



SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

Financial Statements

March 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Santa Clara Stadium Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Clara Stadium Authority, a component unit of the City of Santa Clara, California (the Authority), as of March 31, 2014 and 2013 and for the year and nine-month period then ended, respectively, 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 an opinion on these financial statements based on our audits. We conducted our audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Clara Stadium Authority as of March 31, 2014 and 2013, and the changes in its financial position and its cash flows for the year and nine-month period then ended, respectively, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

As discussed in note 2, the financial statements present only the Santa Clara Stadium Authority and do not purport to, and do not, present fairly the financial position of the City of Santa Clara, California, as of March 31, 2014 and 2013, the changes in its financial position, or its cash flows for the year and nine-month period then ended, respectively, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 2(b) to the financial statements, in 2014 the Authority adopted new accounting guidance, GASB Statement No. 65 “*Items Previously Reported as Assets and Liabilities.*” Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 3-6 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014 on our consideration of the Authority’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 the Authority’s internal control over financial reporting and compliance.

KPMG LLP

September 16, 2014

SANTA CLARA STADIUM AUTHORITY
(a Component Unit of the City of Santa Clara, California)

Management's Discussion and Analysis

March 31, 2014 and 2013

The management's discussion and analysis of the Santa Clara Stadium Authority (Stadium Authority) provides an overall review of the Stadium Authority's financial activities for the fiscal periods ended March 31, 2014 and 2013. The intent of this discussion and analysis is to look at the Stadium Authority's financial performance as a whole. Readers should review the discussion and analysis in conjunction with the basic financial statements including the notes to the basic financial statements to enhance their understanding of the Stadium Authority's financial performance.

The Stadium Authority has elected to provide comparative financial statements to better assist the reader. However, in November 2012 the Stadium Authority elected to adjust its fiscal year to April 1 through March 31 to conform to the fiscal year of the Stadium Funding Trust (FinanceCo). The prior fiscal period in this annual report covers the nine-month period July 1, 2012 through March 31, 2013. This should be taken into consideration when comparing the financial statements for significant trends.

The Stadium Authority exists as a public body, separate and distinct from the City of Santa Clara. It was established to provide for development and operation of the new Levi's Stadium.

Financial Highlights

Key financial highlights for the fiscal year ended March 31, 2014 are as follows:

- Construction in progress equaled \$753,055,740 as of March 31, 2014. This is an increase of \$333,834,717 from the balance at March 31, 2013.
- The liabilities of the Stadium Authority exceeded its assets by \$12,500,665. This deficit is the result of expensing current period operating costs and the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" which requires that debt issuance costs, except for prepaid insurance costs, should be recognized as an expense in the period incurred. The amount of debt issuance costs expensed by the Stadium Authority that had previously been capitalized was \$18,063,668 which resulted in a restatement of the prior period net position.
- The Stadium Authority recognized \$478,333 in operating revenue related to the earned portion of the Naming Rights Agreement with Levi Strauss & Co. Total sales and marketing, general, and administrative costs were \$21,898,254.

Overview of the Financial Statements

This annual report consists of a series of financial statements and the notes to those statements. These statements are organized so the reader can understand the Stadium Authority as a financial whole. The basic financial statements provide both a short-term and long-term view of the Stadium Authority's financial activities and financial position.

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the financial position of the Stadium Authority as a whole, including all of its long-term liabilities on the full accrual basis. The Statement of Revenues, Expenses and Changes in Net Position provides information about all revenues and expenses. The Statement of Cash Flows provides information about cash activities for the period.

SANTA CLARA STADIUM AUTHORITY
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Management's Discussion and Analysis

March 31, 2014 and 2013

Financial Analysis of the Stadium Authority as a Whole

The Stadium Authority's net position at March 31, 2014 and March 31, 2013 is as follows:

	<u>March 31, 2014</u>	<u>March 31, 2013 (as restated)</u>	<u>Increase/ (decrease)</u>	<u>Total percentage change</u>
Assets:				
Capital assets	\$ 753,712,985	419,221,023	334,491,962	80%
Other assets	<u>193,756,948</u>	<u>110,160,373</u>	<u>83,596,575</u>	<u>76</u>
Total assets	<u>\$ 947,469,933</u>	<u>529,381,396</u>	<u>418,088,537</u>	<u>79%</u>
Liabilities:				
Current deferred revenue	\$ 14,968,302	—	14,968,302	N/A
Other current liabilities	63,761,154	37,421,676	26,339,478	70
Long-term deferred revenue	230,298,477	97,198,757	133,099,720	137
Other long-term liabilities	<u>650,942,665</u>	<u>419,234,770</u>	<u>231,707,895</u>	<u>55</u>
Total liabilities	<u>\$ 959,970,598</u>	<u>553,855,203</u>	<u>406,115,395</u>	<u>73%</u>
Net position:				
Net investment in capital assets	\$ 62,597,915	(36,017,721)	98,615,636	(274)%
Unrestricted	<u>(75,098,580)</u>	<u>11,543,914</u>	<u>(86,642,494)</u>	<u>(751)</u>
Total net position	<u>\$ (12,500,665)</u>	<u>(24,473,807)</u>	<u>11,973,142</u>	<u>(49)%</u>

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March 31, 2014 and 2013

Capital assets increased when compared to the prior year by \$334,491,962 due to current period construction activity. Other assets increased when compared to the prior year by \$83,596,575 mainly due to an increase in cash received from the sale of Stadium Builder Licenses and commemorative bricks. Liabilities increased by \$406,115,395 due to increases in debt, construction related payables and unearned revenue. Total net position for the Stadium Authority, as a whole, increased between March 31, 2013 and March 31, 2014 to \$(12,500,665). This increase of \$11,973,142 comes from an increase in total assets.

	Fiscal period ended March 31, 2014	Fiscal period ended March 31, 2013	Increase/ (decrease)	Total percentage change
Operating revenues	\$ 478,333	—	478,333	N/A
Operating expenses	(21,912,380)	(9,379,418)	(12,532,962)	134
Operating loss	(21,434,047)	(9,379,418)	(12,054,629)	129
Nonoperating revenues	691,603	—	691,603	N/A
Loss before contributions and other revenues	(20,742,444)	(9,379,418)	(11,363,026)	121
Contributions and other revenues	32,715,586	—	32,715,586	N/A
Increase (decrease) in net position	11,973,142	(9,379,418)	21,352,560	(228)
Total net position – beginning of fiscal period, as restated	(24,473,807)	(15,094,389)	(9,379,418)	62
Total net position – end of fiscal period	\$ (12,500,665)	(24,473,807)	11,973,142	(49)%

Total resources available during the fiscal year to finance Stadium Authority activities were \$9,411,715, consisting of the restated net position at March 31, 2013 of \$(24,473,807), operating revenues of \$478,333, nonoperating revenues of \$691,603 and other revenues of \$32,715,586. Total operating expenses during the fiscal year were \$21,912,380 for operations, thus the net position increased by \$11,973,142 to \$(12,500,665).

Capital Assets

The capital assets of the Stadium Authority are those which are used in the performance of the Stadium Authority's functions, including but not limited to infrastructure-related assets. At March 31, 2014, capital assets totaled \$753,712,985.

Further detail may be found in note 4 to the financial statements.

SANTA CLARA STADIUM AUTHORITY
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Management's Discussion and Analysis

March 31, 2014 and 2013

Debt Administration

At March 31, 2014, the Stadium Authority had total debt outstanding of \$653,366,893, as shown in detail in note 5 to the financial statements. Stadium Authority's debt was comprised of the StadCo Community Facilities District (CFD) advance of \$29,360,262, Stadium Funding Trust Term A loan of \$282,794,108, Stadium Funding Trust Term B loan of \$92,319,767, the StadCo Agency Advance of \$21,402,817, and the StadCo Subordinated Loan in the amount of \$227,489,939.

Economic and Financial Overview

After several years of what has been termed the "Great Recession", the economy has shown significant recovery. Over the last few years, Silicon Valley has seen job growth that has outpaced the rest of the state. This growth has led to rising home prices and a significant increase in commercial and residential development. Major financial factors impacting the Stadium Authority are:

- In May 2013, a Naming Rights Agreement with Levi Strauss & Co. was approved. The name of the Stadium is "Levi's Stadium". The naming rights agreement calls for Levi's to pay a projected total of \$154 million to the Stadium Authority over a 20 year period.
- The sale of Stadium Builders Licenses (SBLs). These licenses entitle the holder to priority rights to buy tickets for events at Levi's Stadium. Through March 31, 2014, 95% of the total number of SBLs offered for sale had been sold.
- The sale of commemorative bricks that will be installed at Levi's Stadium. As of March 31, 2014, 72% of the total number of bricks had been sold.
- The completion of Levi's Stadium in July 2014 with the first non-NFL event scheduled for August 2, 2014.

Contacting the Stadium Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Stadium Authority's finances and to demonstrate the Stadium Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Santa Clara Finance Department, at 1500 Warburton Avenue, Santa Clara, CA 95050-3796.

SANTA CLARA STADIUM AUTHORITY
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Statements of Net Position

March 31, 2014 and 2013

Assets	2014	2013 (as restated)
Current assets:		
Cash	\$ 300,953	2,908,128
Restricted cash	141,297,383	—
Restricted cash with fiscal agent	15,182,906	—
Prepaid expenses	3,154,624	—
Accounts receivable	3,957,551	97,223,757
Total current assets	<u>163,893,417</u>	<u>100,131,885</u>
Capital assets:		
Equipment, net	657,245	—
Construction in progress	753,055,740	419,221,023
Total capital assets	<u>753,712,985</u>	<u>419,221,023</u>
Long-term restricted cash with fiscal agent	11,536,235	—
Long-term prepaid expenses	882,030	10,028,488
Long-term accounts receivable	17,445,266	—
Total noncurrent assets	<u>783,576,516</u>	<u>429,249,511</u>
Total assets	<u>947,469,933</u>	<u>529,381,396</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	20,197,484	37,204,878
Retentions payable	32,190,234	—
Interest payable	7,123,096	110,728
Due to other City of Santa Clara funds	112,789	106,070
Deferred rent, current portion	180,000	—
Agency advance payable, current portion	3,957,551	—
Unearned revenue, current portion	14,968,302	—
Total current liabilities	<u>78,729,456</u>	<u>37,421,676</u>
Retentions payable	—	23,094,152
Deferred rent	1,533,323	—
Agency advance payable	17,445,266	31,940,184
Term A loan payable	282,794,108	—
Term B loan payable	92,319,767	—
Construction loan payable	—	127,297,055
CFD advance loan payable	29,360,262	—
Subordinated loan payable	227,489,939	236,903,379
Unearned revenue	230,298,477	97,198,757
Total noncurrent liabilities	<u>881,241,142</u>	<u>516,433,527</u>
Total liabilities	<u>959,970,598</u>	<u>553,855,203</u>
Net Position		
Net investment in capital assets	62,597,915	(36,017,721)
Unrestricted	(75,098,580)	11,543,914
Total net position	<u>\$ (12,500,665)</u>	<u>(24,473,807)</u>

See accompanying notes to financial statements.

SANTA CLARA STADIUM AUTHORITY
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Statement of Revenues, Expenses, and Changes in Net Position

Year ended March 31, 2014 and nine-month period ended March 31, 2013

	2014	2013
Operating revenues:		
Other operating revenues	\$ 478,333	—
Operating expenses:		
Selling, general, and administrative expenses	21,898,254	9,379,418
Depreciation	14,126	—
Operating loss	(21,434,047)	(9,379,418)
Nonoperating revenues:		
Interest revenues	691,603	—
Loss before contributions and other revenues	(20,742,444)	(9,379,418)
Contributions and other revenues:		
Contribution from Successor Agency	32,715,586	—
Increase (decrease) in net position	11,973,142	(9,379,418)
Net position – beginning of period, as restated (note 2(b))	(24,473,807)	(15,094,389)
Net position – end of period	\$ (12,500,665)	(24,473,807)

See accompanying notes to financial statements.

SANTA CLARA STADIUM AUTHORITY
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Statements of Cash Flows

Year-ended March 31, 2014 and nine-month period ended March 31, 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers	\$ 244,383,892	—
Payments to suppliers	(20,184,931)	(9,379,418)
Net cash provided by (used in) operating activities	224,198,961	(9,379,418)
Cash flows from noncapital financing activities:		
Decrease in due from other City of Santa Clara funds	—	60,210
Increase (decrease) in due to other City of Santa Clara funds	6,719	(1,296,149)
Net cash provided by (used in) noncapital financing activities	6,719	(1,235,939)
Cash flows from capital and related financing activities:		
Contribution from Successor Agency	11,550,872	—
Acquisition and construction of capital assets	(317,853,670)	(256,161,014)
Proceeds from debt issuance	534,887,908	263,510,542
Principal payments on capital debt	(287,834,941)	—
Net cash provided by (used in) capital and related financing activities	(59,249,831)	7,349,528
Cash flows from investing activities:		
Interest and dividends	453,500	—
Net cash provided by investing activities	453,500	—
Net increase (decrease) in cash and restricted cash	165,409,349	(3,265,829)
Cash and restricted cash, beginning of period	2,908,128	6,173,957
Cash and restricted cash, end of period	\$ 168,317,477	2,908,128
Reconciliation of operating loss to cash provided by (used in) operating activities:		
Operating loss	\$ (21,434,047)	(9,379,418)
Depreciation	14,126	—
Change in operating assets and liabilities:		
Accounts receivable	97,223,757	—
Prepaid expenses	(1,386,220)	—
Unearned revenue	148,068,022	—
Deferred rent	1,713,323	—
Net cash provided by (used in) operating activities	\$ 224,198,961	(9,379,418)
Supplemental schedule of noncash investing and financing activities:		
Accrued construction in progress costs	\$ 9,274,364	25,521,818
Prepaid project insurance amortized to construction in progress	7,378,054	1,652,351
Increase in unearned revenue for SBL proceeds receivable	—	97,223,757
Increase in accounts receivable for contribution from Successor Agency	21,402,817	—

See accompanying notes to financial statements.

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Notes to Financial Statements

March 31, 2014 and 2013

(1) Organization and Reporting Entity

(a) Organization

On June 8, 2010, residents of Santa Clara voted to adopt Measure J, the Santa Clara Stadium Taxpayer Protection and Economic Progress Act, resulting in the approval to construct a new 68,500-seat football stadium (the Stadium) to be leased to the San Francisco 49ers (49ers). In addition, Measure J called for the creation of the Santa Clara Stadium Authority to own, develop, construct, operate, and maintain the Stadium project. The City of Santa Clara (City) and the City of Santa Clara Redevelopment Agency (Agency) entered into a Joint Exercise of Powers Agreement (JPA Agreement) establishing the Santa Clara Stadium Authority (Stadium Authority). The JPA Agreement was later amended to add the Bayshore North Project Enhancement Authority as a member of the Stadium Authority. On June 28, 2011, the Governor signed into law Assembly Bill No. X1 26 (ABX1 26) which called for the dissolution of Redevelopment Agencies throughout the State. The California State Supreme Court upheld ABX1 26 and as a result, on February 1, 2012, all California Redevelopment Agencies were dissolved. The Successor Agency of the City of Santa Clara (Successor Agency) then assumed the obligations of the Agency under the JPA Agreement.

(b) Financial Reporting Entity

As defined by U.S. generally accepted accounting principles (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the application of these criteria, the Stadium Authority has no component units. However, the Stadium Authority is a component unit of the City of Santa Clara because the Mayor and City Council serve as the Board of the Stadium Authority. The City Manager serves as the Executive Director. The debt being incurred for the construction of the Stadium is the responsibility of the Stadium Authority. The City is not a party to the debt nor has the City guaranteed such debt.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Stadium Authority have been prepared in conformity with GAAP as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing government accounting and financial reporting principles. The Stadium Authority is included as an enterprise fund in the City's Comprehensive Annual Financial Report, and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

SANTA CLARA STADIUM AUTHORITY
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Notes to Financial Statements

March 31, 2014 and 2013

(b) Basis of Accounting and Measurement Focus

The Stadium Authority reports its activities as a business-type activity. The financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows, and are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. Reported net position is segregated into three categories – net investment in capital assets, restricted and unrestricted. The statement of revenues, expenses, and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which a liability is incurred.

Operating revenues are those revenues that are generated from the primary operations of the Stadium Authority. All other revenues are reported as nonoperating. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

During the year-ended March 31, 2014, the Stadium Authority implemented GASB Statement No. 65 “*Items Previously Reported as Assets and Liabilities*”. The objective of the statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result, costs of debt issuance that were previously capitalized as part of construction in progress (\$5,309,448) or recorded as deferred financing costs (\$12,754,220) as of March 31, 2013 were deducted from the beginning net position balance as of July 1, 2012.

(c) Year End

An amendment was made to the JPA Agreement on November 13, 2012 in part to change the fiscal year of the Stadium Authority from a July 1 through June 30 fiscal year to an April 1 through March 31 fiscal year to conform with the fiscal year of Stadium Funding Trust.

(d) Cash, Restricted Cash, and Cash with Fiscal Agent

The Stadium Authority’s cash is not pooled with the City of Santa Clara, but is held in separate bank and trust accounts.

Composition of Cash, Restricted Cash, and Restricted Cash with Fiscal Agent

Cash, restricted cash, and restricted cash with fiscal agent at March 31, 2014 and 2013 consists of cash deposits in banks.

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Restricted cash consists of construction period and other revenues that have not yet been transferred to Stadium Funding Trust accounts. On the 15th of the following month all restricted cash is swept into the Stadium Funding Trust accounts as required by the Deposit and Disbursement Agreement and becomes restricted cash with fiscal agent.

Restricted cash with fiscal agent consists of Stadium deposits pledged to a syndicate of lenders, and deposits for Stadium construction. The application of these deposits is restricted to fund Stadium construction and Stadium Authority operations and debt service after Stadium completion.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its agent having a fair value of 105% to 150% of the Stadium Authority's cash on deposit. All of the deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

(e) Accounts Receivable and Unearned Revenue

Accounts receivable are recorded in the Stadium Authority's accounts at the amounts that are contractually due. Accounts receivable at March 31, 2014 include total payments due from the Successor Agency per the First Amendment to Cooperation Agreement to Assist Publicly Owned Stadium. Accounts receivable at March 31, 2013 include cash proceeds from Stadium Builders License (SBL) sales held by Legends Sales & Marketing LLC (Legends), an outside marketing agent. SBL proceeds are recorded as unearned revenue and will be recognized as revenue over the term of the SBL contracts.

(f) Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets and is charged as an expense against operations.

	<u>Useful lives (years)</u>
Buildings	20-50
Improvements	20-50
Equipment	3-25
Infrastructure	10-50

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March 31, 2014 and 2013

The cost of maintenance, repairs, minor replacements, and renewals are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized. Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in the statement of revenues, expenses, and change in net position.

Interest is capitalized on construction in progress in accordance with applicable guidance.

(g) Risk Management

The Stadium Authority entered into an agreement with Willis Insurance Services of California, Inc. (Willis) under which Willis provides insurance broker services to cover the design and construction of the Stadium. The Willis service includes implementing and monitoring an Owner Controlled Insurance Program (OCIP) throughout the term of the Stadium construction. Policy premiums are recorded as prepaid expenses and amortized to construction in progress over the terms of the policies.

(h) Income Taxes

The Stadium Authority falls under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

(i) Use of Estimates

The preparation of 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 disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(j) Reclassifications

Certain reclassifications not affecting change in net position have been made to the 2013 financial statements to conform to the 2014 presentation.

(3) Stadium Development

(a) Transaction Overview

During fiscal year 2012, the Stadium Authority and Forty Niners SC Stadium Company LLC (StadCo) entered into a series of agreements in connection with the construction of the Stadium. The Stadium is being constructed and will be owned by the Stadium Authority; certain tenant improvement components will be owned by StadCo. Construction on the Stadium began in April 2012 and is expected to be substantially completed in August 2014, in time for the 2014 National Football League (NFL) season.

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Notes to Financial Statements

March 31, 2014 and 2013

The City owns the land on which the Stadium is being constructed. The City has leased the land to the Stadium Authority under a ground lease, and the Stadium Authority has leased the Stadium to StadCo for the six-month periods from August through January (the NFL season) of each year, for an initial lease term of 40 years, commencing upon completion of construction.

The Stadium Authority retained a design-build firm to complete the design and construction of the Stadium pursuant to a guaranteed maximum price contract (\$886 million as of March 31, 2014). The Stadium Authority is generally responsible for amounts due to the design-builder, except that StadCo is responsible for payment of costs of tenant improvements. StadCo is acting as construction agent for the Stadium Authority, with primary responsibility for administering the design-build contract. Upon completion of the Stadium's construction, StadCo and the Stadium Authority will conduct a review of the total construction costs in order to properly allocate final costs between the two entities.

The Stadium Authority and StadCo have engaged Forty Niners Stadium Management Company LLC (ManagementCo), an affiliate of StadCo, to manage the Stadium on a year-round basis. The Stadium Management Agreement has an initial term of 25 years, plus a 15 year renewal option. The Stadium Authority will pay ManagementCo for services related to its operations on behalf of the Stadium Authority.

(b) Construction Funding

Funding for construction of the Stadium, excluding tenant improvements funded by StadCo, falls into three major categories: an initial construction loan from a bank syndicate, which was refinanced during 2013 as described below; funding from the StadCo Subordinated Loan; and construction period and other revenues.

Stadium Construction Loan Facility

The initial financing included a delayed draw term loan facility (the Construction Facility) provided by a syndicate of banks (the Lenders) to Stadium Funding Trust (FinanceCo). FinanceCo, a Delaware statutory trust, entered into the Construction Facility with the Lenders and then issued a loan facility to the Stadium Authority in the amount of \$450 million (the Authority Loan). The Construction Facility had a maturity date of September 1, 2015. In June 2013, FinanceCo and the Stadium Authority refinanced the Construction Facility, resulting in FinanceCo paying off the Construction Facility and entering into a new debt structure that includes 26-year fixed rate notes and a delayed draw 5-year loan facility. FinanceCo then issued a new loan facility to the Stadium Authority in the amount of \$450 million. The Stadium Authority's loan facilities are discussed in note 5.

Construction Period and Other Revenues

Certain revenues are being collected by the Stadium Authority while the Stadium is under construction. These construction period and other revenues primarily consist of Stadium Builders License (SBL) and Naming Rights revenues collected by the Stadium Authority. As of March 31,

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2014 the Stadium Authority had collected \$246.4 million of SBLs, Naming Rights, and other deposits.

(4) Capital Assets

Capital asset activity for the year ended March 31, 2014 was as follows:

	Balance March 31, 2013	Additions	Balance March 31, 2014
Nondepreciable assets:			
Construction in progress	\$ 419,221,023	333,834,717	753,055,740
Total nondepreciable assets	419,221,023	333,834,717	753,055,740
Capital assets being depreciated:			
Machinery and equipment	—	671,371	671,371
Less accumulated depreciation for:			
Machinery and equipment	—	(14,126)	(14,126)
Net depreciable assets	—	657,245	657,245
Net capital assets	\$ 419,221,023	334,491,962	753,712,985

Capital asset activity for the nine-month period ended March 31, 2013 was as follows:

	Balance June 30, 2012	Reclassifications (1)	Additions	Accounting change (2)	Balance March 31, 2013 (as restated)
Nondepreciable assets:					
Construction in progress	\$ 165,655,347	(28,384,683)	287,259,807	(5,309,448)	419,221,023
Total capital assets	\$ 165,655,347	(28,384,683)	287,259,807	(5,309,448)	419,221,023

(1) Reclassifications were made to separately report unamortized prepaid project insurance and deferred financing costs.

(2) As a result of implementing GASB Statement No. 65, financing costs that were previously capitalized into CIP in the prior year were adjusted as a reduction of beginning net position. Refer to note 2(b) for additional information.

Interest cost incurred during the year ended March 31, 2014 and the nine-month period ended March 31, 2013 totaled \$26,692,810 and \$14,211,381, respectively, all of which has been capitalized.

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(5) Long-Term Debt

(a) Long-Term Debt Summary

Changes in long-term debt for the year ended March 31, 2014 consisted of the following:

Type of indebtedness	Issue date	Due date	Interest rates	Outstanding as of March 31, 2013	Additions	Reductions	Outstanding as of March 31, 2014	Amounts due within one year
Business type activity debt:								
StadCo Agency Advance Stadium funding trust loan:	3/28/2012	7/1/2017	4.50%–5.50%	\$ 31,940,184	1,013,505	(11,550,872)	21,402,817	3,957,551
Term A loan	6/19/2013	4/1/2039	5.00%	—	282,794,108	—	282,794,108	—
Term B loan	6/19/2013	6/19/2018	LIBOR+2.00%	—	92,319,767	—	92,319,767	—
Stadium Authority construction loan	3/28/2012	9/1/2015	LIBOR+3.25%	127,297,055	1,832,738	(129,129,793)	—	—
StadCo CFD advance	4/1/2013	12/31/2054	5.73%	—	29,360,262	—	29,360,262	—
StadCo subordinated loan	3/28/2012	3/31/2043	5.50%	236,903,379	137,740,837	(147,154,277)	227,489,939	—
Total				\$ 396,140,618	545,061,217	(287,834,942)	653,366,893	3,957,551

Changes in long-term debt for the nine-month period ended March 31, 2013 consisted of the following:

Type of indebtedness	Issue date	Due date	Interest rates	Outstanding as of June 30, 2012	Additions	Outstanding as of March 31, 2013	Amounts due within one year
Business type activity debt:							
StadCo subordinated loan	3/28/2012	9/1/2015	90-Day LIBOR+3.25%	\$ 101,989,406	134,913,973	236,903,379	—
Stadium Authority construction loan	3/28/2012	9/1/2015	LIBOR+ 3.25%	—	127,297,055	127,297,055	—
StadCo agency advance	3/28/2012	12/28/2027	5.73%	30,640,670	1,299,514	31,940,184	—
Total				\$ 132,630,076	263,510,542	396,140,618	—

(b) StadCo Agency Advance

Pursuant to a series of agreements (the RDA Funding Agreements) entered into in 2011 among StadCo, the Stadium Authority, and the Redevelopment Agency of the City of Santa Clara (the Agency), the Agency agreed to contribute up to \$41.6 million toward Stadium project costs. As of March 31, 2013, the Agency had funded \$11.4 million of this amount to the Stadium Authority, with the remaining Agency commitment, totaling \$30.3 million, to be paid to the Stadium Authority by the Agency (or its successor) in future years.

Recognizing that this future funding had been pledged to the Stadium Authority, StadCo agreed to fund certain Stadium project costs, in exchange for the Stadium Authority's commitment to repay StadCo from the funds the Stadium Authority will receive from the Agency. Accordingly, StadCo funded project costs on behalf of the Stadium Authority in the amount of \$30.3 million.

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On September 23, 2013, StadCo, the Stadium Authority, the Agency, and the State of California reached a settlement to StadCo's challenge of certain actions relating to the State's elimination of redevelopment agencies throughout California which included the dissolution of the Agency in 2012. In accordance with the settlement, \$30.3 million will be paid to the Stadium Authority, plus interest at an amended rate of 4.5%. This amount is to be paid in installments beginning January 2, 2014 and continuing until July 1, 2017. As of March 31, 2014, the Agency had funded \$12 million of the settlement amount.

(c) ***Stadium Funding Trust Loan***

The Restated Credit Agreement by and among FinanceCo, the Stadium Authority and Goldman Sachs Bank was entered into on June 19, 2013. FinanceCo agreed to loan the Stadium Authority up to \$450 million. Under the Restated Credit Agreement, the loan from FinanceCo consists of the Term A Loan and the Term B Loan.

Term A Loan

The Term A Loan was made in the amount of \$282.79 million. This loan bears interest at a fixed rate of 5%, payable semi-annually, with annual principal payments due beginning in April 2018. It has a maturity date in 2039 and is subject to certain prepayment premiums. The loan was fully drawn at closing.

As of March 31, 2014, \$282.79 million was outstanding.

Term B Loan

The Term B Loan is for a maximum amount of \$167.21 million. The Term B Loan may be prepaid without penalty, and to the extent that there is a remaining balance on this loan, it is expected to be refinanced prior to the maturity date. This loan bears a variable interest rate of LIBOR plus 2% and has a maturity date in 2018. The applicable interest rates on the Term B Loan varied during the fiscal year ended March 31, 2014 between 2.15% and 2.20%.

As of March 31, 2014, \$92.32 million was outstanding which includes \$1.26 million of interest added to principal.

(d) ***Stadium Authority Construction Loan***

The Santa Clara Stadium Authority Credit Agreement dated as of March 28, 2012 was entered into by and among the Stadium Authority, FinanceCo, and Goldman Sachs Bank USA (Goldman Sachs). The Stadium Authority Credit Agreement provided borrowing to the Stadium Authority in an amount not to exceed \$450 million through September 12, 2015, with interest at LIBOR plus the applicable margin. The applicable interest rates on the Stadium Authority Loan varied during the fiscal year ended March 31, 2014 between 3.44% and 3.45%. The Stadium Authority Loan was secured by substantially all of the assets of the Stadium Authority, and included customary covenants including restrictions on additional debt.

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On June 19, 2013 when the Stadium Authority secured permanent take-out financing, the outstanding balance of \$129.13 million was paid off with proceeds from the Term A loan.

(e) StadCo CFD Advance

In May of 2010, the City of Santa Clara completed the proceedings to establish a Community Facilities District (CFD) for the purpose of financing certain publicly owned facilities and public services associated with Levi's Stadium.

On June 11, 2013, the CFD, the Stadium Authority, and StadCo entered into a Reimbursement Agreement under which the CFD would agree to reimburse the Stadium Authority for costs of the publicly owned facilities and public services constructed for Levi's Stadium. The reimbursement can only be made from the special tax generated by the CFD, as and when received by the CFD.

StadCo has agreed to advance to the Stadium Authority funds to pay for the CFD Infrastructure (StadCo CFD Advance). To evidence the Stadium Authority's obligation to repay the StadCo CFD Advance, the Stadium Authority and StadCo also executed a note on June 11, 2012. The StadCo CFD Advance has a maximum principal of \$38 million and an interest rate of 5.73%.

As of March 31, 2014, \$29.36 million was outstanding which includes \$946 thousand of interest added to principal.

(f) StadCo Subordinated Loan

The StadCo Obligations Agreement dated as of March 28, 2012 was entered into by and among StadCo and the Stadium Authority. The StadCo Obligations Agreement provided subordinated borrowing to the Stadium Authority in an amount not to exceed \$500 million through September 1, 2015 with interest at the 90-day LIBOR rate plus the applicable margin.

The Restated StadCo Obligations Agreement dated as of June 19, 2013 was entered into by and among StadCo and the Stadium Authority as part of the take-out financing process. Under the Restated StadCo Obligations Agreement, StadCo will loan the Stadium Authority an amount not to exceed \$500 million with a fixed 5.50% interest rate.

On April 1, 2013, \$10.3 million of the outstanding subordinated loan was reclassified as a StadCo CFD advance. On June 19, 2013, when the take-out financing occurred, \$118.8 million of the outstanding subordinated loan was paid down with proceeds from the Term A loan.

The applicable interest rates on the StadCo Subordinated Loan varied between 3.52% and 3.61% for the period from July 1, 2012 through June 19, 2013.

Mandatory principal repayments will commence one year after substantial completion of construction and the Stadium Authority may prepay the loan at any time. As of March 31, 2014, \$227.49 million was outstanding which includes \$10.17 million of interest added to principal.

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(g) Management Company Revolving Loan

The Management Company Revolving Loan dated as of March 28, 2012 was entered into by and among the Stadium Authority and ManagementCo. The Management Company Revolving Loan provides borrowing to the Stadium Authority in an amount not to exceed \$25 million through the earlier of the end of the term of the Stadium Lease or the expiration of the Stadium Management Agreement, with interest at the prime rate payable quarterly. The Management Company Revolving Loan may be used solely for the purpose of enabling the Stadium Authority to pay Covered Stadium Authority Operating Expenses (as defined in the agreement) to the extent, and only to the extent, that funds are not otherwise available.

As of March 31, 2014 and 2013, there was no balance outstanding.

(h) Long-Term Debt Maturity

Future principal amounts due on long-term debt are as follows as of March 31, 2014:

Year ending March 31:		
2015	\$	3,957,551
2016		8,793,896
2017		9,575,441
2018		9,771,891
2019		108,394,269
Thereafter		<u>512,873,845</u>
Total	\$	<u><u>653,366,893</u></u>

(6) Leases

(a) Ground Lease

On February 28, 2012, the Stadium Authority entered into a lease (the Ground Lease) with the City whereby the City leases the Stadium site to the Stadium Authority. The Ground Lease was amended on June 19, 2013.

The Ground Lease has an initial term of 40 years. The first lease year will commence on the first day following the substantial completion of construction and end on the next following March 31st. The subsequent lease years will start on April 1st and end on the following March 31st. The Stadium Authority will have five successive extension options, each four years in duration, which would commence following the initial term expiration date.

The Ground Lease provides that the City will receive a fixed ground rent (Fixed Ground Rent) of \$180 thousand for the first year of Stadium operations payable by the Stadium Authority. Beginning in the second year of Stadium operations and annually thereafter through the tenth year of Stadium operations, the Fixed Ground Rent will increase annually by \$35 thousand. Beginning in the 11th year of Stadium operations, Fixed Ground Rent will be increased to equal \$1 million, and thereafter will be increased by \$100 thousand every five years through the end of the initial term of the Ground

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Lease. If the term of the Ground Lease is extended, then, during the first extension term, the Fixed Ground Rent will equal \$1.58 million; and if and to the extent the Ground Lease is further extended, the Fixed Ground Rent will be increased by \$80 thousand every four years thereafter through the expiration of the term of the Ground Lease.

The Ground Lease also provides that the City will receive a performance-based rent equal to fifty percent of the net income from non-NFL events, less certain credits, payable by the Stadium Authority. If certain of the credits are not used within the year incurred or the next five succeeding years, the credits will expire.

(b) Stadium Lease

On March 28, 2012, the Stadium Authority entered into a lease (the Stadium Lease) with StadCo whereby the Stadium Authority leases the Stadium to StadCo. On June 19, 2013, the same parties entered into an Amended and Restated Stadium Lease Agreement.

The Stadium Lease has an initial term of 40 years commencing on the first day following the substantial completion of construction and includes five successive options to extend the term by four years each. The Stadium Lease is divided into two seasons:

- the Tenant Season, which includes the NFL season (including preseason, regular season and postseason NFL games) and runs from August 1 through January 31; and
- the Stadium Authority Season, which runs from February 1 through July 31.

Pursuant to the Stadium Lease, the Stadium Authority and StadCo will be entitled to receive and collect separate revenues. Rent payable by StadCo to the Stadium Authority will be \$24.5 million per year. This amount was established pursuant to the Stadium Lease in connection with the take-out financing which occurred on June 19, 2013. The Stadium Lease allows for one opportunity to adjust the rent as of April 1, 2015 if operating expenses or debt service are either more or less than projected in determining the initial rent. The lease also provides for a fair market rent adjustment in year 33.

The Stadium Authority may elect to expand the Tenant Season to consist of the entire lease year, from April 1 through the next succeeding March 31 (Stadium Authority Put Right), by delivering written notice to StadCo. The Stadium Authority Put Right may be exercised at any time during lease year 13, or at any time that the Management Company Revolving Loan balance exceeds \$20 million. The expansion of the Tenant Season will be effective as of the applicable Tenant Season Expansion Date as set forth in the Stadium Lease. Effective from and after the Tenant Season Expansion Date, and continuing through the remainder of the Stadium Lease term, the Tenant Season will consist of the entire lease year.

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(7) Contingencies

(a) *Claims and Litigation*

Customary claims and litigation exist which, in the opinion of management, are adequately covered by insurance, otherwise indemnified, or accrued and provided for in the cost of earned revenues.

(b) *Asset Retirement Obligation*

Pursuant to the Ground Lease, the Stadium Authority may be required to demolish the Stadium and other improvements at the end of the lease term, upon written notice from the City. Pursuant to the Stadium Lease, the Stadium Authority will establish reserves to fund the cost of demolishing the stadium at the end of the lease term. While the reserves are projected to cover the entire demolition cost, StadCo will be responsible for funding any shortfall.

(8) Subsequent Events

Management has evaluated subsequent events through September 16, 2014, which is the date the financial statements were available to be issued, and determined there are no other items to disclose.