



Financial Statements  
June 30, 2017

**AZSTA**

Arizona Sports and Tourism Authority

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June 30, 2017

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## Independent Auditor's Report

The Board of Directors  
Arizona Sports and Tourism Authority  
Glendale, Arizona

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Arizona Sports and Tourism Authority (the Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority'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.

### Auditor's Responsibility

Our responsibility is to express an opinion 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. 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 auditor's 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 Arizona Sports and Tourism Authority as of June 30, 2017, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters – Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 10 and the Schedule of the Authority’s Proportionate Share of the Net Pension Liability and the Schedule of the Authority’s Pension Contributions on page 34 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 them 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquires, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Phoenix, Arizona  
October 30, 2017

The following is management's discussion and analysis of the financial performance of Arizona Sports and Tourism Authority (the Authority). It provides an overview of the Authority's financial activities and financial condition for the year and should be read in conjunction with the Authority's financial statements and accompanying notes.

## **FINANCIAL HIGHLIGHTS**

### **Using the Financial Statements**

As a business-type activity, the Authority's annual financial reporting includes the basic financial statements and accompanying notes for enterprise funds. The Authority reports on a fiscal year basis.

The Authority's statement of net position is presented to provide the reader with a financial picture of the Authority's assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position as of June 30, 2017. The difference between total assets, deferred inflows of resources, total liabilities, and deferred outflows of resources represents the Authority's net position.

The purpose of the statement of net position is to illustrate what is available for the future needs of the Authority. The user, from the information presented, is able to determine the assets available for the continuing operations of the Authority, what cash and cash equivalents are available, and what amounts are owed to and by the Authority.

The change to net position as seen on the statement of net position is based on the activity that is presented on the statement of revenues, expenses and changes in net position. The reader will see the revenues and expenses broken down into operating and non-operating categories, as well as any adjustments made to the net position as of the beginning of the year. The increase in net position is attributable to normal operating and non-operating conditions for the Authority in fiscal year 2017. Details are discussed below within the MD&A.

## **THE AUTHORITY'S FINANCIAL ACTIVITIES**

The Authority accounts for its financial activities in conformity with accounting principles generally accepted in the United States as applicable to a government "enterprise fund." This accounting treatment applies because the Authority's activities are primarily business-like in nature. Under enterprise fund accounting, the Authority is a single accounting entity for financial reporting purposes. However, within this single accounting entity, the Authority has identified a number of financial activities that it tracks separately; as is required by Arizona Revised Statute or existing bond indenture documents. These financial activities are referred to as "accounts." These accounts are as follows:

- The Tourism Revenue Clearing Account accumulates the tourism tax revenues received from the State of Arizona Department of Revenue (AZ-DOR), as generated by the Hotel Bed Tax and the Rental Car Surcharge Tax. The Authority distributes 100% of these tourism revenue receipts, in order of priority, to:
  - the Senior Bonds Debt Service account
  - the Tourism Promotions account
  - the Cactus League Promotions account
  - the Youth and Amateur Sports account
  - to the Authority's General Operations account, and
  - to the three reserves; also in order of priority: Youth and Amateur Sports, Operations, and Capital Repair and Replacement.

- The Facility Revenue Clearing Account accumulates the revenues related to:
    - the National Football League (NFL) Franchise Income Tax revenues, and
    - those revenues derived from the operation of the Stadium including:
      - the state and local sales tax recapture
      - rent from the Arizona Cardinals (the Cardinals)
      - facility use fees (FUF)
      - food and beverage commissions
      - ticket surcharges (TUF) from the Fiesta Bowl
      - telecom lease commissions, and
      - all other revenues generated by events held at the Stadium.
- The Authority distributes 100% of these facility revenue receipts, in order of priority, to:
- the Senior Bond Debt Service account, and
  - the Operations account.
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- Senior Bonds Debt Service Account represent that portion of the Authority's pledged revenues used for the repayment of principal and interest related to the Authority's senior bond issues.
  - Tourism Promotion Account represents the activities related to providing funding for tourism promotion within Maricopa County.
  - Cactus League Promotion Account represents the activities of assisting local municipalities with the costs of financing new construction and/or renovations for Spring Training baseball facilities within Maricopa County; with the exception of the Salt River Fields complex in Scottsdale (facilities for the AZ Diamondbacks and Colorado Rockies) and Riverview Park (facilities for the Chicago Cubs).
  - Youth and Amateur Sports Account represents those activities related to the promotion and financing of amateur sports projects and programs within Maricopa County.
  - Operating General Account represents the Authority's primary aggregating and disbursement account for its operations, which includes the operating expenses of the University of Phoenix Stadium.

The use of the term "account" for these separate activities does not have any particular accounting significance. The Authority is not required to and does not publish separate financial statements for any of the individual accounts.

Please refer to the notes to the financial statements for additional information on these accounts.

**COMPARATIVE ANALYSIS – FINANCIAL STATEMENTS**

**Overview of the Financial Statements and Financial Analysis**

**Condensed Statements of Net Position**

	June 30	
	<u>2017</u>	<u>2016</u>
Assets		
Current assets	\$ 59,333,126	\$ 62,095,247
Accounts receivable - long-term - restricted	4,050,000	-
Capital assets non-depreciable	2,773,165	2,773,165
Capital assets depreciable, net	<u>339,868,901</u>	<u>355,603,294</u>
Total assets	<u>\$ 406,025,192</u>	<u>\$ 420,471,706</u>
Deferred Outflows of Resources		
Deferred amount on refunding of debt	\$ 5,342,954	\$ 7,201,924
Pension related deferred outflows	<u>180,457</u>	<u>121,054</u>
Total deferred outflows of resources	<u>\$ 5,523,411</u>	<u>\$ 7,322,978</u>
Liabilities		
Current liabilities	\$ 18,776,671	\$ 28,266,623
Noncurrent liabilities	<u>402,983,101</u>	<u>421,374,961</u>
Total liabilities	<u>\$ 421,759,772</u>	<u>\$ 449,641,584</u>
Deferred Inflows of Resources		
Pension related deferred inflows	\$ 100,183	\$ 65,442
Deferred inflow from management capital investment	<u>1,000,000</u>	<u>\$ -</u>
Total deferred inflows of resources	<u>\$ 1,100,183</u>	<u>\$ 65,442</u>
Net Position		
Net investment in capital assets	\$ 80,295,542	\$ 80,545,458
Unrestricted	<u>(91,606,894)</u>	<u>(102,457,800)</u>
Total net position	<u>\$ (11,311,352)</u>	<u>\$ (21,912,342)</u>

A total asset decrease of \$14,446,514 or 3.436% is the result of a decrease in current assets of \$2,762,121 or 4.448%, an increase in long-term/restricted accounts receivable of \$ 4,050,000 due to a settlement agreement with a local municipality, and a decrease in capital assets of \$15,734,393 or 4.425%; due to the recording of the annual depreciation expense for depreciable assets.

Deferred outflows of resources decreased as of June 30, 2017 compared to the June 30, 2016 by \$1,799,567 or 24.574%. This decrease represents the annual amortization of the deferral of the senior bonds issue costs for the year and as the result of the June 2017 senior bonds refunding bond; i.e. senior bonds series 2017A.

Total liabilities as of June 30, 2017 decreased a total of \$27,881,812, or 6.201% vs. fiscal year 2016 ending balances.

Current liabilities decreased by \$9,489,952 or 33.573%. This decrease was driven by a Youth and Amateur Sports grants payables decrease of \$1,923,406 as fiscal year 2017 was not a biennial grant year. There was a decrease of \$5,684,950 in the senior bonds principal and bond interest payables. FUF due to the AZ Cardinals decreased by \$1,919,253 vs. fiscal year 2016 ending balances. Advanced revenues decreased from fiscal year 2016 by \$1,066,003 as fiscal year 2016 ended with a large concert that generated a large amount of dollars that needed to be settled in early fiscal year 2017.

Non-current liabilities decreased by \$18,391,860 or 4.365%, year-over-year. This was the result of a decrease in Cactus League payables of \$4,927,215; as the Authority made principal and interest payments on the Cactus League intergovernmental agreements with the City of Tempe and City of Scottsdale. Senior bonds principal and premiums payables decreased in fiscal year 2017 by \$11,838,447 as the Authority made principal and interest payments on the outstanding senior bonds debt services including the amortization of bond premiums for the year. The note payable to the Arizona Cardinals for the Authority's share of the cost of the scoreboard: decreased the non-current liabilities by \$1,674,458. The net pension liability increased in fiscal year 2017 by \$48,260.

Deferred inflows increased in fiscal year 2017 when compared to fiscal year 2016 by \$1,034,741, driven by an increase in the pension-related deferred inflows of \$34,741 and by a \$1,000,000 entry for the deferred inflow from the new stadium management agreement, which mandates the SMG payment to the Authority of \$1,500,000 to be used over the next 5 years for marketing and/or for capital improvements to the stadium.

Overall in fiscal year 2017, the net position of the stadium improved by \$10,600,990. The total year-end net position as of June 30, 2017 is a deficit of \$11,311,352.



**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	Year Ended June 30	
	2017	2016
Operating Revenues	\$ 26,710,648	\$ 31,146,472
Operating Expenses	<u>(52,923,780)</u>	<u>(58,056,641)</u>
Operating Loss	(26,213,132)	(26,910,169)
Net Nonoperating Revenues	<u>36,814,122</u>	<u>25,429,328</u>
Income Before Capital Contributions	10,600,990	(1,480,841)
Capital Contributions	<u>-</u>	<u>166,391</u>
Change in Net Position	10,600,990	(1,314,450)
Net Position, Beginning of Year	<u>(21,912,342)</u>	<u>(20,597,892)</u>
Net Position, End of Year	<u><u>\$ (11,311,352)</u></u>	<u><u>\$ (21,912,342)</u></u>

Overall, from fiscal year 2016 to 2017 there was an increase in the net position of the Authority of \$10,600,990, or 48.379%. This is attributable to the results from normal operating and non-operating conditions for the Authority; but was driven by the aggregated results from the events that were hosted at the University of Phoenix Stadium in fiscal year 2017. This increase in net position is laid out in the details below.

The Authority's operating revenues decreased in fiscal year 2017 by \$ 4,435,824 or 14.242%. Stadium operating revenues decreased in fiscal year 2017 compared to fiscal year 2016 by \$5,309,399, or by 19.606%. Facility use and ticket use revenues decreased year-over-year in 2017 by \$357,598, or 16.075%. Concessions commission revenues increased in fiscal year 2017 by \$727,357, or 40.045% when compared to fiscal year 2016. The reason for this overall decrease in operating revenues is attributable to the composition of events held at the stadium (excluding the AZ Cardinals home games and the timing of these events. In fiscal year 2017, while the stadium hosted the NCAA Men's Final Four, it was difficult to out-perform the aggregate events held at the stadium in fiscal year 2016, which included the national college football championship game and an Arizona Cardinals playoff game thus, generating their associated operating revenues.

The Stadium's total operating expenses decreased in fiscal year 2017 by \$5,132,861, or by 8.841% when compared to fiscal year 2016. The Authority's operating expenses decreased in fiscal year 2017 by \$244,073, or by 15.533%. Stadium management operations also decreased in fiscal year 2017 by \$4,958,703, or by 12.377%. The Authority was still able to host the fiscal year 2017 high-profile events, and still maintain the stadium designation as one of only three major stadiums in the United States with the Safety Act designation by Homeland Security. There was a slight increase in the annual depreciation expense for fiscal year 2017: \$69,915, or 0.426%.

The Authority's non-operating revenues increased by \$6,693,829, or 13.811% in fiscal year 2017 as compared to fiscal year 2016. Hotel bed tax revenue receipts increased \$977,773 year-over-year. Car rental surcharge tax revenues decreased by \$104,862 in fiscal year 2017 vs. fiscal year 2016. These may be indicators that the tourism industry within Maricopa County and within the State of Arizona continues to recover slowly from the economic recession. The tourism industry in Arizona continues as one of the state's leading industry sectors.

The National Football League (NFL) income tax decreased by \$318,573, or by 4.499% in 2017. Since the start of fiscal year 2008, the Authority has not had the benefit of this revenue source having met the guaranteed minimum, as that was repealed by the Arizona State Legislature and Executive Branches. The elimination of this guarantee leaves only the actual income taxes paid that come to the Authority. This revenue source continues to under-perform since the Authority's second year of operations when compared to the original Proposition 302 revenue projections for the Authority.

Sales tax recapture/rebates to the Authority decreased in fiscal year 2017 by \$782,616, or by 7.107%. Events held at the University of Phoenix Stadium generate sales tax rebate / recapture revenues for the Authority as the Authority receives both state and local sales tax recapture/rebate revenues from all related taxable transactions. The Authority is working with both taxing authorities to better understand the variables that are driving these reduced revenue distributions to the stadium. There is a large settlement income recognition in fiscal year 2017 for \$7,050,000 as it relates to the reporting of a settlement agreement with a local municipality. These dollars will be received over the next 6 years as the annual distribution is made to the Authority. Interest income increased by \$43,286 in fiscal year 2017.

Non-operating expense decreased in fiscal year 2017 as compared to fiscal year 2016 by \$4,453,965. In 2017, AZSTA distributed \$7,927,182 in Tourism promotional dollars. Youth and Amateur Sports Grant distributions decreased by \$2,563,892 in fiscal year 2017 as this was a biennial grant year for the Authority. Bond interest expense was lower in fiscal year 2017 by \$257,212.

In fiscal year 2016, the Authority reported \$166,391 in capital contributions as the result of the booking of new assets. There were no capital contributions in fiscal year 2017, but the capital assets increased (prior to depreciation expense) by \$757,811.

Income before Capital for fiscal year 2017 was \$10,600,990. In fiscal year 2016 it was a loss of \$1,480,841, or a year-over-year improvement of \$12,081,831. Prior year-end net position was a \$21,912,342 deficit. With the net change for fiscal year 2017 of \$10,600,990; the year-end net position for fiscal year ended June 30, 2017 is a deficit of \$11,311,352.

### **Capital Assets (Note 6)**

The Authority had additions to capital assets during fiscal year 2017 totaling \$757,811 and disposals of \$0.

### **Debt Obligations (Note 9)**

The Authority's outstanding debt obligations decreased in fiscal year 2017 due to the payments made throughout the year on the senior bonds debt service and due to the June 2017 bond refunding issue (series 2017A) and the simultaneous senior bonds defeasement of the remaining series 2007A senior bonds.

The Authority remains in compliance with all of its debt covenants throughout the fiscal year and anticipates no problems for covenants in the upcoming fiscal year.

### **Economic Factors and Next Fiscal Year Budget**

#### BUDGET Narrative / Brief:

Fiscal year 2017 was an exceptional year for the Authority:

- While the operating revenues decreased year-over-year by \$5,309,399
- Operating expenses for the stadium and for the authority decreased by a combined \$5,132,861
- Non-operating revenues increased year-over-year by \$6,930,829
- Non-operating expenses improved year-over-year by \$4,453,965
- Resulting in a change in net position for the Authority in fiscal year 2017 of \$10,600,990

The stadium is running well and using the past 3 years of successful hosting of national events to position itself as a key destination for future national events: like the NCAA college football national championship game, the NCAA Men's Final Four, and another Super Bowl. Additionally, there were several other events that could continue to be hosted at the Stadium: Motor Sports Monster Truck events, COPA America or World Cup soccer games, larger musical concerts, NFL football playoff game(s), etc. While none of these events can be forecast with certainty at this time, the Authority is actively pursuing the opportunities as each would significantly generate and contribute to the generations of significant revenues from ticket and merchandise sales, food & beverage commissions, and sales tax rebate/recapture from the taxing authorities.

For fiscal year 2018, the Authority continues to utilize a conservative revenue forecast – particularly in our primary revenue source – Tourism Revenues. The budget for the fiscal year 2018 tourism revenues is \$586,661 greater than the forecast actual revenues from fiscal 2017. This is due to the timing of the fiscal year 2018 budget creation and submission, the aforementioned conservative approach to revenue forecasting. The Authority is also following the guidance from the Joint Legislative Budget Committee (JLBC) that tourism revenues will continue to recover from the economic recession, but a very slow rate of increase year-to-year.

There are projected increases and decreases in the various revenues that comprise the total facility-related revenues in fiscal year 2018. Again, these are modest fluctuations aggregate to a \$141,668 increase year-over-year when compared to the forecast receipts in fiscal year 2017.

Looking ahead, the Authority continues to forecast that it may take another three to five years before we are back to the year-to-year tourism revenue growth that was seen in the pre-recession years. Unfortunately, this continues to put the Authority further behind / significantly below the original Proposition 302 thirty-year tourism revenue forecast. As a result, the Authority has not been able to meet the full statutory 'waterfall' distributions each month for those distributions recipients that are below tourism promotions in the 'waterfall' priorities: i.e. cactus league promotion, youth and amateur sports programs, operations, and reserves.

We continue to forecast a series of operating deficits in both the near-term and the long-term. However, the Authority does anticipate that its current operating cash reserves will continue to be adequate to fund operations throughout the foreseeable future.

**Future Tourism Revenue Distribution**

In fiscal year 2000, the Arizona Legislators passed Arizona Revised Statutes Title 5 – Chapter 8. This legislation provides the authority to the Arizona Sports & Tourism Authority to distribute funds collected through hotel bed tax and car rental surcharges to pay for the priorities outlined in the statute. Those priorities are:

- 1) Senior bonds held by the Authority for the purpose of funding the multi-purpose stadium (University of Phoenix Stadium)
- 2) Tourism promotion for Maricopa County
- 3) Cactus League Stadium renovations and new facilities
- 4) Youth and Amateur Sports (YAS) Grants
- 5) Operations at the University of Phoenix Stadium
- 6) Reserves for YAS, Operations, Capital and Repair

The legislation also provided “maximums” for each distribution to Tourism, Cactus League and YAS on a monthly basis. The Authority follows a “waterfall” approach to the distribution to each priority during each month of a fiscal year. This priority and the maximum limits are defined by statute.

During fiscal year 2017, the Authority’s receipts of Tourism revenues was not adequate to distribute down the entire ‘waterfall’ to fulfill all of the statutory distribution amounts each month; as projected in the original Proposition 302. Tourism Promotions distributions met just under 95% of the statutory maximum of distributions in fiscal year 2017. However, those distribution buckets further down the ‘waterfall’ (Cactus League promotions, Youth and Amateur Sports, Operations, and the reserves) received only a portion of their respective total statutory distributions.

The Authority received \$32.060 million (June 2016 – May 2017) in total Tourism revenues for ‘waterfall’ distributions in fiscal year 2017 (July 2016 – June 2017); vs. the original Proposition 302 projection for fiscal year 2017 at \$35.356 million. The Authority distributed these Tourism revenues as follows in fiscal year 2017:

	\$ Millions
Senior Bond	13.674
Tourism	7.927
Cactus League (Sub Bond DS included)	4.504
Youth & Amateur Sports	1.453
Stadium Operations	3.002
Reserves (YAS, Operations, Capital)	1.5

The Authority continues to project that the Tourism revenue receipts will not be enough to fully fund 100% of the statutory “waterfall” distributions each month in fiscal years 2018 – 2021.

**Requests for Information**

This financial report is designed to provide a general overview of the Arizona Sports and Tourism Authority’s finances for all interested parties. Requests for additional information may be made by contacting us at Arizona Sports and Tourism Authority, 1 Cardinals Drive, Glendale, Arizona 85305 Attn: Finance Department. Additional information on the Authority’s finances may be found on our website, [www.az-sta.com](http://www.az-sta.com), under the Archives section.

Arizona Sports and Tourism Authority  
Statement of Net Position  
June 30, 2017

Assets

Current Assets

Cash and equivalents - restricted	\$ 47,980,045
Accounts receivable - restricted	11,114,338
Other assets	238,743
Total current assets	59,333,126

Noncurrent Assets

Accounts receivable - restricted	4,050,000
Capital assets, non-depreciable	2,773,165
Capital assets, depreciable, net	339,868,901
Total noncurrent assets	346,692,066

Total assets	406,025,192
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Deferred Outflows of Resources

Deferred amount on refunding of debt	5,342,954
Pension related deferred outflows	180,457
Total deferred outflows of resources	5,523,411

Liabilities

Current Liabilities

Accounts payable	419,147
Accrued expenses	1,747,859
Youth and Amateur Sports grants payable	50,000
Bond principal payable	2,400,000
Bond interest payable	6,312,156
Arizona Cardinals facilities use fee payable	76,863
Arizona Cardinals note payable	1,793,690
Advanced revenue	5,976,956
Total current liabilities	18,776,671

Noncurrent Liabilities

Cactus League payable	132,290,300
Bonds principal and premiums payable	265,289,478
Arizona Cardinals note payable	4,580,132
Net pension liability	823,191
Total noncurrent liabilities	402,983,101

Total liabilities	421,759,772
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Deferred Inflows of Resources

Pension related deferred inflows	100,183
Deferred inflow from management capital investment	1,000,000
Total deferred inflows of resources	1,100,183

Net Position

Net investment in capital assets	80,295,542
Unrestricted	(91,606,894)
Total net position	\$ (11,311,352)

Arizona Sports and Tourism Authority  
Statement of Revenues, Expenses, and Change in Net Position  
Year Ended June 30, 2017

Operating Revenues	<u>\$ 26,710,648</u>
Operating Expenses	
Stadium operating expenses	35,104,305
Authority operating costs	1,327,271
Depreciation	16,492,204
Total operating expenses	<u>52,923,780</u>
Operating Loss	<u>(26,213,132)</u>
Nonoperating Revenues	
Hotel bed tax	18,294,433
Rental car tax	14,658,630
NFL income tax	6,762,356
Sales tax recapture	10,229,390
Youth and Amateur Sports grant recovery	65,821
Settlement income	7,050,000
Interest income	55,166
Total nonoperating revenues	<u>57,115,796</u>
Nonoperating (Expenses)	
Arizona tourism distribution	(7,927,182)
Arizona Cardinals facilities use fee expense	(76,863)
Interest expense	(12,050,999)
Bond issuance expense	(246,630)
Total nonoperating (expenses)	<u>(20,301,674)</u>
Total net nonoperating revenues	<u>36,814,122</u>
Change in Net Position	10,600,990
Net Position, Beginning of Year	<u>(21,912,342)</u>
Net Position, End of Year	<u><u>\$ (11,311,352)</u></u>

Arizona Sports and Tourism Authority  
Statement of Cash Flows  
Year Ended June 30, 2017

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Cash Flows from Operating Activities	
Cash received from events (Stadium operations)	\$ 25,504,914
Cash paid for events (Stadium operations)	(34,759,530)
Cash paid for employees	(463,205)
Cash paid for other operating expenses	<u>(354,386)</u>
Net Cash used for Operating Activities	<u>(10,072,207)</u>
Cash Flows from Non-Capital Financing Activities	
Payments to the Arizona Office of Tourism	(7,927,182)
Payments for Youth and Amateur Sports	(1,857,585)
Payments for Arizona Cardinals Note	(1,283,202)
Payments for Cactus League	(4,927,215)
Payments for Arizona Cardinals Use Fee	(1,996,116)
Cash paid for interest	(13,154,623)
Receipts from hotel bed tax	18,214,576
Receipts from rental car tax	14,947,180
Receipts from NFL income tax	6,762,356
Receipts from sales tax recapture	11,667,082
Receipts from settlement income	<u>1,500,000</u>
Net Cash from Non-Capital Financing Activities	<u>21,945,271</u>
Cash Flows from Capital and Related Financing Activities	
Cash paid for capital additions	(757,811)
Cash paid on bond principal	(7,905,002)
Cash from bond issuance	80,660,000
Cash paid to defease bond	(87,675,000)
Cash paid for bond costs	<u>(246,630)</u>
Net Cash used for Capital and Related Financing Activities	<u>(15,924,443)</u>
Cash Flows from Investing Activities	
Cash from interest earned	<u>55,166</u>
Net Cash from Investing Activities	<u>55,166</u>
Net Change in Cash and Equivalents	(3,996,213)
Cash and Cash Equivalents, Beginning of Year	<u>51,976,258</u>
Cash and Cash Equivalents, End of Year	<u>\$ 47,980,045</u>
Cash and Cash Equivalents	
Cash and equivalents - restricted	<u>\$ 47,980,045</u>
Total	<u>\$ 47,980,045</u>

Arizona Sports and Tourism Authority  
Statement of Cash Flows  
Year Ended June 30, 2017

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Operating Activities	
Operating loss	\$ (26,213,132)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation	16,492,204
Changes in operating assets and liabilities	
Accounts receivable	(1,139,731)
Other assets	237,439
Accounts payable	352,315
Accrued expenses	122,297
Pension related deferred outflow	59,403
Pension related deferred inflow	34,741
Net pension liability	48,260
Deferred inflow related to capital management investment	1,000,000
Advanced revenue	<u>(1,066,003)</u>
	<u>\$ (10,072,207)</u>



### **Note 1 - Organization and Reporting Entity**

The Arizona Sports and Tourism Authority (the Authority) was formed on August 9, 2000, as a political subdivision of the State of Arizona, empowered to, among other things:

- construct, finance, furnish, maintain, improve, own, operate, market, and promote the use of the University of Phoenix Stadium (the Stadium) suitable to be used to accommodate sporting events and entertainment, cultural, civic, meeting, trade show or convention events or activities, including a stadium, on-site infrastructure, parking garages and lots and related commercial uses within the facility in Maricopa County;
- acquire land or construct, finance, furnish, improve, market or promote the use of existing or proposed major league baseball spring training facilities located in Maricopa County; and
- acquire land or construct, finance, furnish, maintain, improve, operate, market or promote the use of community youth and amateur sports facilities, recreational facilities and other community facilities or programs in Maricopa County.

The Authority's Board of Directors is comprised of nine citizens of Maricopa County who volunteer their time and accept no compensation or per diem. The Board members are appointed to five-year terms by the Governor (five members), the President of the Senate (two members) and the Speaker of the House (two members), and are eligible to serve two terms. Board appointees are appointed to achieve a balanced representation of the Valley's regions as well as the Tourism Industry, Cactus League, Valley Hotel Industry and Youth Sports.

The Authority opened the University of Phoenix Stadium in August 2006 under its Stadium management operating agreement with Service Management Group (SMG).

SMG acts as the fiscal agent of the Authority and receives all of its working capital requirements from the Authority on the basis of an annual budget and operating plan approved by the Authority's Board of Directors. The annual financial results for the Stadium are consolidated in the Authority's financial statements. The Authority's management agreement with SMG began on July 1, 2016. The agreement with SMG expires on June 30, 2021.

Rojo Hospitality Group, LLC operates as an independent service provider to the Authority and provides catering and concession services throughout the Stadium. The Authority's agreement with Rojo Hospitality Group, LLC expires on March 31, 2021.

The Authority has two long-term Stadium tenants, the Arizona Cardinals of the National Football League and the Arizona Sports Foundation doing business as the Fiesta Bowl (Fiesta Bowl). The Arizona Cardinals and the Fiesta Bowl began their respective thirty-year use agreements in August 2006. The Authority has further agreed to subsidize the Fiesta Bowl's annual event by providing for a fixed amount of the actual game day expenses. Under the agreement, the Fiesta Bowl is required to collect and remit to the Authority several revenues including a ticket surcharge and a facility use fee.

## **Note 2 - Summary of Significant Accounting Policies**

### **Basis of Accounting**

The accounting policies of the Authority conform to accounting principles generally accepted in the United States as applicable to enterprise units adopted by the Governmental Accounting Standards Board (GASB). A summary of significant accounting policies follows.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Enterprise units distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the Authority are those generally related to the on-going operations at the Stadium; revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **Use of Estimates**

The preparation of financial statements that conform to accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents consists of highly-liquid investments with an original maturity of three months or less. All cash is restricted for disbursement in accordance with the Arizona Revised Statutes Title 5 Chapter 8.

### **Receivables and Credit Policy**

Trade receivables due from customers are uncollateralized customer obligations due under normal trade terms requiring payment upon receipt of the invoice. Trade receivables are stated at the amount billed to the customer. The Authority charges interest on overdue customer account balances at a rate of 18% per annum. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

Hotel bed tax, car rental surcharge, and sales tax recapture receivables are due from the Arizona State Treasurer's office and are paid approximately two months in arrears.

Other receivables include approximately \$290,984, in insurance proceeds receivable related to damages to the building which occurred in fiscal year 2011. The insurance carrier and other parties involved are currently in litigation to determine the party responsible for payment of the receivable.

The Authority provides an allowance for doubtful accounts equal to estimated uncollectible amounts. The Authority's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Authority's estimate of the allowance for doubtful accounts will change. As of June 30, 2017, the Authority has estimated and recorded an estimated allowance of \$290,984 relating to the insurance claim above.

### **Use of Restricted Assets**

The Authority's assets are restricted based on existing statutory language. As such, the Authority employs these resources first when expenses of the Authority are incurred. All cash and cash equivalents are restricted as to use by the State of Arizona.

The Tourism Revenue Clearing Account is fully allocated on a monthly basis for those requirements as outlined in the Flow of Funds. Restrictions on use are as follows:

- The Debt Service Accounts, including the subordinate reserve, are used for meeting bondholder obligations.
- The Tourism Account is used for tourism promotion purposes.
- The Cactus League account is restricted to the promotion of spring training baseball.
- The Youth and Amateur Sports account is for the awarding of matching grants for those expressed purposes.
- The operating general account is used for the Authority's approved annual operating budget expenses as well as for fulfilling the Authority's statutory youth and amateur sports, operating and capital reserve requirements.

### **Capital Assets**

Capital assets are recorded at cost or the fair market value on the date of donation. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in the statement of revenues, expenses, and changes in net position.

Depreciation is provided using the straight-line method, based on useful lives of the assets which range from three to forty years.

The Authority reviews its property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is materially less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairments occurred in fiscal year 2017.

### **Deferred Outflows of Resources**

For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. As of June 30, 2017, deferred outflows of resources consisted of deferred amounts on refunding of debt, net of accumulated amortization, in the amount of \$5,342,954.

Contributions made by the Authority to its pension plan since the measurement date of the plan's net pension liability, the difference between expected and actual experiences in the plan, and changes in the proportion and differences between employer contributions and the proportionate share of contributions to the plan are reported as pension related deferred outflows of resources. The contributions made since the measurement date of the plan will be recognized when the time period in which the contributions were made are encompassed by the plan. The difference between expected and actual experiences in the plan, and the changes in the proportion and differences between employer contributions and the proportionate share of contributions to the plan are amortized over the estimated remaining work-life of active participants in the plan and recognized as a reduction of pension expense. As of June 30, 2017, there was \$180,457 in deferred outflows related to pension expense, net of accumulated amortization. See Note 15 for additional information and disclosures related to the pension plan.

### **Deferred Inflows of Resources**

The difference between expected and actual experience, changes in proportion and differences between the Authority's contributions and proportionate share of contributions are presented as pension related deferred inflows of resources. This difference is amortized over five years and recognized as a component of pension expense. As of June 30, 2017, \$100,183 of deferred inflows related to pension expense, net of accumulated amortization. See Note 15 for additional information and disclosures related to the pension plan.

The deferred inflow from management capital investment, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The deferred inflow from management capital investment was \$1,000,000 as of June 30, 2017, this amount will be recognized over a period of four years.

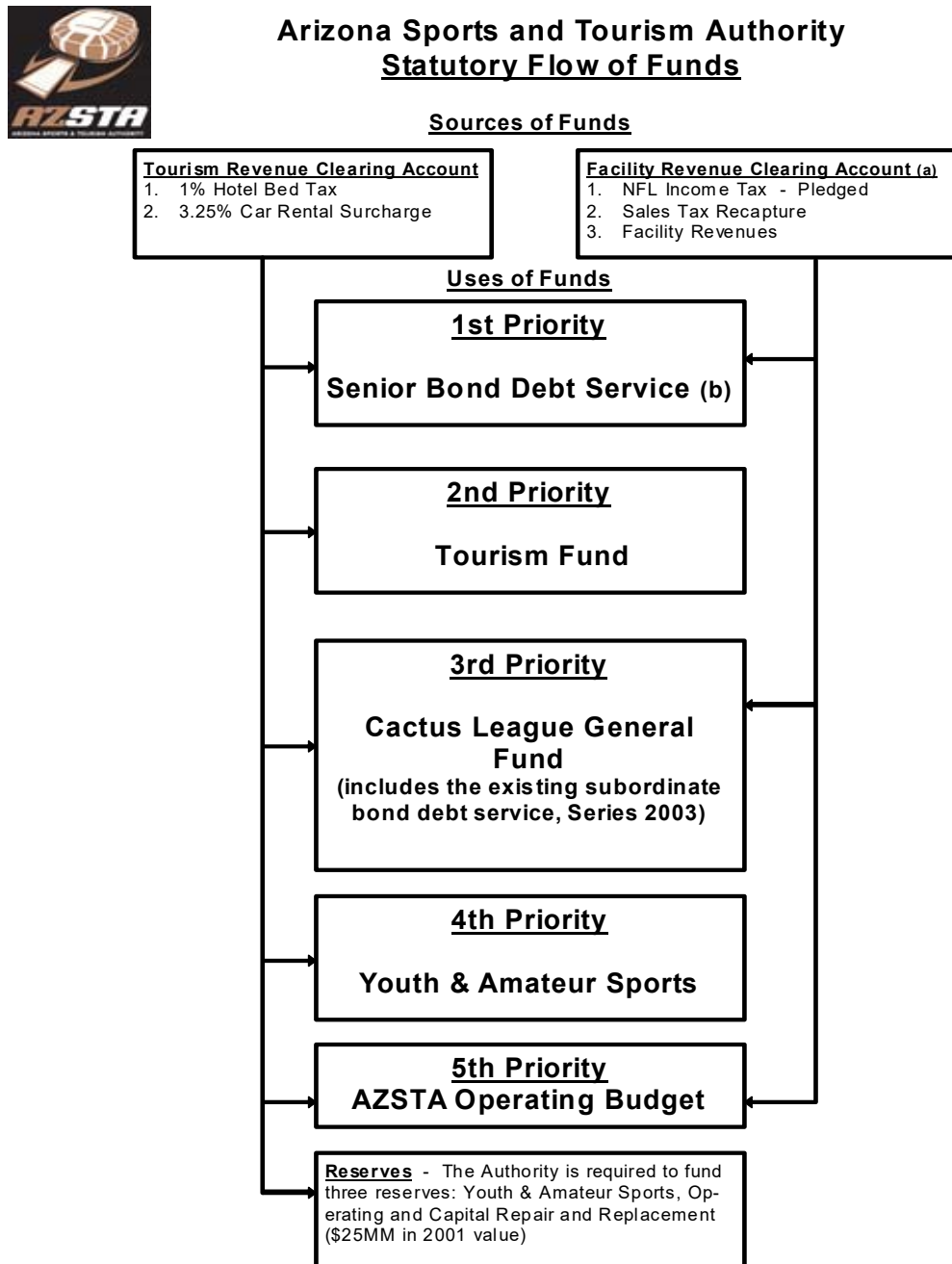
### **Revenue Recognition**

The Authority recognizes revenue from car rental surcharges, hotel bed tax, income taxes related to a professional football franchise, sales tax recapture, event earnings, and facility user rentals on the accrual basis as earned.

- The car rental surcharge is a 3.25%, less \$2.50 per rental agreement, surcharge on applicable rental car contracts in Maricopa County.
- The hotel bed tax is a 1% tax on lodging transactions in Maricopa County.
- The income taxes are associated with the state income tax liability of the Arizona Cardinals organization, its employees, and their spouses.
- Sales tax recapture revenues are generated by all taxable transactions at the Stadium which are remitted to the State of Arizona and the City of Glendale.
- Event revenues are deferred until completion of the event. Revenues come from a variety of activities including building rents, concessions and catering, novelties, exhibitor services and other miscellaneous revenues.
- Facility use rentals are amounts paid by the Arizona Cardinals and the Fiesta Bowl for their use of the Stadium. The Arizona Cardinals annual rent started at \$250,000 per year in 2010 and grows by 2% per year thereafter. The Fiesta Bowl pays a ticket surcharge which started at \$2.50 per ticket in 2010 and increases by \$0.20 per ticket per year.

The Authority’s revenues are defined by Arizona Revised Statute as to the priority of their use.

The following Flow of Funds diagram outlines the priority in which the Authority’s revenues are allocated.



**Footnotes**

(a) The Facility RCA is used for debt service requirements on senior and subordinate bonds. Any remaining funds go to the operations account.  
 (b) All sources of revenue of the Authority (except for the non-pledged portion of the NFL Income Tax) are pledged to the Authority's senior and subordinate bond debt service above all other distribution priorities.

## Description of Accounts

### Tourism Revenue Clearing Account

The Tourism Revenue Clearing Account (TRCA) receives the tourism tax revenues from the hotel bed tax and the car rental surcharge. The taxes began in March 2001 and will be collected through February 2031. These revenues are then distributed in the following month in the following order of priority:

- The first priority is to the actual debt service on bonds issued to finance the construction of the University of Phoenix Stadium. The debt service amount to be distributed from the TRCA is limited to \$165.5 million of the total bond principal amount.
- The second funding priority is to the tourism account based on \$4.0 million in the first 12 months growing by 5% every 12-month period thereafter during the term of the tourism taxes.
- The third funding priority is to promote and market Cactus League baseball as well as to meet the subordinate bond debt service requirements. This account will receive \$250,000 per month during the first 84 months and increases per the statute's requirements thereafter.
- The fourth funding priority is youth and amateur sports, which received \$1.0 million in its first 12 months increased by \$100,000 every 12-month period thereafter during the term of the tourism taxes.
- The next priority is the Authority's annual operating budget which also includes the Stadium operating budget as managed by Global. The distribution is based on the total fiscal year's operating budget divided into equal monthly installments.
- The final funding priority is for three reserve accounts: the youth and amateur sports reserve, the operating reserve, and a capital repair and replacement reserve.

### Facility Revenue Clearing Accounts – Pledged and Non-Pledged

The Pledged Facility Revenue Clearing Account receives the following revenue sources: the professional football franchise income tax, the state and local sales tax recapture revenues, Fiesta Bowl ticket surcharge, Arizona Cardinals annual rent and all other event revenues from Stadium operations. These revenues are used for one primary purpose – to fund a portion of the debt service for the Authority's outstanding senior and subordinate bond issues.

The Non-Pledged Facility Revenue Clearing Account receives that portion of the professional football franchise income tax which is determined as being non-football related. This account is designated strictly for meeting the Authority's operating expenses.

## Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Arizona State Retirement System (ASRS) in which the Authority participates. Additions to/deductions from ASRS's fiduciary net position have been determined on the same basis as they are reported by ASRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note 3 - Cash and Cash Equivalents**

Custodial credit risk is the risk that an entity will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party if the counterparty fails. The Authority maintains deposits with outside parties that are in excess of Federal Deposit Insurance Corporation (FDIC) coverage limits of \$250,000.

At June 30, 2017, the Authority's commercial money market accounts totaled \$12,031,790. These accounts were not collateralized or insured.

**Note 4 - Accounts Receivable**

Accounts receivable consisted of the following as of June 30, 2017:

Operating accounts receivable	\$ 2,073,034
Settlement receivable	5,550,000
Hotel bed tax	2,403,547
Car rental surcharge	1,804,148
Sales tax recapture	3,333,609
	<u>3,333,609</u>
	<u>\$ 15,164,338</u>

**Note 5 - Restricted Assets**

Restricted assets consisted of the following at June 30, 2017:

Cash and cash equivalents	\$ 47,980,045
Receivables	15,164,338
	<u>15,164,338</u>
	<u>\$ 63,144,383</u>

**Note 6 - Capital Assets**

Capital asset activity consisted of the following:

	July 1, 2016	Additions	Disposals	June 30, 2017
Capital assets not being depreciated:				
Land	\$ 2,773,165	\$ -	\$ -	\$ 2,773,165
	<u>2,773,165</u>	<u>-</u>	<u>-</u>	<u>2,773,165</u>
Capital assets being depreciated:				
University of Phoenix Stadium	476,353,920	-	-	476,353,920
Stadium scoreboard	12,156,287	-	-	12,156,287
Stadium Wi-Fi	9,749,032	-	-	9,749,032
Stadium FF&E	9,935,175	588,671	-	10,523,846
Stadium security	1,569,941	169,140	-	1,739,081
Stadium lighting	836,973	-	-	836,973
Computer equipment	139,911	-	-	139,911
Furniture and fixtures	133,563	-	-	133,563
Office equipment	15,577	-	-	15,577
Capitalized software	10,621	-	-	10,621
	<u>510,901,000</u>	<u>757,811</u>	<u>-</u>	<u>511,658,811</u>
Less accumulated depreciation:				
University of Phoenix Stadium	(139,799,589)	(12,754,662)	-	(152,554,251)
Stadium scoreboard	(3,799,269)	(1,736,612)	-	(5,535,881)
Stadium Wi-Fi	(2,811,763)	(1,392,719)	-	(4,204,482)
Stadium FF&E	(8,256,657)	(341,330)	-	(8,597,987)
Stadium security	(204,775)	(165,424)	-	(370,199)
Stadium lighting	(153,035)	(83,697)	-	(236,732)
Computer equipment	(112,858)	(17,760)	-	(130,618)
Furniture and fixtures	(133,563)	-	-	(133,563)
Office equipment	(15,576)	-	-	(15,576)
Capitalized software	(10,621)	-	-	(10,621)
	<u>(155,297,706)</u>	<u>(16,492,204)</u>	<u>-</u>	<u>(171,789,910)</u>
	<u>\$ 358,376,459</u>	<u>\$ (15,734,393)</u>	<u>\$ -</u>	<u>\$ 342,642,066</u>

**Note 7 - Facilities Use Fees Payable**

In accordance with the Facilities Use Fee (FUF) Agreement dated August 15, 2005, as of January 1, 2012 and on an annual basis the Authority shall apply or distribute all FUF revenues and City of Glendale sales tax recapture revenues collected in excess of original Series 2005A Senior bond debt service scheduled for the fiscal year and an agreed upon maintenance and capital repair charge to the Arizona Cardinals (the Cardinals) for the reimbursement of costs previously incurred by the Cardinals for on-site improvements and for the purchase of the 165 acres of land on which the Stadium and its adjacent parking reside. The Authority has determined that a liability exists as of June 30, 2017, in the total amount of \$76,863.



## **Note 8 - Cactus League Payable**

The Authority, through its Cactus League promotional account, provides financing assistance to cities in Maricopa County which host Major League Baseball spring training teams. The Authority has committed to funding certain project costs subject to fund availability under government mandate A.R.S. Section 5-808.

In accordance with GASB Statement Number 33 *Accounting and Financial Reporting for Nonexchange Transactions*, the Authority has determined these are voluntary, nonexchange transactions contingent upon eligibility criteria set forth in the agreements. Prior to fiscal year 2013, satisfaction of the eligibility criteria was estimated as the passage of time and obligations were therefore also recognized with the passage of time. During fiscal year 2013, management revised its estimate and determined that the eligibility criteria is met only when funds are readily available for payment and thus began recognizing the obligations only when those funds became readily available. Obligations recognized are classified as current when funds are available for immediate payment. Remaining obligations are classified as non-current.

### **Tempe**

The Authority committed a maximum of \$12 million, not to exceed 60% of the total project costs, to the City of Tempe in November 2004. The City of Tempe project was completed in February 2006. The Authority began recognizing accrued interest in fiscal year 2005 related to this commitment. In fiscal year 2013, due to the revised estimate described above, the Authority discontinued recognizing the accrued interest and will recognize interest when it is paid. The Authority began to repay its commitment to Tempe in fiscal year 2005 from available Cactus League Maricopa County Stadium (MCSD) and Tourism Revenue funds related to its car rental surcharge revenues. As of June 30, 2017, the Authority has a remaining commitment balance of \$7,164,181. The commitment balance for which eligibility criteria has been met, \$5,804,651, as of June 30, 2017, has been fully recognized on the statement of net position.

### **Scottsdale**

The Authority committed a maximum of \$20 million, approximately 67% of the expected total project costs, to Scottsdale in March 2005. The City of Scottsdale project was a two-phase project with the first phase being completed in February 2006 and the second phase completed in February 2007. The Authority began recognizing accrued interest in fiscal year 2005 related to this commitment. In fiscal year 2013, due to the revised estimate described above, the Authority discontinued recognizing the accrued interest and will recognize interest when it is paid. The Authority began to repay its commitment to Scottsdale in fiscal year 2005 from available Cactus League Maricopa County Stadium (MCSD) and Tourism Revenue funds related to its car rental surcharge revenues. As of June 30, 2017, the Authority has a remaining commitment balance of \$12,810,139. The commitment balance for which eligibility criteria has been met, \$11,938,986, as of June 30, 2017, has been fully recognized on the statement of net position.

### **Goodyear**

The Authority committed a maximum of \$37,375,000, not to exceed 50% of the total project costs, to Goodyear in January 2007 for constructing a one-team stadium and practice facility for the Cleveland Indians. The Stadium and related practice facility were completed in the fall of 2008 and were in operation for the 2009 spring training baseball season. The Authority began recognizing accrued interest in fiscal year 2009 related to this commitment. In fiscal year 2013, due to the revised estimate described above, the Authority discontinued recognizing the accrued interest and will recognize interest when it is paid. As of June 30, 2017, the Authority has a remaining commitment balance of \$52,329,368 as of June 30, 2017. The commitment balance for which eligibility criteria has been met, \$43,766,898 as of June 30, 2017, has been fully recognized on the statement of net position.

On April 7, 2008, the Authority's Board of Directors approved Resolution No. 2008-75 which provided an additional maximum of \$32,458,333 commitment to the City of Goodyear if certain eligibility criteria are met. In accordance with GASB Statement Number 33 *Accounting and Financial Reporting for Nonexchange Transactions*, the primary eligibility criteria requires a renewal or extension of the Authority's current revenues or creation of a new funding source available for the Cactus League promotional account. Therefore, this agreement will not be recognized in the financial statements until such time as the eligibility criteria is satisfied.

### **Glendale**

The Authority committed \$60,045,318, not to exceed two-thirds of the total project costs, to Glendale in August 2007 for constructing a two-team stadium and practice facility for the Chicago White Sox and the Los Angeles Dodgers. The stadium and related practice facility were finished in the fall of 2008 and were in operation for the 2009 spring training baseball season. The Authority began recognizing accrued interest in fiscal year 2009 related to this commitment. In fiscal year 2013, due to the revised estimate described above, the Authority discontinued recognizing the accrued interest and will recognize interest when it is paid. As of June 30, 2017, the Authority has a remaining commitment balance of \$82,837,748. The commitment balance for which eligibility criteria has been met, \$70,779,765, as of June 30, 2017, has been fully recognized on the statement of net position.

### **Phoenix**

The Authority committed to a maximum of \$1,023,466, not to exceed two-thirds of the total project costs, to the City of Phoenix in fiscal year 2013 for constructing a stadium and practice facility for the Milwaukee Brewers. The stadium and related practice facility are currently under construction. The Authority has not recognized the commitment or accrued interest as described above. As of June 30, 2017, the Authority has a remaining commitment balance of \$1,129,728. The eligibility criteria has not been met, and, therefore, the commitment has not been recognized on the statement of net position.

### **Mesa**

Effective in fiscal year 2014, the Authority committed to a maximum of \$8,200,000, not to exceed two-thirds of the total project costs, to the City of Mesa to partially fund the Hohokam Stadium Renovation Project. The Authority has not recognized the commitment or accrued interest as described above. As of June 30, 2017, the Authority has a remaining commitment balance of \$9,184,640. The eligibility criteria has not been met, and, therefore, the commitment has not been recognized on the statement of net position.

### **Peoria**

The Authority committed to a maximum of \$11,198,447, not to exceed two-thirds of the total project costs, to the City of Peoria in fiscal year 2014 to partially fund the renovation of a stadium and practice facility for the Seattle Mariners and San Diego Padres. As of June 30, 2017, the Authority has a remaining commitment balance of \$13,023,990. The eligibility criteria has not been met, and, therefore, the commitment has not been recognized on the statement of net position.

The following obligations were recognized as of June 30, 2017:

Payable to City of Tempe, accruing interest at 4.397%, payment determined from available excess car rental surcharge revenues with final payment projected to be made in 2021.	\$ 5,804,651
Payable to City of Scottsdale, accruing interest at 4.454%, payment determined from available excess car rental surcharge revenues with final payment projected to be made in 2021.	11,938,986
Payable to City of Goodyear, accruing interest at 4.773%, payments projected to begin in 2021 after repayment of City of Tempe and City of Scottsdale liabilities.	43,766,898
Payable to City of Glendale, accruing interest at 4.130%, payments projected to begin in 2021 after repayment of City of Tempe and City of Scottsdale liabilities.	<u>70,779,765</u>
	<u><u>\$ 132,290,300</u></u>

## Note 9 - Bonds Payable

### Senior Bonds - Stadium Construction Related Bonds

#### Series 2007A

In January 2007, the Authority issued \$90,000,000 in senior revenue refunding bonds Series 2007A for the purpose of the advance refunding of \$87,420,000 in Tax Revenue Bonds, Series 2003A. The Series 2007A bonds mature between 2010 and 2024 and carried coupon rates from 4.00% to 5.00%. By way of a current refunding, these bonds were defeased in full through the issuance of Senior Variable Rate Revenue Bonds, Series 2017. The in-substance defeasance resulted in cash flow savings of \$6,460,807 and an economic gain (net present value of savings) of \$6,203,319. The difference between the reacquisition price of the debt and the net carrying value of the debt resulted in a deferred loss on refunding of approximately \$708,825, to be amortized over the life of the 2017A bond. As of June 30, 2017, the defeased amount of bonds outstanding was \$81,395,000.

#### Series 2012A

In June 2012, the Authority issued \$176,740,000 in Series 2012A senior revenue refunding bonds for the purpose of advance refunding of Series 2008 and remaining series 2003A bonds. This resulted in an economic gain which is being amortized over the life of the bonds and presented as a deferred outflow of resources in the statement of net position. The Series 2012A bonds mature between 2016 and 2037 and carry a coupon rate of 5%. The amount defeased and outstanding of the refunded bonds as of June 30, 2017 is \$164,825,000.

#### Series 2017A

In June 2017, the Authority issued \$81,395,000 in Series 2017A senior revenue refunding bonds for the purpose of the current refunding of Series 2007A. The Series 2017A bonds mature between 2018 and 2024 and carry a variable coupon rate. The Authority has entered into a swap agreement, fixing the rate at 1.911%.

**Subordinate Bonds – Cactus League Related Bonds**

Series 2013

On April 3, 2013, the Series 2013 refunding bonds were issued in advance refunding of the Series 2003 subordinate tax revenue bonds. The bonds carry interest between 4% and 5% through 2016. A bond reserve in the amount of \$12,485,000 was established with the Bank of New York Mellon using bond proceeds at the time of issuance. This amount has been reduced through debt payments as required per the bond indenture. The bond was fully paid off as of June 30, 2017.

A subordinate bond reserve is required under the terms of the indenture governing the subordinate bonds. This reserve was established prior to the refunding by the Authority for other debt service purposes in February 2008 in the amount of \$3,240,000. Payments on other debt have been made from the reserve account in accordance with other debt agreements since its establishment. There are no additional funding requirements of the reserve. As of June 30, 2017, there was not a balance in the reserve account.

The Authority's bonds payable consisted of the following as of June 30, 2017:

Senior Revenue Advance Refunding Bonds (Multipurpose Stadium Facility Project) Series 2012A, interest from 4.00% to 5.00%, payable semi-annually through July 2036.	\$ 170,825,000
Senior Variable Rate Revenue Refunding Bonds (Multipurpose Stadium Facility Project) Series 2017A, interest at 1.911%, payable semi-annually through July 2024	81,395,000
	252,220,000
Less current portion of bonds payable	(2,400,000)
	249,820,000
Plus unamortized premium	15,957,848
Less unamortized discount	(488,370)
	\$ 265,289,478

Debt service requirements subsequent to June 30, 2017 are as follows:

Year Ending June 30,	Principal Maturities	Interest	Total
2018	\$ 2,400,000	\$ 9,494,261	\$ 11,894,261
2019	11,380,000	10,320,166	21,700,166
2020	12,355,000	10,143,226	22,498,226
2021	12,735,000	9,672,975	22,407,975
2022	13,330,000	9,446,048	22,776,048
2023-2027	75,920,000	39,721,671	115,641,671
2028-2032	100,250,000	19,033,750	119,283,750
2033-2037	23,850,000	3,050,000	26,900,000
	\$ 252,220,000	\$ 110,882,097	\$ 363,102,097

Per the existing bond covenants, the Authority is to maintain a minimum bond coverage ratio of 1.30 and 1.15, respectively, for the senior and subordinate bonds. Since the issuance of the first bonds in 2003, the Authority's revenues have exceeded these minimum coverage ratios in each and every succeeding fiscal year.

**Note 10 - Arizona Cardinals Note Payable**

On March 31, 2014, the Authority entered an agreement with the Cardinals to fund the installation of a new scoreboard at the Stadium during fiscal year 2015 at a cost of \$8,152,500, plus 3.55% interest. In fiscal years in which revenues are at least 103.5% of the prior year revenues, payments of \$1,164,643 will be made. In years in which less than 103.5% of the prior year revenues are recognized, Rojo Event Management revenues in excess of targeted qualified amounts (\$750,000 per year as of and for the year ended June 30, 2017) as defined in the event management agreement with Rojo Event Management will be made in payment. The amount outstanding as of June 30, 2017, is \$6,373,822, including accrued interest.

**Note 11 - Hedging Activities**

On June 28, 2017, the Authority entered into an interest rate swap agreement with Royal Bank of Canada in order to hedge against interest rate risk on their Series 2017 Senior Variable Rate Revenue Bonds. This agreement qualifies as a hedging derivative under GASB Statement 53. The terms of the swap agreement are summarized below:

Notional Amount of Swap Agreement	\$ 81,395,000
Effective Date	June 28, 2017
Termination Date	July 1, 2024
The Authority Pays	1.91%
Counterparty Pays	SIFMA index plus .65% to 1.20% depending on debt ratings

**Risks Associated with Swap Agreements**

**Credit Risk** - Credit risk is the risk that the counterparty becomes unable to fulfill its financial obligations as dictated by the swap contract. The Authority measures the extent of this risk based upon the credit ratings of the counterparties and the fair value of the swap agreements. As of June 30, 2017, the credit rating of the Authority's counterparty by Standard & Poor's and Moody's was "AA-" and "A1", respectively.

**Termination Risk** - The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the Authority if the counterparty's credit quality rating falls below "BBB" as issued by Fitch IBCA or "Baa2" as issued by Moody's Investors Service. The Authority agrees not to terminate the swap unless it shall have sufficient funds to pay any Settlement Amount to the counterparty. If the counterparty's credit quality falls below these levels, the swap may be assigned to a new swap provider acceptable to the Authority and the counterparty. No termination events have occurred as of June 30, 2017.

**Interest rate risk** - The Authority is exposed to interest rate risk on its pay-fixed, receive variable interest rate swap. As the SIFMA rate decreases, the Authority's net payment on the swap increases. However, should the SIFMA rate increase such that the variable rate exceeds the fixed rate, the Authority's payment is capped at the fixed interest rate.

Basis risk - The Authority is not exposed to basis risk, as the counterparty pays the Authority SIFMA index plus .65% - 1.20% (depending on debt ratings) per the swap agreement, which is equal to the loan payment made by the Authority.

Rollover risk - The Authority is not exposed to rollover risk, as the effective and termination dates are the same for the bond and the interest rate swap.

Foreign currency risk - The Authority is not exposed to foreign currency risk, as the interest rate swap payments and receipts will be settled in US dollars.

Contingent features - There are no contingent features to the Authority's interest rate swap.

### Note 12 - Noncurrent Liabilities

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

	July 01, 2016	Additions	Reductions	June 30, 2017	Amounts Due within One Year
Cactus League payable	\$ 137,217,515	\$ -	\$ (4,927,215)	\$ 132,290,300	\$ -
Bonds principal and premiums	285,032,924	80,906,630	(98,250,077)	267,689,477	2,400,000
Net pension liability	774,931	48,260	-	823,191	-
Arizona Cardinals note payable	7,419,233	-	(1,045,411)	6,373,822	1,793,690
Total	<u>\$ 430,444,603</u>	<u>\$ 80,954,890</u>	<u>\$(104,222,703)</u>	<u>\$ 407,176,790</u>	<u>\$ 4,193,690</u>

### Note 13 - Sources of Pledged Revenues

The following are the revenue sources pledged relating to the senior bonds for the year ended June 30, 2017:

Hotel bed tax	\$ 18,294,433
Rental car tax	13,829,127
NFL income tax	6,762,356
Sales tax recapture	10,229,390
Other stadium revenue	4,438,937
Rental income	304,749
Interest income	55,166
	<u>\$ 53,914,158</u>

Several of the pledged revenues presented above vary from the amounts presented in the statement of revenues, expenses, and changes in net position due to various statutory or contractual agreements which amend the amount the Authority may claim as a pledge to its senior bond debt repayment. This agreement provides the Maricopa County Stadium District's annual excess car rental surcharge revenues exclusively for the Authority's Cactus League promotional purposes. These funds, in turn, are used by the Authority in payment of the commitments to the cities as described in Note 8.

## **Note 14 - Commitments and Contingencies**

The City has been named as defendant in various legal actions, the results of which are not presently determinable. However, in the opinion of the City's management and legal counsel, the amount of losses that might be sustained, if any, would not materially affect the City's financial position.

### **Arizona Office of Tourism**

The Authority has a statutory obligation to provide to the Arizona Office of Tourism (AZOT) an annual amount for marketing and tourism promotion within Maricopa County. Initially, this obligation was \$4.0 million annually beginning in June 2001. This annual amount is increased by 5% per year thereafter. Expense related to the distribution to AZOT was \$7,927,182 for the year ended June 30, 2017.

### **Concessions Agreement**

On February 9, 2010, the Authority and the Arizona Cardinals entered into a concession services agreement with Rojo Hospitality Group, LLC (Rojo) which commenced August 1, 2010, to manage and operate concession services at the Stadium. Per this agreement, Rojo collects all gross concession revenues on behalf of and for the Authority and, out of such gross revenues, remits the agreed upon gross revenue percentage to the Authority for events (other than Arizona Cardinals home games and the Fiesta Bowl).

### **Youth and Amateur Sports**

The Authority has a statutory obligation to set aside and use funds designated for youth and amateur sports promotion and projects within Maricopa County as are available, per statute, from the Tourism Revenue Clearing Account. The Authority has established a biennial grant process as well as a year-round quick grant process in order to award these monies to qualifying organizations and projects. Based on Arizona Revised Statute, the annual amount to be allocated to youth and amateur sports was \$1.0 million per twelve month period beginning in June 2001 and increasing by \$100,000 annually thereafter. The Authority has \$7,216,015 as of June 30, 2017, in cash balances allocated to youth and amateur sports.

## **Note 15 - Defined Benefit Plan**

### Plan Description

The Authority's employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its web site at [www.azasrs.gov](http://www.azasrs.gov).

Benefits Provided

The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equal 80 10 years; age 62 5 years; age 50* Any years age 65	30 years; age 55 25 years; age 60 10 years; age 62 5 years; age 50* Any years; age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit% per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions

In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47% (11.35% for retirement and 0.12% for long-term disability) of the members' annual covered payroll, and the County was required by statute to contribute at the actuarially determined rate of 11.47% (10.85% for retirement, 0.5% for health insurance premium benefit, and 0.12% for long-term disability) of the active members' annual covered payroll. The Authority's contributions to the pension plan for the year ended June 30, 2016, were \$51,768. The Authority's contributions for the current and two preceding years for health and long-term disability benefits, all of which were equal to the required contributions, were as follows:

Year ended June 30	Health Benefit Supplement Fund	Long-Term Disability Fund
2017	\$ 2,386	\$ 1,727
2016	2,385	610
2015	2,703	551



Pension Liability

At June 30, 2017, the Authority reported a liability of \$823,191 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using the update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employer's contributions for the year ended June 30, 2015. The Authority's proportion measures as of June 30, 2016 was 0.005096%, and as of June 30, 2015 was 0.004975%.

Pension Expense and Deferred Outflows/Inflows of Resources

For the year ended June 30, 2017, the Authority recognized pension expense for ASRS of \$77,233. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,002	\$ 56,630
Net difference between projected and actual investment earnings	89,207	-
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	34,480	43,553
The Authority's contributions subsequent to the measurement date	51,768	-
Total	\$ 180,457	\$ 100,183

The \$51,768 reported as deferred outflows of resources related to ASRS pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	Amortization of Deferred Outflows	Amortization of Deferred Inflows	Net Amortization of Pension Related Deferrals
2018	\$ 40,547	\$ 46,296	\$ (5,749)
2019	40,547	46,296	(5,749)
2020	25,294	7,591	17,703
2021	22,301	-	22,301
Total	\$ 128,689	\$ 100,183	\$ 28,506

Actuarial Assumptions

The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	5%
Projected salary increases	3 - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	3.90%
Fixed income	25%	0.93%
Real estate	10%	0.42%
Multi-asset class	5%	0.17%
Commodities	2%	0.08%
Total	<u>100%</u>	<u>5.50%</u>
Inflation		<u>3.25%</u>
Expected arithmetic nominal return		<u>8.75%</u>

Discount Rate

The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate

The following table presents the Authority’s proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Authority's proportionate share of the net pension liability	<u>\$ 1,049,631</u>	<u>\$ 823,191</u>	<u>\$ 641,636</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report which is available at <http://www.azasrs.gov>.



Supplementary Information  
June 30, 2017

**AZSTA**

Arizona Sports and Tourism Authority  
Schedule of the Authority's Proportionate Share of the Net Pension Liability and Schedule of the Authority's  
Pension Contributions  
June 30, 2017

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**Schedule of the Authority's Proportionate Share of the Net Pension Liability  
June 30, 2017**

	Reporting Fiscal Year (Measurement Date)		2015 (2014)
	2017 (2016)	2016 (2015)	
Authority's proportion of the net pension liability	0.005096%	0.004975%	0.472900%
Authority's proportionate share of the net pension liability	\$ 823,191	\$ 774,931	\$ 699,770
Authority's covered-employee payroll	493,578	468,757	426,959
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	166.78%	165.32%	163.90%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%

**Schedule of the Authority's Pension Contributions  
June 30, 2017**

	Reporting Fiscal Year				2013 through 2008*
	2017	2016	2015	2014	
Statutorily required contribution	\$ 51,768	\$ 51,767	\$ 49,901	\$ 45,615	Information not Available
Authority's contributions in relation to the statutorily required contribution	51,768	51,767	49,901	45,615	
Authority's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	
Authority's covered-employee payroll	\$ 489,700	\$ 493,578	\$ 468,757	\$ 426,959	
Authority's contributions as a percentage of covered-employee payroll	10.57%	10.49%	10.65%	10.68%	

\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.