RIO NUEVO
MULTIPURPOSE FACILITIES DISTRICT

YEAR ENDED JUNE 30, 2015

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

YEAR ENDED JUNE 30, 2015

CONTENTS

BEACHFLEISCHMAN

Independent Auditors' Report

Governing Board and Management
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, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

BeachFleischman PC • beachfleischman.com
1985 East River Road, Suite #201 • Tucson, AZ 85718-7176 • T 520.321.4600 • F 520.321.4040
2201 East Camelback Road, Suite #200 • Phoenix, AZ 85016-3431 • T 602.265.7011 • F 602.265.7060

Other Matter

Required Supplementary Information
U.S. generally accepted auditing standards require that the budgetary comparison information on page 22 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2015, on our consideration of Rio Nuevo Multipurpose Facilities District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rio Nuevo Multipurpose Facilities District's internal control over financial reporting and compliance.

Beach Fleischman PC

Tucson, Arizona
October 27, 2015

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental activities
Assets:	
Cash and cash equivalents (note 2)	$ 8,114,894
Cash and investments with fiscal agent, restricted (note 2)	16,849,488
Taxes receivable	3,596,765
Other receivables	36,338
Due from Rialto Theater Foundation	1,296,195
Other current assets	47,871
Due from City of Tucson (note 3)	13,437,220
Long-term Fox note receivable, net (note 11)	2,900,000
Land held for sale (note 4)	1,033,983
Capital assets, not depreciated (note 5)	7,320,654
Capital assets, depreciated, net (note 5)	30,975,543
Total assets	85,608,951
Liabilities:	
Accounts payable	139,762
Accrued expenses	28,188
Liabilities payable from restricted assets	6,961,673
Noncurrent liabilities:	
Due within one year (note 7)	5,075,000
Due in more than one year (note 7)	67,627,463
Total liabilities	79,832,086
Commitments and contingencies	
Net position:	
Net investment in capital assets	34,911,055
Restricted for debt service	9,887,815
Unrestricted	(39,022,005)
Total net position	$ 5,776,865

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	Governmental activities
Expenses:	
Downtown development:	
Advertising and promotions	$ 113,296
Depreciation	1,150,852
Insurance	54,553
Loss on sale of Rialto Theatre	394,570
Other	43,432
Professional and consulting	630,106
Outside project costs	62,900
Salaries and wages	69,203
Contributions to Fox Theater	313,185
Interest	4,708,380
Total program expenses	7,540,477
Program revenues:	
Charges for services	1,393,649
Net program expense	6,146,828
General revenues:	
Sales taxes	9,768,292
Investment earnings	27,461
Total general revenues	9,795,753
Change in net position	3,648,925
Net position, beginning of year	2,127,940
Net position, end of year	$ 5,776,865

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2015

ASSETS

	General	Series 2008 revenue bonds	Series 2009 COPs	Total governmental funds
Assets:				
Cash and cash equivalents	$ 8,114,894	$ -	$ -	$ 8,114,894
Cash and investments with fiscal agent, restricted	-	16,849,488	-	16,849,488
Taxes receivable	3,596,765	-	-	3,596,765
Other receivables	36,338	-	-	36,338
Due from Rialto Theater Foundation	1,296,195	-	-	1,296,195
Other current assets	47,871	-	-	47,871
Due from City of Tucson	13,437,220	-	-	13,437,220
Fox note receivable, net	2,900,000	-	-	2,900,000
Total assets	$ 29,429,283	$ 16,849,488	$ -	$ 46,278,771
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 139,762	$ -	$ -	$ 139,762
Accrued expenses	28,188	-	-	28,188
Liabilities payable from restricted assets	1,045,562	5,916,111	-	6,961,673
Total liabilities	1,213,512	5,916,111	-	7,129,623
Deferred inflows of resources:				
Unavailable revenue - sales taxes	958,284	-	-	958,284
Unavailable revenue - due from City of Tucson	13,437,220	-	-	13,437,220
Unavailable revenue - Fox note receivable	2,900,000	-	-	2,900,000
Total deferred inflows of resources	17,295,504	-	-	17,295,504
Commitments and contingencies				
Fund balances:				
Nonspendable	47,871	-	-	47,871
Restricted	-	10,933,377	-	10,933,377
Committed	6,632,601	-	-	6,632,601
Unassigned	4,239,795	-	-	4,239,795
Total fund balances	10,920,267	10,933,377	-	21,853,644
Total liabilities, deferred inflows and fund balances	$ 29,429,283	$ 16,849,488	$ -	$ 46,278,771

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

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

JUNE 30, 2015

Total fund balances - governmental funds	$ 21,853,644
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.	38,296,197
Land held for sale in governmental activities is not a financial resource and, therefore, is not reported in the funds.	1,033,983
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Sales taxes	958,284
Due from City of Tucson	13,437,220
Long-term Fox note receivable	2,900,000
Certain liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Revenue bonds	(62,591,560)
Certificates of participation	(10,110,903)
Net position of governmental activities	$ 5,776,865

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, 2015

	General	Series 2008 revenue bonds	Series 2009 COPs	Total governmental funds
Revenues:				
Sales taxes	$ 9,619,284	$ -	$ -	$ 9,619,284
Charges for services	1,393,649	-	-	1,393,649
Investment earnings	8,959	18,490	12	27,461
City of Tucson	144,500	-	-	144,500
Total revenues	11,166,392	18,490	12	11,184,894
Expenditures:				
Downtown development	1,286,675	-	-	1,286,675
Capital outlay	2,909,697	1,669,214	190,524	4,769,435
Debt service:				
Principal	810,000	4,020,000	-	4,830,000
Interest	471,125	4,145,838	-	4,616,963
Total expenditures	5,477,497	9,835,052	190,524	15,503,073
Revenues over (under) expenditures	5,688,895	(9,816,562)	(190,512)	(4,318,179)
Other financing sources (uses):				
Proceeds from sale of Rialto Theatre	1,300,000	-	-	1,300,000
Transfers in (out)	(19,080,723)	19,080,723	-	-
Total other financing sources (uses)	(17,780,723)	19,080,723	-	1,300,000
Net change in fund balances	(12,091,828)	9,264,161	(190,512)	(3,018,179)
Fund balances, beginning of year	23,012,095	1,669,216	190,512	24,871,823
Fund balances, end of year	$ 10,920,267	$ 10,933,377	$ -	$ 21,853,644

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, 2015

Net change in fund balances - governmental funds	$ (3,018,179)
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	4,769,435
Depreciation expense	(1,150,852)
Loss on sale of capital assets	(394,570)
Proceeds from sale of capital assets	(1,300,000)
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.	149,008
Changes in the Due from City of Tucson receivable provide current financial resources and, therefore, are reported as revenue in the governmental funds.	(144,500)
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	4,830,000
Amortization of discount	(91,417)
Change in net position of governmental activities	$ 3,648,925

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 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, the life of the District was extended to 25 years. Prior to 2010, the District was governed by a Board of Directors, whereby, 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. During 2010, the Arizona State Legislature 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. 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 is included in the financial statements of the State of Arizona.

District affiliation with the City of Tucson:

Presently, both the District and the City work to make improvements aimed at revitalizing and generating economic development opportunities in the downtown Tucson area. During 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 Tax Increment Financing (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 2013, 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 during 2013.

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.

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

Government-wide and fund financial statements (continued):

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.

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 inflows of resources.

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.

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 had been committed by the District. This fund is also used to account for required principal and interest payments on the bond.

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 had 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.

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 inflows of resources:

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 unavailable revenues and, accordingly, have not been recorded as revenue.

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 position. Bond premiums and discounts are 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.

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

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 expendable 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.

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.

Interfund transfers:

Transfers are primarily used to record transactions between individual funds to fund debt service payments and restricted obligations.

2. Cash and investments:

Cash and investments consist of the following:

Deposits:	
Unrestricted	$ 8,114,894
Restricted for debt service requirements	16,849,488
	$ 24,964,382

Deposits:

Custodial credit risk - Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. At year end, deposits with financial institutions have a carrying value of $24,964,382 and a bank balance of $25,062,102. The difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2015.

3. Due from City of Tucson:

As part of the settlement agreement entered into by the District and the City in 2013 to resolve disputed properties, it was agreed 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. As of June 30, 2015, the District had received $265,166 from the City of Tucson.

3. Due from City of Tucson (continued):

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

Year ending June 30,	
2016	$ 234,000
2017	290,700
2018	302,328
2019	314,421
2020	326,998
2021 - 2025	1,841,972
2026 - 2030	2,241,040
2031 - 2035	2,726,568
2036 - 2040	3,317,287
2041 - 2045	4,035,986
2046 - 2050	4,910,395
2051	540,690
	$21,082,385

Further, if the City sells the Garage, the District will be entitled to receive the lesser 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.

4. Land held for sale:

During the prior year, the Governing Board released requests for proposals for the sale and development of the property referred to as the Arena Site. In the current year, proposals were received and evaluated by the Board. The top ranked proposal received the opportunity to negotiate an agreement with the District. Based on these negotiations, the District approved a contract for the sale of the property for $5.6 million, which closed subsequent to year end.

5. Capital assets:

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not depreciated:				
Land	$ 8,115,581	$ 59,665	$ (1,095,240)	$ 7,080,006
Construction in progress	3,161,643	4,709,435	(7,630,430)	240,648
Total capital assets, not depreciated	11,277,224	4,769,100	(8,725,670)	7,320,654
Capital assets, depreciated:				
Buildings and improvements	34,662,809	6,665,445	(842,520)	40,485,734
Equipment	5,800	905,320	-	911,120
Total capital assets, depreciated	34,668,609	7,570,765	(842,520)	41,396,854
Less accumulated depreciation for:				
Buildings and improvements	(9,507,848)	(1,150,851)	243,188	(10,415,511)
Equipment	(5,800)	-	-	(5,800)
Total accumulated depreciation	(9,513,648)	(1,150,851)	243,188	(10,421,311)
Total capital assets, depreciated, net	25,154,961	6,419,914	(599,332)	30,975,543
Total capital assets, net	$ 36,432,185	$ 11,189,014	$ (9,325,002)	$ 38,296,197

The District also incurred $60,000 in land improvements on the Arena Site, which is recorded as held for sale. This amount is included in capital outlay on the fund financial statements.

6. Liabilities payable from restricted assets:

The District records debt payments due on July 1 of the following fiscal year as liabilities payable from restricted assets. At June 30, 2015, amounts due on the Series 2008 revenue bonds will be paid from cash and investments with fiscal agent, restricted and the amounts due on the Series 2009 COPs will be paid from cash and cash equivalents.

7. Changes in noncurrent liabilities:

A summary of the changes in noncurrent liabilities for the year ended June 30, 2015 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds, series 2008	$ 67,435,000	$ -	$ (4,020,000)	$ 63,415,000	$ 4,230,000
COPs, series 2009	11,015,000	-	(810,000)	10,205,000	845,000
Deferred amount:					
on discounts	(1,008,954)	-	91,417	(917,537)	-
	$ 77,441,046	$ -	$ (4,738,583)	$ 72,702,463	$ 5,075,000

The District follows a historical policy that reports payments scheduled to be made in July 2016 as due within one year.

8. 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 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
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	950,000	333,325	1,283,325
2020	990,000	294,138	1,284,138
2021 - 2025	5,630,000	780,813	6,410,813
	$ 10,205,000	$ 2,621,651	$ 12,826,651

9. 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 monies 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 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
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
2019	5,010,000	3,196,631	8,206,631
2020	5,320,000	2,896,031	8,216,031
2020 - 2024	39,665,000	9,030,607	48,695,607
	$ 63,415,000	$ 26,241,451	$ 89,656,451

10. Charges for services:

As noted in note 8, 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 $1,281,125 for 2015.

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 the 2013 settlement agreement between the City and District, the City conveyed title of the property to the District. Rental income attributable to this lease was $20,588 for 2015.

10. Charges for services (continued):

The District leases parking spaces on the Arena Site on informal month-to-month agreements with various individuals for approximately $35 per month. Rental income attributable to these leases was $29,219 for 2015.

As noted in note 11, the District owned the building that houses the historic Rialto Theatre and leased the theatre to the Rialto Theatre Foundation (Rialto). Lease payments were $3,690 per month for ten years ending May 2015. For the subsequent 40 years of the lease, payments were 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 2015.

The District received additional miscellaneous rental fees of $18,437 during 2015.

11. Commitments and contingencies:

Operating leases:

The District leases administrative office space under a noncancelable operating lease, which expired in September 2014, and was renewed for three additional years. Rent is due in quarterly installments of $3,375 and the lease has two additional one-year renewal options.

Total rent expense on the operating leases was $11,250 for 2015.

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

Year ending June 30,	
2016	$ 13,500
2017	13,500
2018	3,375
	$ 30,375

Commitments:

As a result of the settlement agreement between the City and the District, the District agreed to expend no less than $6 million 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. During 2015, the District approved additional renovation costs of approximately $200,000. As of June 30, 2015, the District has incurred costs of $7.55 million on this project, therefore, approximately $450,000 is recorded in committed fund balance.

11. Commitments and contingencies (continued):

Commitments (continued):

Further, as part of the settlement agreement, the District agreed to complete the Mission Gardens project, with total funding not to exceed $1,100,000. The District also agreed to fund within the next year, in an amount not to exceed $750,000, City-approved streetscape improvements downtown. As of June 30, 2015, these projects have not been started.

At the May 2014 Board meeting, the Board approved allocating $4.3 million to the purchase of the garage component of a proposed new downtown hotel. As of June 30, 2015, the District has expended $10,000 on this project.

The District has also committed approximately $43,000 as of June 30, 2015 for other miscellaneous projects.

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.

In 2005 the District entered an IGA with the City of Tucson and the Fox Tucson Theatre Foundation (Foundation) in which, among other things, the District agreed to provide funding assistance in support of the restoration of the historic Fox Theatre in downtown Tucson ("Fox IGA"). In essence, the Fox IGA involved a loan from the District to Foundation and a lease of the theatre by the District to a Foundation controlled entity. The total repayment of this loan was scheduled over a 15-year period, and equaled the total amount of principal ($5.8 million) and interest ($1,680,224) payments the District would make on the series 2005 bonds, for a total sum of $7,480,224. The loan payments were due in $1.5 million installments every five years and, at the end of the 15-year period, the Foundation was obligated to 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 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.

11. Commitments and contingencies (continued):

Intergovernmental agreements (continued):

In December 2014, the District and the Foundation amended the Fox IGA which amendment involved the District contributing $313,185 to the Foundation to help the Foundation finance the buy-out of the third party trust thereby benefiting both the District and the Foundation. The amendment also restructured the debt repayment schedule. Under this new agreement, the outstanding balance due to the District is $2,900,000, which is the amount of the net receivable recorded on the District's books. Further, this new agreement calls for annual payments of $89,045 starting January 1, 2018, with all principal and interest due on July 2, 2050.

The District also had 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 owned the theatre and Rialto Foundation leased the theatre from the District. Lease payments were $3,690 per month for ten years beginning May 2005. For the subsequent 40 years of the lease, payments were the greater of $3,690 or 3% of gross receipts generated by operation of the Rialto Theatre. On June 17, 2015, the District sold the Rialto Theater to the Rialto Theater Foundation for $1,300,000. The District received the proceeds after year end, therefore $1,296,195 was included in Due from Rialto Theater Foundation at June 30, 2015.

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, 2015, 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.

Litigation:

In the normal course of its business, the District may be subject to certain contractual guarantees and litigation. In the opinion of management and based upon consultation with legal counsel, resolution of any pending or threatened lawsuits will not have a material adverse effect on the District's financial statements.

12. 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, 2015, sales tax revenue comprised 87% of total revenues and TCC lease revenue comprised 11% 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, 2015

	Budgeted amounts			
	Original	Final	Actual	Variance with final budget
Revenues:				
Sales taxes	$ 9,900,000	$ 9,900,000	$ 9,619,284	$ (280,716)
Charges for services	1,468,625	1,468,625	1,393,649	(74,976)
Investment earnings	8,500	8,500	27,461	18,961
Other	-	-	144,500	144,500
Total revenues	11,377,125	11,377,125	11,184,894	(192,231)
Expenditures:				
Downtown development	785,000	785,000	1,286,675	(501,675)
Capital outlay	9,013,740	9,013,740	4,769,435	4,244,305
Debt service	9,263,094	9,263,094	9,446,963	(183,869)
Total expenditures	19,061,834	19,061,834	15,503,073	3,558,761
Other financing sources:				
Proceeds from sale of capital assets	-	-	1,300,000	1,300,000
Net change in fund balance	$ (7,684,709)	$ (7,684,709)	$ (3,018,179)	$ 4,666,530

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.

BFC BEACHFLEISCHMAN

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board and Management
Rio Nuevo Multipurpose Facilities District

We have audited, in accordance with the U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Rio Nuevo Multipurpose Facilities District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 27, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2015-001).

Compliance and Other Matters

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

Rio Nuevo Multipurpose Facilities District Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Beach Fleischman PC

Tucson, Arizona
October 27, 2015

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

2015-001

Criteria:
The District is responsible for establishing and following legal documents that support accounting transactions.

Condition / Context:
We noted the District records rental income from a land lease with an unrelated third party. The lease is in the name of the City of Tucson. Further, the lease calls for increases in rent of 3% every February and we noted no increase took place during the year.

Effect:
Noncompliance with organizational governance can lead to incomplete financial transactions.

Cause:
Limited available resources and staff time.

Recommendation:
We recommend that the District review this lease and work with legal counsel to revise the lease in the name of the District. Further, we recommend the District be aware of all provisions in its lease agreements to ensure appropriate rent is collected.

This is a repeat finding from the prior year.

View of responsible officials and planned corrective actions:
We concur with the finding and will have legal counsel assist in revising the lease.