RIO NUEVO
MULTIPURPOSE FACILITIES DISTRICT

YEAR ENDED JUNE 30, 2017

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

YEAR ENDED JUNE 30, 2017

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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, 2017, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

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

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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information
Auditing standards generally accepted in the United States of America require that the budgetary comparison information on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America 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 31, 2017, 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.

BeachFleischman PC

Tucson, Arizona
October 31, 2017

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental activities
Assets:	
Cash and cash equivalents (note 2)	$ 9,212,356
Taxes receivable	3,150,248
Other receivables (note 10)	802,568
Other current assets	45,875
Due from City of Tucson (note 3)	6,003,220
Long-term Fox note receivable (note 10)	2,900,000
Cash and investments with fiscal agent, restricted (note 2)	16,926,687
Capital assets, not depreciated (note 4)	19,140,393
Capital assets, depreciated, net (note 4)	33,351,545
Total assets	91,532,892
Deferred outflows of resources:	
Deferred charge on refunding of debt (note 8)	6,774,477
Total deferred outflows of resources	6,774,477
Liabilities:	
Accounts payable	270,689
Accrued expenses	36,627
Liabilities payable from restricted assets (note 5)	8,002,534
Noncurrent liabilities:	
Due within one year (note 6)	7,310,000
Due in more than one year (note 6)	63,699,722
Total liabilities	79,319,572
Commitments and contingencies	
Net position:	
Net investment in capital assets	48,044,584
Restricted for debt service	8,924,153
Unrestricted	(37,980,940)
Total net position	$ 18,987,797

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Governmental activities
Expenses:	
Downtown development:	
Advertising and promotions	$ 610,931
Business improvement district tax	188,549
Depreciation	1,615,878
Insurance	50,004
Other	50,627
Outside project costs	986,085
Professional and consulting	1,403,802
Relocation incentives	1,980,000
Salaries and wages	70,607
Interest	3,123,620
Total program expenses	10,080,103
Program revenues:	
Charges for services	1,400,844
Net program expense	8,679,259
General revenues:	
Sales taxes	12,065,352
Hockey surcharge fee	193,520
Investment earnings	45,013
Total general revenues	12,303,885
Change in net position	3,624,626
Net position, beginning of year	15,363,171
Net position, end of year	$ 18,987,797

See notes to financial statements.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

ASSETS

	General	Debt service - revenue bonds	Total governmental funds
Assets:			
Cash and cash equivalents	$ 9,212,356	$ -	$ 9,212,356
Taxes receivable	3,150,248	-	3,150,248
Other receivables	802,568	-	802,568
Other current assets	45,875	-	45,875
Due from City of Tucson	6,003,220	-	6,003,220
Fox note receivable	2,900,000	-	2,900,000
Cash and investments with fiscal agent, restricted	1,082,459	15,844,228	16,926,687
Total assets	$ 23,196,726	$ 15,844,228	$ 39,040,954

LIABILITIES AND FUND BALANCES

	General	Debt service - revenue bonds	Total governmental funds
Liabilities:			
Accounts payable	$ 270,689	$ -	$ 270,689
Accrued expenses	36,627	-	36,627
Liabilities payable from restricted assets	1,085,280	6,917,254	8,002,534
Total liabilities	1,392,596	6,917,254	8,309,850
Deferred inflows of resources:			
Unavailable revenue - sales taxes	1,133,051	-	1,133,051
Unavailable revenue - due from City of Tucson	6,003,220	-	6,003,220
Unavailable revenue - Fox note receivable	2,900,000	-	2,900,000
Total deferred inflows of resources	10,036,271	-	10,036,271
Commitments and contingencies			
Fund balances:			
Nonspendable	45,875	-	45,875
Restricted	-	8,926,974	8,926,974
Committed	10,551,699	-	10,551,699
Unassigned	1,170,285	-	1,170,285
Total fund balances	11,767,859	8,926,974	20,694,833
Total liabilities, deferred inflows and fund balances	$ 23,196,726	$ 15,844,228	$ 39,040,954

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, 2017

Total fund balances - governmental funds	$ 20,694,833
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.	52,491,938
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Sales taxes	1,133,051
Due from City of Tucson	6,003,220
Long-term Fox note receivable	2,900,000
Deferred outflows of resources are applicable to future reporting periods and, therefore, are not reported in the funds.	6,774,477
Certain liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Revenue bonds	(62,605,000)
Certificates of participation	(8,404,722)
Net position of governmental activities	$ 18,987,797

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

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

YEAR ENDED JUNE 30, 2017

	General	Debt service - revenue bonds	Total governmental funds
Revenues:			
Sales taxes	$ 12,389,426	$ -	$ 12,389,426
Charges for services	1,400,844	-	1,400,844
Hockey surcharge fee	193,520	-	193,520
Investment earnings	13,631	31,382	45,013
Total revenues	13,997,421	31,382	14,028,803
Expenditures:			
Downtown development	5,235,515	-	5,235,515
Capital outlay	8,583,053	-	8,583,053
Debt service:			
Principal	880,000	6,060,000	6,940,000
Interest	404,925	1,862,475	2,267,400
Bond issuance costs	-	105,090	105,090
Total expenditures	15,103,493	8,027,565	23,131,058
Revenues over (under) expenditures	(1,106,072)	(7,996,183)	(9,102,255)
Other financing sources (uses):			
Bond proceeds (note 8)	-	2,315,000	2,315,000
Transfers in (out)	(5,036,180)	5,036,180	-
Total other financing sources (uses)	(5,036,180)	7,351,180	2,315,000
Net change in fund balances	(6,142,252)	(645,003)	(6,787,255)
Fund balances, beginning of year	17,910,111	9,571,977	27,482,088
Fund balances, end of year	$ 11,767,859	$ 8,926,974	$ 20,694,833

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, 2017

Net change in fund balances - governmental funds	$ (6,787,255)
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	8,583,053
Depreciation expense	(1,615,878)
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.	(324,074)
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:	
Refunding bond proceeds	(2,315,000)
Principal paid	6,940,000
Amortization of discount	(9,410)
Amortization of deferred loss on refunding	(846,810)
Change in net position of governmental activities	$ 3,624,626

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

The accounting policies of Rio Nuevo Multipurpose Facilities District (the District) conform to accounting principles generally accepted in the United States of America 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, 2017, the District implemented GASB Statement No. 77, *Tax Abatement Disclosures,* which establishes standards for disclosing tax abatement agreements the District entered into and agreements that other governments entered into that reduced the District's tax revenues.

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.

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.

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

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.

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.

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

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

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 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.

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 debt service fund - revenue bonds accounts for the accumulation of resources for, and the payment of, revenue bond principal and interest.

Estimates:

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 three 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

Deferred outflows and inflows of resources:

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

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.

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

Interfund transfers:

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

Interfund transfers are used to fund capital purchases of the capital projects funds and to transfer excess fund balance to the capital projects fund.

2. Cash and investments:

Cash and investments consist of the following:

Deposits:	
Unrestricted	$ 9,212,356
Restricted for debt service requirements	16,926,687
	$ 26,139,043

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 $26,139,043 and a bank balance of $26,622,338. The difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2017.

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 was recorded. As of April 2017, the District had received $499,166 from the City. In May 2017, the District purchased land valued at $7,200,000 from the City for the Caterpillar Project and in lieu of paying cash, the amount due from the City was reduced by the value of the land. As a result, the 2013 agreement was amended in October 2016. Under this amendment, the City shall now pay the District $285,000 on a yearly basis beginning October 2021 with a final payment of $115,000 due October 2043. Annual payments are required until the receivable is paid off or termination of the District, whichever occurs first. Further, the City is entitled to credits against the amount due for any future sales tax generated on the currently undeveloped parcel. The City may apply the credits in any year during the payment schedule. Further, the City shall not sell or lease the entire Garage without the prior written consent of the District.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

3. Due from City of Tucson (continued):

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

Year ending June 30,	
2022	$ 285,000
2023 - 2027	1,425,000
2028 - 2032	1,425,000
2033 - 2037	1,425,000
2038 - 2042	1,425,000
2043 - 2047	115,000
	$ 6,100,000

4. Capital assets:

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not depreciated:				
Land	$ 7,654,417	$ 9,760,886	$ -	$ 17,415,303
Construction in progress	875,167	5,926,167	(5,076,244)	1,725,090
Total capital assets, not depreciated	8,529,584	15,687,053	(5,076,244)	19,140,393
Capital assets, depreciated:				
Buildings and improvements	40,687,548	5,076,244	-	45,763,792
Equipment	911,120	96,000	-	1,007,120
Total capital assets, depreciated	41,598,668	5,172,244	-	46,770,912
Less accumulated depreciation for:				
Buildings and improvements	(11,661,891)	(1,513,346)	-	(13,175,237)
Equipment	(141,598)	(102,532)	-	(244,130)
Total accumulated depreciation	(11,803,489)	(1,615,878)	-	(13,419,367)
Total capital assets, depreciated, net	29,795,179	3,556,366	-	33,351,545
Total capital assets, net	$ 38,324,763	$ 19,243,419	$ (5,076,244)	$ 52,491,938

5. 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, 2017, amounts due on the Series 2016 and 2017 revenue bonds and the Series 2009 COPs will be paid from restricted cash and investments with fiscal agent.

6. Changes in noncurrent liabilities:

A summary of the changes in noncurrent liabilities for the year ended June 30, 2017 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds, series 2016A	47,400,000	-	(4,330,000)	43,070,000	4,460,000
Revenue bonds, series 2016B	18,950,000	-	(1,730,000)	17,220,000	1,780,000
Revenue bonds, series 2017, tax exempt	-	2,105,000	-	2,105,000	60,000
Revenue bonds, series 2017, taxable	-	210,000	-	210,000	100,000
COPs, series 2009	9,360,000	-	(880,000)	8,480,000	910,000
Unamortized discount	(84,688)	-	9,410	(75,278)	-
	$ 75,625,312	$ 2,315,000	$ (6,930,590)	$ 71,009,722	$ 7,310,000

The District follows a historical policy that reports payments scheduled to be made in July 2018 as due within one year.

7. 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.

7. Certificates of participation (continued):

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

Year ending June 30,	Principal	Interest	Total
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	1,030,000	252,063	1,282,063
2022	1,075,000	207,000	1,282,000
2023 - 2027	3,525,000	321,750	3,846,750
	$ 8,480,000	$ 1,778,001	$ 10,258,001

8. Revenue bonds:

On March 31, 2016, the District issued $69,185,000 in Series 2016A and 2016B revenue bonds to advance refund $63 million of outstanding 2008 Series bonds. Principal and interest on the Series 2016A and 2016B revenue bonds is payable semiannually on July 15 and January 15 each year through July 15, 2025, with an interest rate of 2.78%. The District has pledged to the trustee future sales tax revenues to repay the bonds.

Future principal and interest payments on the series 2016A and 2016B revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2018	$ 6,240,000	$ 1,676,062	$ 7,916,062
2019	6,425,000	1,502,590	7,927,590
2020	6,615,000	1,323,975	7,938,975
2021	6,815,000	1,140,078	7,955,078
2022	7,020,000	950,621	7,970,621
2023 - 2027	27,175,000	1,657,436	28,832,436
	$ 60,290,000	$ 8,250,762	$ 68,540,762

In 2016, the District defeased certain revenue bonds by placing the proceeds of the 2016 Series revenue bonds in an irrevocable trust to provide for all future debt service payments on the old revenue bonds. Accordingly, the liability for the defeased bonds and the trust account assets are not included in the District's financial statements. At June 30, 2017, $54,720,000 of revenue bonds outstanding are considered defeased.

8. Revenue bonds (continued):

In May 2017, the District issued $2,315,000 in Series 2017 Revenue Bonds to fund the construction of a Greyhound Terminal. Principal and interest is payable semiannually on July 1 and January 1 each year through July 1, 2028, with interest rates ranging from 3.6% to 5.9%. The District has pledged to the trustee future lease revenues to repay the bonds.

Future principal and interest payments on the Series 2017 revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2018	$ 160,000	$ 94,372	$ 254,372
2019	185,000	80,110	265,110
2020	190,000	70,920	260,920
2021	195,000	64,080	259,080
2022	205,000	57,060	262,060
2023 - 2027	1,130,000	169,740	1,299,740
2028 - 2032	250,000	9,000	259,000
	$ 2,315,000	$ 545,282	$ 2,860,282

9. Charges for services:

As noted in note 7, 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 $1,284,925 for 2017.

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 2017.

9. Charges for services (continued):

During 2016, the District took over receipt of $7,500 in monthly lease revenue from Greyhound, previously paid to the City, as a result of Rio Nuevo agreeing to help the Greyhound relocate to a new facility. Rental income attributable to this agreement was $67,500 for 2017. Construction on the new Greyhound Terminal was completed in 2017 and a new lease executed between Greyhound and the District. The lease is a 25 year triple net lease which may be extended for two successive periods of 10 years each. Payments on the lease are structured to match the debt service requirements for the Series 2017 revenue bonds and are $76,000 per year. Rental income attributable to this lease was $23,928 for 2017.

10. Commitments and contingencies:

Operating leases:

The District leases administrative office space under a noncancelable operating lease, which expires in September 2018. Rent is due in quarterly installments of $3,375 and the lease has an additional one-year renewal option.

Total rent expense on the operating leases was $10,125 for 2017.

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

Year ending June 30,		
2018	$	13,500
2019		3,375
	$	16,875

Commitments:

As a result of the settlement agreement between the City and the District during 2013, the District agreed to complete the Mission Gardens project, with total funding not to exceed $1,100,000. The District also agreed to fund, in an amount not to exceed $750,000, City-approved streetscape improvements downtown. As of June 30, 2017, approximately $1.05 million had been spent on the Mission Gardens project, and approximately $56,000 had been spent on the streetscapes.

At the February 2016 Board meeting, the board committed up to $855,000 for water shedding on a property adjacent to the TCC. As of June 30, 2017, no funds have been expended on this project.

10. Commitments and contingencies (continued):

Commitments (continued):

At the March 2016 Board meeting, and amended at the May 2016 Board meeting, the Board approved contributing $350,000 for the Marist College project. In July 2016, the Board approved an additional $1 million in non-TIF dollars to the project. The $1 million will only be loaned if the project fails to secure appropriate low income housing financing by March 2018. As of June 30, 2017, the District had incurred the $350,000 to purchase the property. The District received title to the parcel of land, and entered into a 20 year ground lease of the property with the developer, with an option for the developer to buy back the property. As of June 30, 2017, the District does not anticipate having to loan the additional $1 million.

At the May 2016 Board meeting, the Board approved a plan to assist Caterpillar, Inc. in relocating its Surface Mining and Technology Division to Tucson. The Board approved contributing $2 million to the project to cover relocation expenses. The District has also agreed to finance the construction of a new facility, up to $50 million, dependent on the District's ability to obtain financing. The District anticipates issuing approximately $45 million in debt in the year ending June 30, 2018, and the District will lease the property to Caterpillar, with the lease payments structured to match the debt service. During 2017, the District expended $1,980,000 for relocation costs, which are recorded as relocation incentives on the statement of activities. The District also expended funds of $1.6 million in site development costs, which are recorded as construction in progress on the statement of net position.

At the July 2016 Board meeting, the Board approved $2.6 million for the City Park project. The District will purchase the property for $2.6 million, lease the property back to the developer over a 15 year period, and will grant the developer the option to repurchase the property. The repurchase price will be $2.6 million, reduced by 50% of the TIF revenue the District receives on the property over the lease term. As of June 30, 2017, the District had not purchased the property or entered into the lease agreement.

At the January 2017 Board meeting, the Board approved $400,000 to sponsor the Arizona Nova Home Loans Bowl in December 2017. As of June 30, 2017, these funds have not be spent.

At the February 2017 Board meeting, and amended at the March 2017 Board meeting, the Board approved $87,500 for the Sunshine Mile project to develop a plan for repurposing the properties affected by the Broadway widening project. As of June 30, 2017, $17,062 had been spent on this project.

10. Commitments and contingencies (continued):

Commitments (continued):

At the March 2017 Board meeting, the Board approved a plan to assist Hexagon Mining (Hexagon) in expanding its North American headquarters to Tucson. The District will make a total of $750,000 in parking assistance payments to Hexagon over eighty-four months, which Hexagon is required to use to defray its employee parking expenses at public parking facilities. Additionally, the District will make a one-time rental assistance payment to Hexagon for $539,500, which Hexagon must use to pay their base rent at the City Park development. As of June 30, 2017, the District has not expended any funds for this commitment.

At the May 2017 Board meeting, the Board approved investing $1,000,000 is street improvements on Ochoa Street between the TCC and Stone Avenue. As of June 30, 2017, these funds have not be spent.

Beginning in 2017, the District receives a Capital Cost Surcharge Recovery fee under a license agreement between the City of Tucson, Ice Arizona AHL Co LLC, and the District. The District receives $2 per ticket on all Roadrunner hockey ticket sales at the TCC. Income attributable to this license agreement was $193,520 for 2017. The District is required to fund a capital reserve with 50% of the Capital Cost Surcharge Recovery fee received. The District transferred the $96,760 to fund the capital reserve to a separate account subsequent to year end. The cost of improvements or replacements greater than $50,000 are to be funded from the capital reserve in the future.

Tax abatements:

The District enters into TIF abatement agreements with local developers for the purpose of attracting or retaining businesses and new development within the District. As of June 30, 2017, the District has approved the following TIF abatement agreements; however, no sales tax revenue was provided to the developers relating to these agreements as of June 30, 2017.

In May 2014, the Board allocated $4.3 million to the purchase of the garage component of a proposed new downtown hotel (AC Marriott). As of June 30, 2016, the District had expended $10,000 on the project. In June 2017, the purchase contract was terminated and the District and the developer entered into a modified agreement. Under the modified agreement, the District will have no ownership interest in the garage; instead, the developer will receive the gross sales tax proceeds received by the District on the hotel property and certain retail facilities that the developer will renovate, improve and refurbish. The developer shall receive 100% of the gross sales tax revenue through July 1, 2025, and 50% thereafter, until the maximum is reached. The total amount of the tax abatement will be $4.3 million plus the costs incurred by the developer to renovate, refurbish and improve the retail facilities, up to a combined maximum of $7.75 million. As of June 30, 2017, construction on the hotel and improvements to the retail facilities were still in progress.

10. Commitments and contingencies (continued):

Tax abatements (continued):

At the September 2015 Board meeting, the Board approved allocating $2.2 million for the Mercado Annex project. During September 2016, the District purchased the land for $2.2 million and leased it back to the developer over a 15 year period, and will grant the developer the option to repurchase the land. Rent for the leased property is $100 per year. The repurchase price will be $2.2 million, reduced by 50% of the TIF revenue the District receives on the property over the lease term up to the option closing date. As of June 30, 2017, the property was still under development.

In October 2016 and January 2017, the Board approved projects related to four historic buildings in the downtown corridor, the Brings Funeral Home (Brings), the Arizona Hotel, The Chicago Store, and 123 South Stone. The District approved a total of $5.05 million in purchase/lease option agreements for the properties. In April 2017, the Board executed a purchase/lease option agreement for the Brings property. The District purchased the property for approximately $800,000 and agreed to lease it back to the developer. In May 2017, the Board approved modifying the agreement. Under the modified agreement, Brings will continue to lease the property for a nominal annual fee for a period up to 25 years, and the consideration of $800,000 will be repaid to the District in exchange for future tax abatement. As a result, the $800,000 is recorded as other receivables at June 30, 2017. The developer will receive 100% of the gross sales tax proceeds received by the District on the Brings property through July 1, 2025, and 50% thereafter, until the maximum abatement of $1,860,000 is reached or the property is re-purchased. As of June 30, 2017, the property was still under development.

In May 2017, the Board also approved re-structuring the purchase/lease option for the remaining three historic buildings and two additional properties, with tax abatement incentives similar to the Brings property. The combined proposed cap on the abatements for these properties is $10.6 million.

At the March 2017 Board meeting, the Board approved an agreement with a developer that is proposing to build a hotel downtown (Moxy Hotel by Marriott). The District will provide the gross sales tax revenue generated from the hotel up to the lesser of 20% of the developer's out-of-pocket costs or $4.775 million. As of June 30, 2017, this agreement has not been executed and construction has not started on the property.

At the May 2017 Board meeting, the Board approved an agreement with a developer that is proposing to build a hotel adjacent to the TCC. The District will provide the gross sales tax revenue generated from the hotel and sales tax revenue generated from activities in the TCC due to the existence of the hotel. If the gross sales tax revenue is not $2.5 million by July 1, 2025, the District must pay the difference up to the minimum of $2.5 million. As of June 30, 2017, construction has not started on the property.

10. Commitments and contingencies (continued):

Tax abatements (continued):

As discussed in note 3, the settlement agreement with the City was amended in regards to the City's obligation relating to the Depot Garage. As part of the amendment, the City is entitled to a credit against the amount due for any future sales tax generated on any development of the ground level portion of the garage site. No sales taxes were generated on the applicable parcel during 2017.

At the August 2017 Board meeting, the Board approved a resolution to work with the vacant Hotel Arizona property through a sale-leaseback, and the developer will receive all gross sales taxes generated from the property through 2025.

The District holds title to various properties, leases them back to developers for a nominal annual fee, and provides an option for the developers to repurchase the properties, as prescribed in the respective agreements. As a result, the developers abate the property taxes assessed by other governmental entities for a maximum of 25 years.

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 December 2014, the District and the Fox Tucson Theatre Foundation (Foundation) amended the 2005 IGA, which, among other matters, 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 original debt repayment schedule. Under this new agreement, the outstanding balance due to the District was reduced to $2,900,000, which was 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.

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.

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, 2017, sales tax revenue comprised 88% of total revenues and TCC lease revenue comprised 9% 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, 2017

	Budgeted amounts			
	Original	Final	Actual	Variance with final budget
Revenues:				
Sales taxes	$ 12,000,000	$ 12,000,000	$ 12,389,426	$ 389,426
Charges for services	1,305,425	1,305,425	1,400,844	95,419
Hockey surcharge fee			193,520	193,520
Investment earnings	8,500	8,500	45,013	36,513
City of Tucson	234,000	234,000		(234,000)
Total revenues	13,547,925	13,547,925	14,028,803	480,878
Expenditures:				
Downtown development	5,133,000	5,133,000	5,235,515	(102,515)
Capital outlay	8,080,000	8,080,000	8,583,053	(503,053)
Debt service	9,149,425	9,149,425	9,312,490	(163,065)
Total expenditures	22,362,425	22,362,425	23,131,058	(768,633)
Revenues over (under) expenditures	(8,814,500)	(8,814,500)	(9,102,255)	(287,755)
Other financing sources (uses):				
Revenue bonds issued	-	-	2,315,000	2,315,000
Total other financing sources			2,315,000	2,315,000
Net change in fund balance	$ (8,814,500)	$ (8,814,500)	$ (6,787,255)	$ 2,027,245

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 and debt service fund) 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
Tucson, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Rio Nuevo Multipurpose Facilities District, as of and for the year ended June 30, 2017, 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 31, 2017.

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. 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.

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*.

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.

BeachFleischman PC

Tucson, Arizona
October 31, 2017