

**RIO NUEVO  
MULTIPURPOSE FACILITIES DISTRICT**

**YEAR ENDED JUNE 30, 2013**

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

YEAR ENDED JUNE 30, 2013

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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 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

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

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

### **Opinions**

In our opinion, 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, 2013, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

## Other Matter

### *Required Supplementary Information*

U.S. generally accepted auditing standards require that the budgetary comparison information on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 opinions on the basic financial statements are not affected by this missing information.

Tucson, Arizona  
October 23, 2013

A handwritten signature in black ink, appearing to read "B. A. [unclear] PC", is written over a horizontal line.

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

## STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental activities</u>
Assets:	
Cash and cash equivalents (note 2)	\$ 8,055,011
Pooled cash and investments with City of Tucson (note 2)	4,303,140
Cash and investments with fiscal agent, restricted (note 2)	21,888,113
Taxes receivable	3,077,923
Other current assets	124,759
Due from City of Tucson (note 10)	13,663,720
Debt issuance costs, net	1,418,380
Long-term Fox note receivable, net (note 9)	2,900,000
Capital assets, not depreciated (note 3)	9,234,485
Capital assets, depreciated, net (note 3)	<u>26,038,365</u>
Total assets	<u>90,703,896</u>
Liabilities:	
Accounts payable	276,096
Accrued expenses	39,903
Claims payable (note 9)	250,000
Liabilities payable from restricted assets	8,446,931
Noncurrent liabilities:	
Due within one year (note 4)	4,655,000
Due in more than one year (note 4)	<u>77,349,629</u>
Total liabilities	<u>91,017,559</u>
Commitments and contingencies	
Net position:	
Net investment in capital assets	31,292,883
Restricted for debt service	13,000,696
Unrestricted	<u>(44,607,242)</u>
Total net position	<u>\$ (313,663)</u>

See notes to financial statements.

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

### Governmental activities

#### Expenses:

##### Downtown development:

Advertising and promotions	\$ 65,029
Amortization	141,077
Depreciation	883,404
Insurance	69,716
Other	60,546
Professional and consulting	803,190
Salaries and wages	138,453
Claims and judgment contingency loss	250,000
Interest	<u>5,261,227</u>

Total program expenses	7,672,642
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#### Program revenues:

Charges for services	<u>1,377,236</u>
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Net program expense	<u>6,295,406</u>
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#### General revenues:

Sales taxes	9,852,901
Investment earnings	1,210
Other	<u>1,080</u>

Total general revenues	<u>9,855,191</u>
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Change in net position before special items	3,559,785
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#### Special items:

Forgiveness of City of Tucson loan (note 8)	1,716,494
Transfer of assets from the City of Tucson (note 10)	<u>984,074</u>
	<u>2,700,568</u>

Change in net position	6,260,353
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Net position, beginning of year	<u>(6,574,016)</u>
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Net position, end of year	<u><u>\$ (313,663)</u></u>
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See notes to financial statements.

**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2013**

	<b>ASSETS</b>			
	<u>General</u>	<u>Series 2008 revenue bonds</u>	<u>Series 2009 COPs</u>	<u>Total governmental funds</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 8,055,011			\$ 8,055,011
Pooled cash and investments with City of Tucson		\$ 4,303,140		4,303,140
Cash and investments with fiscal agent, restricted	21,447,627		\$ 440,486	21,888,113
Taxes receivable	3,077,923			3,077,923
Other current assets	<u>112,155</u>	<u>12,604</u>		<u>124,759</u>
Total assets	<u>\$ 32,692,716</u>	<u>\$ 4,315,744</u>	<u>\$ 440,486</u>	<u>\$ 37,448,946</u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities:</b>				
Accounts payable	\$ 202,217	\$ 73,879		\$ 276,096
Accrued expenses	39,903			39,903
Liabilities payable from restricted assets	<u>8,446,931</u>			<u>8,446,931</u>
Total liabilities	<u>8,689,051</u>	<u>73,879</u>		<u>8,762,930</u>
 Commitments and contingencies				
 <b>Fund balances:</b>				
Nonspendable	112,154			112,154
Restricted	13,000,696			13,000,696
Committed		4,241,865	\$ 440,486	4,682,351
Unassigned	<u>10,890,815</u>			<u>10,890,815</u>
Total fund balances	<u>24,003,665</u>	<u>4,241,865</u>	<u>440,486</u>	<u>28,686,016</u>
Total liabilities and fund balances	<u>\$ 32,692,716</u>	<u>\$ 4,315,744</u>	<u>\$ 440,486</u>	<u>\$ 37,448,946</u>

**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**

**JUNE 30, 2013**

Total fund balances - governmental funds	\$ 28,686,016
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	35,272,850
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Due from City of Tucson	13,663,720
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.	1,418,380
Certain liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Claims payable	(250,000)
Revenue bonds	(70,317,545)
Certificates of participation	<u>(11,687,084)</u>
Net position of governmental activities	<u>\$ (313,663)</u>



**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

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

**YEAR ENDED JUNE 30, 2013**

	<u>General</u>	<u>Series 2008 revenue bonds</u>	<u>Series 2009 COPs</u>	<u>Total governmental funds</u>
Revenues:				
Sales taxes	\$ 9,852,901			\$ 9,852,901
Charges for services	1,377,236			1,377,236
Investment earnings	9,481	\$ (8,318)	\$ 47	1,210
Other	39,747			39,747
Total revenues	<u>11,279,365</u>	<u>(8,318)</u>	<u>47</u>	<u>11,271,094</u>
Expenditures:				
Downtown development	1,136,935	2,180,455		3,317,390
Capital outlay	61,992	101,547		163,539
Debt service:				
Principal	5,961,262			5,961,262
Interest	5,261,227			5,261,227
Total expenditures	<u>12,421,416</u>	<u>2,282,002</u>		<u>14,703,418</u>
Net change in fund balances	(1,142,051)	(2,290,320)	47	(3,432,324)
Fund balances, beginning of year	<u>25,145,716</u>	<u>6,532,185</u>	<u>440,439</u>	<u>32,118,340</u>
Fund balances, end of year	<u>\$ 24,003,665</u>	<u>\$ 4,241,865</u>	<u>\$ 440,486</u>	<u>\$ 28,686,016</u>

# 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, 2013

Net change in fund balances - governmental funds	\$ (3,432,324)
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	163,539
Depreciation expense	(883,404)
Changes in the Due from City of Tucson receivable provide current financial resources and, therefore, are reported as revenue in the governmental funds.	(38,666)
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.	1,930,455
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the statement of net position. In the current year, the amounts consist of:	
Principal paid	6,055,000
Amortization of discount	(93,738)
Issuance costs are deferred in the statement of net position 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	(141,077)
In the statement of activities, assets transferred to the District as part of the Settlement Agreement are recorded as revenues. In the governmental funds, assets transferred to the District do not provide current financial resources and are not reported as revenues.	984,074
Special items relating to the forgiveness of the City of Tucson loan in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the funds.	<u>1,716,494</u>
Change in net position of governmental activities	<u>\$ 6,260,353</u>

# **RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2013**

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.

During the year ended June 30, 2013, the District implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," which had no material effect on the financial statements.

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 position and a statement of activities. These statements report the financial activities of the overall District.

# **RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2013**

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

Government-wide and fund financial statements (continued):

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.

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.

# **RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2013**

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

Measurement focus, basis of accounting and financial statement presentation (continued):

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.

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.

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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

Pooled cash and investments (continued):

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.

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

# **RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2013**

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 position. 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.

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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

Net position:

Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Subsequent events:

The District's management has evaluated the events that have occurred subsequent to June 30, 2013 through October 23, 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	\$ 8,055,011
City of Tucson investment pool:	
Restricted for purchase of capital assets	4,303,140
Cash and investments with fiscal agent:	
Restricted for purchase of capital assets	440,486
Restricted for debt service requirements	<u>21,447,627</u>
	<u>\$ 34,246,264</u>

The District has \$4,303,140 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, 2013. 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.



## RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

2. Cash and investments (continued):

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.

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 than 25% of the portfolio shall be invested in corporate bonds, notes and commercial paper

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

### 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, 2013 was as follows:

	Beginning balance, as restated	Increases	Decreases	Ending balance
Capital assets, not depreciated:				
Land	\$ 8,086,872	\$ 1,002,692		\$ 9,089,564
Construction in progress		144,921		144,921
Total capital assets, not depreciated	<u>8,086,872</u>	<u>1,147,613</u>		<u>9,234,485</u>
Capital assets, depreciated:				
Buildings and improvements	34,662,809			34,662,809
Equipment	<u>5,800</u>			<u>5,800</u>
Total capital assets, depreciated	<u>34,668,609</u>			<u>34,668,609</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,741,040)	(883,404)		(8,624,444)
Equipment	<u>(5,800)</u>			<u>(5,800)</u>
Total accumulated depreciation	<u>(7,746,840)</u>	<u>(883,404)</u>		<u>(8,630,244)</u>
Total capital assets, depreciated, net	<u>26,921,769</u>	<u>(883,404)</u>		<u>26,038,365</u>
Total capital assets, net	<u>\$ 35,008,641</u>	<u>\$ 264,209</u>		<u>\$ 35,272,850</u>

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

### 3. Capital assets (continued):

As part of the settlement agreement (note 10), the District took title to parcels of land referred to as the "Arena Site" and "Westside Parcel" during the year. These pieces of land were recorded on the District's books at historical carry-over cost from the City of Tucson of \$959,074 for the Arena Site and \$25,000 for the Westside Parcel. The District had the properties appraised during the fiscal year. The Arena Site appraised for \$3,300,000 and the Westside Parcel appraised for \$1,742,000.

### 4. Changes in noncurrent liabilities:

A summary of the changes in noncurrent liabilities for the year ended June 30, 2013 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds, series 2005	\$ 1,710,000		\$ (1,710,000)		
Revenue bonds, series 2008	74,890,000		(3,585,000)	\$ 71,305,000	\$ 3,870,000
COPs, series 2009	12,560,000		(760,000)	11,800,000	785,000
City of Tucson loan	1,716,494		(1,716,494)		
Deferred amount: on discounts	(1,194,109)		93,738	(1,100,371)	
	<u>\$ 89,682,385</u>		<u>\$ (7,677,756)</u>	<u>\$ 82,004,629</u>	<u>\$ 4,655,000</u>

The District follows a historical policy that reports payments scheduled to be made in July 2014 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.

**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2013**

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
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	910,000	369,725	1,279,725
2019 - 2023	5,170,000	1,245,150	6,415,150
2024 - 2026	<u>2,400,000</u>	<u>163,125</u>	<u>2,563,125</u>
	<u>\$ 11,800,000</u>	<u>\$ 3,591,375</u>	<u>\$ 15,391,375</u>

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.

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.

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

### 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
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	4,725,000	3,468,319	8,193,319
2018 - 2022	28,440,000	12,730,281	41,170,281
2023 - 2026	<u>21,555,000</u>	<u>2,392,987</u>	<u>23,947,987</u>
	<u>\$ 71,305,000</u>	<u>\$ 34,728,238</u>	<u>\$106,033,238</u>

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 was amortized over the life of the debt.

The final principal and interest payment of \$1,761,300 on these bonds was made on July 1, 2013 and is included in liabilities payable from restricted assets at June 30, 2013.

### 7. Charges for services:

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 \$1,281,400 for 2013.

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 conveyed 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 \$22,293 for 2013.

## **RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2013**

**7. Charges for services (continued):**

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). 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 2013.

The District had 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 expended by the District was finalized in the settlement agreement between the City and District (see note 10). Income from this agreement was \$28,293 for 2013.

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 75% of taxes, insurance and maintenance expenses that arise from the use of the property. Income from this agreement was \$970 for 2013.

**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.

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 was removed as a liability and recorded as a special item in the financial statements during 2013.

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Commitments and contingencies:

Operating leases:

The District leases administrative office space under a noncancelable operating lease, which expires in September 2014. Rent is due in quarterly installments of \$3,375 and the lease has two one-year renewal options.

Total rent expense on the operating leases was \$13,500 for 2013.

The future minimum lease payments under the operating leases are as follows:

Year ending <u>June 30,</u>	
2014	\$ 13,500
2015	<u>3,375</u>
	<u>\$ 16,875</u>

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.

**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2013**

9. Commitments and contingencies (continued):

Intergovernmental agreements (continued):

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

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

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, 2013, 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.



## **RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2013**

**9. Commitments and contingencies (continued):**

**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 stipulated the District will reimburse the City \$2,180,455 for these costs. The District repaid this obligation during the year.

**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.

Subsequent to year end, the District approved a \$250,000 settlement of a lawsuit filed by the prime contractor of the TCC east entrance. This amount has been accrued at June 30, 2013.

**10. Settlement agreement:**

Prior to settlement, the District continued to claim ownership of several parcels of land and developed projects within the District boundaries that were funded with District funds, and were not previously recorded as capital assets. The City held title to these properties and disagreed that the District was entitled to any ownership interest. The District had 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). During the June 2013 Board meeting, the District approved a \$7.8 million budget for this TCC renovation.

# RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

10. Settlement agreement (continued):

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. 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 calendar year 2050, or through the termination of the District.

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

Year ending <u>June 30,</u>	
2014	\$ 72,333
2015	144,500
2016	234,000
2017	290,700
2018	302,328
2019 - 2023	1,703,006
2024 - 2028	2,071,967
2029 - 2033	2,520,865
2034 - 2038	3,067,018
2039 - 2043	3,731,496
2044 - 2048	4,539,936
2049 - 2051	<u>2,621,067</u>
	<u>\$21,299,216</u>

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.

The City represented to the District all known claims relating to the Arena Site (the Site). The District had the option to elect to accept or reject title of the Site. The District accepted title and the Site was recorded as a District asset at the City's carry-over cost basis during 2013. As a further result of the agreement, the City agreed to convey title to the Westside Parcel. This asset was recorded on the District's books at the City's carry-over cost basis during 2013. Management has taken the position that the agreement stipulates ownership rights to these properties; however, as of October 23, 2013 legal title has not been conveyed in the name of the District.

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.

**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2013**

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, 2013, sales tax revenue comprised 88% of total revenues and TCC lease revenue comprised 12% 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, 2013**

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales taxes	\$ 9,880,000	\$ 9,880,000	\$ 9,852,901	\$ (27,099)
Charges for services	1,359,979	1,359,979	1,377,236	17,257
Investment earnings	360,275	360,275	1,210	(359,065)
Other			39,747	39,747
Total revenues	<u>11,600,254</u>	<u>11,600,254</u>	<u>11,271,094</u>	<u>(329,160)</u>
Expenditures:				
Administration	831,000	831,000	3,317,390	(2,486,390)
Capital outlay			163,539	(163,539)
Debt service	<u>10,217,231</u>	<u>10,217,231</u>	<u>11,222,489</u>	<u>(1,005,258)</u>
Total expenditures	<u>11,048,231</u>	<u>11,048,231</u>	<u>14,703,418</u>	<u>(3,655,187)</u>
Net change in fund balance	<u>\$ 552,023</u>	<u>\$ 552,023</u>	<u>\$ (3,432,324)</u>	<u>\$ (3,984,347)</u>

**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.