recorded in the governmental funds until measurable and 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 Foundation is currently in default as it did not make the first principal installment of $1.5 million due in September 2011. The District has subsequently agreed to work with the Fox on restructuring the debt repayment schedule and this modification is in negotiation.

The District also has an agreement with the Congress Street Historic Theatres Foundation (Theatres 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 Theatres 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, Theatres 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 Theatres Foundation, whereby future improvements to the Rialto Theatre can offset the outstanding back rent. Subsequent to June 30, 2011, Theatres Foundation is in default of its obligations as it failed to pay the scheduled monthly rent.

9. Commitments and contingencies (continued):

Intergovernmental agreements (continued):

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, 2011, the District has contributed approximately $7.5 million to the project. The agreement has termination clauses and the status of the agreement is presently being determined by the newly reconstituted Board. A resolution to this matter, if possible, is anticipated to be incorporated into the in progress mediation settlement agreement.

Suspended project costs:

The newly reconstituted Board determined to suspend payment on various projects associated and not associated with the TCC, regarding contracts where the District is 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 are not recorded on these financial statements. The Board's position is that the funds are not an obligation of the District and not considered due and owing. Further resolution to this matter may be addressed by the in progress mediation.

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.

Mediation:

The District entered into negotiations with the City of Tucson to develop a mediation settlement agreement. This agreement is anticipated to resolve, among other matters, certain issues regarding ownership of assets, recovery of cash and real property. The agreement is also anticipated to address the removal of certain of its assets and placement of such on the City records. The District expects this agreement to be forthcoming in the near term and may have a material effect on the reported capital assets.

10. 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, 2011, sales tax revenue comprised 75% of total revenues and TCC lease revenue comprised 22% of total revenues in the government-wide financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

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

YEAR ENDED JUNE 30, 2011

	Budgeted amounts			
	Original	Final	Actual	Variance with final budget
Revenues:				
Sales taxes	$ 9,066,390	$ 9,066,390	$ 12,563,627	$ 3,497,237
Miscellaneous	10,674,360	10,674,360	3,875,748	(6,798,612)
Total revenues	19,740,750	19,740,750	16,439,375	(3,301,375)
Expenditures:				
Administration	935,400	935,400	851,942	(83,458)
Downtown hotel/convention center	91,597,690	91,597,690	63,575	(91,534,115)
Other project obligations	5,773,160	5,773,160		(5,773,160)
Debt service	12,120,600	12,120,600	12,318,994	198,394
Total expenditures	110,426,850	110,426,850	13,234,511	(97,192,339)
Revenues over (under) expenditures	(90,686,100)	(90,686,100)	3,204,864	93,890,964
Other financing sources:				
Net proceeds of debt financing	90,686,100	90,686,100		(90,686,100)
Net change in fund balance			3,204,864	3,204,864
Fund balance, beginning of year			25,492,764	25,492,764
Fund balance, end of year	$	$	$ 28,697,628	$ 28,697,628

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.