

AZSTA
ARIZONA SPORTS &
TOURISM AUTHORITY

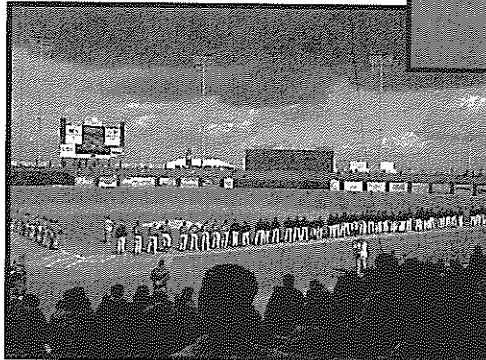
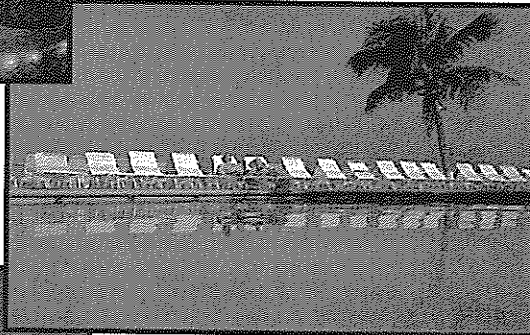
Arizona Sports and Tourism Authority Audited Financial Statements

Years ended June 30, 2004 and 2003



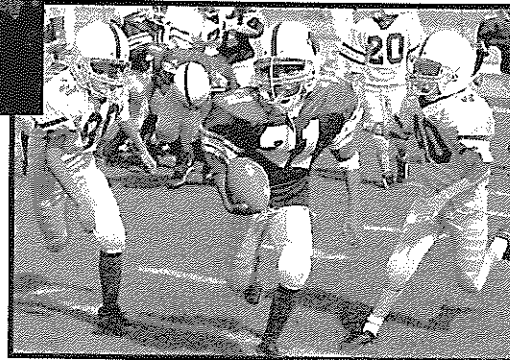
Arizona Cardinals Stadium

Tourism Promotion



Youth and Amateur Sports

Cactus League Baseball



BASIC FINANCIAL STATEMENTS

Arizona Sports and Tourism Authority

Years ended June 30, 2004 and 2003

Arizona Sports and Tourism Authority

Financial Statements

Years ended June 30, 2004 and 2003

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Arizona Sports and Tourism Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2004

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 statements of net assets summarize the Authority's current and long-term obligations (liabilities) and the assets available to meet those obligations. The difference between total assets and total liabilities represents the Authority's net assets. The statements of revenues, expenses and changes in net assets summarize the Authority's operating and non-operating expenses for the year and the revenues that were available to cover those expenses, as well as changes in net assets. The statements of cash flows summarize the Authority's uses of cash during the year and the sources of cash available to finance those uses. The statements of cash flows, as cash based statements, include reconciliations to the statements of revenues, expenses and changes in net assets, which are prepared on an accrual basis.

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 wishes to track separately, referred to as "accounts." These accounts are as follows: General Account, Tourism Account, Cactus League Account, Youth and Amateur Sports Account, Non-Pledged Facility Revenue Clearing Account, Subordinate Bond Proceeds Account, Construction Account, Debt Service Account, Tourism Revenue Clearing Account, and Pledged Facility Revenue Clearing Account. 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.

The General Account represents the Authority's primary accounts' aggregating and disbursement account. The Tourism Account represents the activities related to providing funding for tourism promotion within Maricopa County. The Cactus League Account represents the activities of financing new construction and renovations to spring training baseball facilities. The Youth and

Amateur Sports Account represents those activities related to the promotion and financing of amateur sports projects and programs. The Non-Pledged Facility Revenue Clearing Account receives that portion of the NFL tax revenues which cannot be pledged to the payment of its bonds or other obligations. The Subordinate Bond Proceeds Account was established under the trust indenture to receive and record the net proceeds from the subordinate bond issue. These proceeds were used during fiscal year 2003 to pay the \$26.7 million balance of the \$32.0 million commitment to the City of Surprise with the remainder being distributed to the Cactus League general account. The Construction Account represents the activities of constructing the Arizona Cardinals stadium. The Debt Service Account represents that portion of the Authority's pledged revenues used for the repayment of principal and interest related to the Authority's senior and subordinate bond issues. The Tourism Revenue Clearing Account represents the activities related to the collection of the tourism tax revenues for the hotel bed tax and the car rental surcharge and the disbursement of those funds, in order of priority, to debt service, tourism, Cactus League, youth and amateur sports, Authority operations and the reserve accounts for youth and amateur sports, operations and capital repair and replacement. The Pledged Facility Revenue Clearing Account represents the activities related to the collection of the revenues from the NFL franchise income tax that may be pledged to the payment of its bonds or other obligations, state sales tax recapture, future rent and surcharge payments from the Arizona Cardinals ("Cardinals") and the Fiesta Bowl and other events to be held at the Arizona Cardinals stadium and the disbursement of these funds for debt service. 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

There are three financial statements presented for the reader: the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and, the Statements of Cash Flows.

Statements of Net Assets

The Authority's Statements of Net Assets presents the assets, liabilities, and the net assets for the years ended June 30, 2004 and 2003. The Statements of Net Assets are to provide the reader with a financial picture of the Authority's assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the information presented, the user of the Statements of Net Assets is able to determine the assets available for the continuing operations of the Authority. The user is able to determine what cash and cash equivalents are available and amounts owed to and by the Authority. The purpose of the Statements of Net Assets is to show the user what is available for future needs of the Authority.

Statements of Net Assets

	June 30	
	2004	2003
Assets		
Current assets	\$ 215,992,705	\$ 235,383,805
Net capital assets	141,258,987	31,289,353
Noncurrent assets	47,163,041	4,422,457
Total assets	404,414,733	271,095,615
Liabilities		
Current liabilities	20,764,837	10,420,085
Noncurrent liabilities	264,273,431	262,267,275
Total liabilities	285,038,268	272,687,360
Net assets		
Invested in capital assets, net of related debt	94,542	86,042
Restricted	86,923,701	-
Unrestricted surplus/(deficit)	32,358,222	(1,677,787)
Total net assets	119,376,465	(1,591,745)
Total liabilities and net assets	\$ 404,414,733	\$ 271,095,615

Total assets increased 49.2 percent, \$133,319,118, between the fiscal years ending June 30, 2004 and 2003. This change is primarily related to an increase of approximately \$110.0 million to net capital assets for the stadium project offset by a decrease in the Authority's senior bond proceeds to pay for its portion of the construction. Also, in August 2003 the Authority and the Cardinals entered into a Construction Trust Agreement which secured the final Cardinals' financing for the stadium. The Authority recorded a receivable of \$97,707,870 for this transaction. During fiscal year 2004 the Cardinals' organization contributed \$8,605,769 toward the stadium construction costs plus an additional \$2,773,165 in land for the stadium and pedestrian plaza. Total assets also increased as non-stadium related cash balances increased approximately \$5.4 million during the fiscal year.

Total liabilities for the same period increased by \$12,350,908 or 4.5 percent. Current liabilities increased by \$10.3 million during the year owing to \$10.8 million in additional payables primarily for the stadium project (of which \$2.9 million in construction retainage was reclassified as a noncurrent liability), \$0.6 million for youth and amateur sports grant awards, \$0.8 million in subordinate bond principal payment reclassified from noncurrent liabilities and \$1.0 million increase in bond interest payable. Noncurrent liabilities increased a net \$2.0 million over the fiscal year. A \$2.9 million increase was realized from the reclassification of construction retainage from current liabilities. This increase was offset by a \$0.9 million reduction in bonds payable primarily for the reclassification of \$0.8 million in subordinate bond principal to a current liability.

Overall, the Authority's total net assets increased a total of \$120,968,210 from the prior fiscal year due to the Authority's nonoperating revenues exceeding its operating expenses and the increase in contributed capital for the Cardinals share of the stadium project costs.

Statements of Revenues, Expenses and Changes in Net Assets

The change to Net Assets as seen on the Statement of Net Assets is based on the activity that is presented on the Statement of Revenues, Expenses and Changes in Net Assets. The presentation of the Statement reflects the revenues and expenses for the Authority during the years ended June 30, 2004 and 2003. The reader will see the revenues and expenses broken down into operating and nonoperating categories.

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Operating revenues	\$ 150	\$ -
Operating expenses	1,674,793	1,901,171
Operating loss	(1,674,643)	(1,901,171)
Nonoperating revenues	23,332,718	11,825,792
Net income before contributions	21,658,075	9,924,621
Capital contributions	99,310,135	1,061,189
Increase in net assets	120,968,210	10,985,810
Net assets, beginning of year	(1,591,745)	(12,577,555)
Net assets, end of year	\$ 119,376,465	\$ (1,591,745)

The Authority received minimal operating revenues during fiscal year 2004 and is expected to receive minimal operating revenues until the Arizona Cardinals stadium ("Stadium") is open and operational at the start of fiscal year 2007.

The fiscal year ending June 30, 2004, was the Authority's third full year of operations. During fiscal year 2004 the Authority incurred \$1,674,793 in operating expenses – a decrease of \$226,378, 11.9 percent, from the prior fiscal year. This improved result is attributable to several factors including reductions in legal, consulting, professional and site selection expenses.

The Authority's non-operating revenues (expenses) are currently the organization's primary sources (uses) of funding. For fiscal year 2004 the Authority recorded \$23,332,718 in net non-operating revenues, an increase of \$11,506,926, 97.3 percent, over fiscal year 2003. Among the events accounting for this net improvement are the following:

- The distribution for the Arizona Office of Tourism increased \$211,750, 5 percent, over fiscal year 2003. This percentage increase is statutory and will be distributed on an annual basis through May 2031.
- The Authority did not record any expenses related to Cactus League projects during fiscal year 2004 resulting in a net decrease of \$6,765,000 over the prior fiscal year. The Authority continues to work on related projects with several cities throughout Maricopa

County.

- The Authority recorded \$636,277 in new youth and amateur sports expenses during fiscal year 2004. These were for eight new grant awards for which intergovernmental agreements were executed prior to the end of the fiscal year.
- In fiscal year 2004 there was an improvement in the hotel bed tax of \$940,200, 9.1 percent, and in the car rental surcharge of \$345,003, 4.6 percent. These increases are attributable to the continuing improvement in the tourism industry both in Arizona and the nation as a whole.
- The Authority experienced an increase in the NFL income taxes of \$302,748, 8.0 percent, from the prior year. This revenue source is related to the state income tax liability of the Cardinals' organization and their personnel – both administrative and player. The increase was attributable to the statutory increase in the guaranteed minimum.
- Interest income increased by \$897,420 as the Authority had invested for a full twelve months the funds from the senior bonds as well as the Authority's other commercial and trust accounts.
- Interest expense increased by \$1,101,318 related to the Subordinate Bond's accrued interest payable schedule. The interest paid on the Senior Bonds is capitalized as part of the stadium's cost.
- The Authority began receiving the state sales tax recapture from the stadium construction project during fiscal year 2004. This, combined with the sales tax recapture from Arizona Cardinals' home games, resulted in a \$3,713,122 increase over the prior fiscal year.
- The Authority recorded a one-time receipt of \$493,630 in insurance proceeds resulting from a claim filed for reimbursement of legal expenses related to the Long lawsuit.

Fiscal year 2004 was ushered in with the start of the Arizona Cardinal Stadium construction project. Prior to the start of the fiscal year, the Authority and the Cardinals had entered into a Project Management Agreement whereby the pro rata contribution formula would be suspended until a certain spending limit had been reached. The limit was reached in February 2004 and, as a result of this agreement, the Cardinals provided \$11,378,934 in new capital contributions including \$2,773,165 for the land on which the stadium and pedestrian plaza lie. The Cardinals' current commitment to the Arizona Cardinals stadium project is approximately \$104.0 million.

Statements of Cash Flow

The last statements presented are the Statements of Cash Flows. The statement presents detailed information about the activities involving cash and cash equivalents, and the statement is broken down into five parts. The first part of the statement relates to the operating cash flow and shows the net cash used to operate the Arizona Sports and Tourism Authority; the second relates to the cash flow resulting from noncapital financing activities; the third relates to cash flow from capital and related financial activities; the fourth relates to the cash flow from capital and related financing activities; and the fifth reconciles the net cash used to the operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets.

Statements of Cash Flows

	Year Ended June 30	
	2004	2003
Cash (used in) provided by:		
Operating activities	\$ (6,004,477)	\$ (7,469,739)
Noncapital financing activities	19,213,562	(15,277,676)
Capital and related financing activities	(82,728,952)	249,204,387
Investing activities	1,674,706	698,291
Net increase (decrease) in cash and cash equivalents	\$ (67,845,160)	\$ 227,155,263
Cash and cash equivalents, beginning of year	232,730,140	5,574,877
Cash and cash equivalents, end of year	\$ 164,884,980	\$ 232,730,140

Fiscal year 2004 represented the Authority's third full year of operations which included the start of construction of the Arizona Cardinals' Stadium. During the year the Authority employed six full-time employees for much of the year and was engaged in all activities under its charter.

For the fiscal year ended June 30, 2004, the Authority realized an overall net decrease in cash and cash equivalents of \$67,845,160 compared to the prior period's net increase of \$227,155,263. The primary reason for this significant change is related to the Authority's capital and related financing activities. In July 2003 the excavation for the Arizona Cardinals' stadium began and by the end of fiscal year 2004 the stadium was one-third complete. Over \$91 million was expended in cash to reach this construction milestone of which approximately \$8.6 million was contributed by the Arizona Cardinals thereby accounting for the \$82.7 million decrease in this category. Contrast this to the prior fiscal year when, in February 2003, the Authority issued its Senior and Subordinate Bonds for \$221.95 million and \$32.4 million, respectively thereby accounting for the significant increase in cash and related financing activities.. The Senior Bonds are the Authority's primary source of funds for its portion of the Arizona Cardinals stadium project. The Subordinate Bonds were issued in order to fulfill the Authority's obligation to the City of Surprise which was paid in full in February 2003. The result of bond sales resulted in additions to capital and financing activities of approximately \$256 million during fiscal year 2003.

The Authority's cash flow from operating activities also contributed to the decrease in cash and cash equivalents. This is expected to be the trend until the stadium opens and the Authority is able to start generating operating revenues. However, the cash flow in this area improved over the prior fiscal year by approximately \$1.5 million, 19.6 percent, due to reduced payments to suppliers. The non-capital financing activities realized an increase in cash and cash equivalents of \$19,213,562 during fiscal 2004. The major contributing factors for this improved result was that the Authority did not have any liabilities and therefore no payments related to Cactus League projects. During the prior fiscal year \$28,742,803 million were paid to the City of Surprise and \$4,365,000 to the City of Phoenix for their related Cactus League projects. The Authority also experienced improved receipts in its nonoperating revenues for the hotel bed tax, rental car tax, NFL income tax and sales tax recapture revenues. The Authority received a total of \$25,465,441 during fiscal year 2004 – an improvement of \$2,824,712, 12.5 percent, over fiscal year 2003.

Capital Assets and Debt Administration

The Authority had additions to capital assets during fiscal year 2004. The additions to the capital assets resulted from the commencement of the construction of the Arizona Cardinals stadium. The estimated cost for the entire project is approximately \$370.6 million. The Authority issued tax-exempt revenue bonds in February 2003 in the amount of \$221.95 million in Senior Bonds and \$32.4 million in Subordinate Bonds.



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the *Arizona Sports and Tourism Authority (Authority)*, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the *Authority's* management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the *Authority* as of June 30, 2003, were audited by other auditors whose report dated January 5, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial reports 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the *Authority* at June 30, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Eide Bailly LLP

Phoenix, Arizona
September 14, 2004

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Arizona Sports and Tourism Authority

Statements of Net Assets

	June 30	
	2004	2003
Assets		
Current assets:		
Cash and cash equivalents - restricted	\$ 164,884,980	\$ 232,730,140
Accounts Receivable	45,897,355	-
Hotel bed tax and car rental surcharge receivables	2,797,820	2,587,894
Construction sales tax recapture receivables	2,197,785	-
Other assets	214,765	65,771
Total current assets	215,992,705	235,383,805
Noncurrent assets:		
Capital assets, net	141,258,987	31,289,353
Receivable, noncurrent portion	42,821,600	-
Deferred bond issue costs, net	4,341,441	4,422,457
Total noncurrent assets	188,422,028	35,711,810
Total assets	\$ 404,414,733	\$ 271,095,615
Liabilities		
Current liabilities:		
Accounts payable	\$ 12,297,859	\$ 4,353,095
Accrued expenses	453,097	464,440
Current portion of payable to City of Avondale	233,605	314,584
2004 YAS grant award payables	636,277	-
Bond principal payable	795,000	-
Bond interest payable	6,334,391	5,278,658
Current portion of capital lease obligation	14,608	9,308
Total current liabilities	20,764,837	10,420,085
Noncurrent liabilities:		
Payable to City of Avondale	2,819,398	2,825,832
Long-term portion of capital lease obligation	19,555	-
Noncurrent accounts payable	2,879,969	-
Bonds payable	258,554,509	259,441,443
Total noncurrent liabilities	264,273,431	262,267,275
Total liabilities	285,038,268	272,687,360
Net assets		
Invested in capital assets, net of related debt	94,542	86,042
Restricted	86,923,701	-
Unrestricted surplus/(deficit)	32,358,222	(1,677,787)
Total net assets	119,376,465	(1,591,745)
Total liabilities and net assets	\$ 404,414,733	\$ 271,095,615

See accompanying notes.

Arizona Sports and Tourism Authority

Statements of Revenues, Expenses and Changes in Net Assets Year Ended June 30

	2004	2003
Operating revenues		
Other operating revenues	\$ 150	\$ -
Total operating revenues	150	-
Operating expenses		
Legal	162,508	215,666
Consulting	68,692	127,450
Payroll	619,375	581,988
Professional fees	130,938	268,875
Marketing and promotion	70,184	106,626
Bank management and service fees	197,025	199,905
Insurance	108,650	102,164
Travel	20,057	11,192
Meetings	3,622	10,901
Office	42,001	30,272
Site selection	-	51,626
Communications	21,058	26,549
Rent	116,319	104,981
Depreciation	33,348	31,944
Amortization of deferred bond issue costs	81,016	31,032
Total operating expenses	1,674,793	1,901,171
Operating loss	(1,674,643)	(1,901,171)
Nonoperating revenues (expenses)		
Arizona tourism distribution	(4,446,750)	(4,235,000)
Cactus League facility expense	-	(6,765,000)
City of Avondale facility income (expense)	-	820
Youth and Amateur Sports Grant Awards - 2004	(636,277)	-
Hotel bed tax	11,221,247	10,281,047
Rental car tax	7,892,105	7,547,102
NFL Income tax	4,087,068	3,784,320
Sales tax recapture	4,672,732	959,610
Interest income	1,766,711	869,291
Interest expense	(1,717,716)	(616,398)
Insurance proceeds	493,630	-
Loss on disposal of capital assets	(32)	-
Total nonoperating revenues	23,332,718	11,825,792
Net income before contributions	21,658,075	9,924,621
Capital contributions	99,310,135	1,061,189
Increase in net assets	120,968,210	10,985,810
Net assets, beginning of year	(1,591,745)	(12,577,555)
Net assets, end of year	\$ 119,376,465	\$ (1,591,745)

See accompanying notes.

Arizona Sports and Tourism Authority

Statements of Cash Flows

	Year Ended June 30	
	2004	2003
Cash flows from operating activities		
Payments to suppliers	\$ (5,385,252)	\$ (6,887,751)
Payments to employees	(619,375)	(581,988)
Other receipts	150	-
Net cash used in operating activities	(6,004,477)	(7,469,739)
Cash flows from noncapital financing activities		
Payments for Arizona Office of Tourism	(4,446,750)	(4,235,000)
Payments for Cactus League facilities - City of Surprise	-	(28,742,803)
Payments for Cactus League facilities - City of Phoenix	-	(4,365,000)
Payments for Youth and Amateur Sports - City of Avondale	(87,413)	(290,404)
Payments for Youth and Amateur Sports - S. Mtn YMCA	-	(150,000)
Receipts from hotel bed tax	11,063,916	10,228,577
Receipts from rental car tax	7,839,510	7,668,222
Receipts from NFL Income tax	4,087,068	3,784,320
Receipts from sales tax recapture	2,474,947	959,610
Interest payments	(1,717,716)	(135,198)
Net cash (used in) provided by noncapital financing activities	19,213,562	(15,277,676)
Cash flows from capital and related financing activities		
Capital contributions	8,613,269	1,061,189
Payments on stadium term loan	-	(5,000,000)
Proceeds from senior and subordinate bonds	-	255,890,434
Payments for senior and subordinate bond principal	-	-
Payments for bond issue costs	-	(448,631)
Payments on capital leases	24,855	(12,748)
Acquisition and construction of capital assets	(91,367,076)	(2,285,857)
Net cash provided by (uses in) capital and related financing activities	(82,728,952)	249,204,387
Cash flows from investing activities		
Interest received	1,674,706	698,291
Net cash provided by investing activities	1,674,706	698,291
Net increase (decrease) in cash and cash equivalents	(67,845,160)	227,155,263
Cash and cash equivalents at beginning of year	232,730,140	5,574,877
Cash and cash equivalents at end of year	\$ 164,884,980	\$ 232,730,140
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,674,643)	\$ (1,901,171)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	33,348	31,944
Amortization of deferred bond issue costs	81,016	31,032
Amortization of bond premium	(91,934)	(37,097)
Effects of changes in assets and liabilities:		
Other assets	(148,994)	(57,525)
Accounts payable	(4,191,927)	(5,558,117)
Accrued expenses	(11,343)	21,195
Net cash used in operating activities	\$ (6,004,477)	\$ (7,469,739)

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

1. Organization and Reporting Entity

Arizona Sports and Tourism Authority (the "Authority"), was formed on August 9, 2000, as a political subdivision of the State of Arizona empowered, among other things, (i) to construct, finance, furnish, maintain, improve, own, operate, market, and promote the use of a Arizona Cardinals 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, (ii) to 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 (iii) to 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.

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 an enterprise fund of a governmental unit. Accordingly, the accrual basis of accounting is utilized, whereby revenues are recorded when they are earned, and expenses are recorded when the liability is incurred. The Authority has elected, in accordance with Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. The Authority has elected to implement GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Government*; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The Authority's books and records include separate accounts: a general account, construction account, tourism revenue clearing account, non-pledged facility revenue clearing account, tourism account, youth and amateur sports account, debt service account, subordinate bond proceeds account, Cactus League account, and pledged facility revenue clearing account. These "accounts" have been combined in the accompanying financial statements. All material interaccount transactions have been eliminated.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally relate to the Authority's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

2. Summary of Significant Accounting Policies (continued)

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 Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less at the time of acquisition to be cash equivalents.

Capital Assets

Capital assets are stated at cost. Assets are depreciated on the straight-line method over the estimated useful lives of the assets ranging from three to five years. Amortization of capital assets acquired through a capital lease is included in depreciation expense.

Receivables

The noncurrent portion of the Arizona Cardinals' receivable was discounted by \$2,178,400 as of June 30, 2004. The total Arizona Cardinals' receivable at June 30, 2004 was \$86,923,701 -- \$44,102,101 for current and \$42,821,600 for noncurrent. The discount amount will be recorded to the Authority's financial statements at the end of fiscal year 2005 when the noncurrent portion becomes current.

Costs of Borrowing

The Authority has deferred bond issue costs of \$4,341,441, net of accumulated amortization of \$112,048 at June 30, 2004, related to the issuance of the Senior and Subordinate Bonds (note 9). The Authority amortizes deferred bond issue costs using the effective interest method over the term of the bonds.

Interest cost incurred on borrowed funds during the period of construction of the Arizona Cardinals stadium is capitalized as a component of capital assets as a cost of acquiring those assets. The Authority capitalized senior bond interest of \$10,974,764 and \$4,242,167 respectively for the fiscal years ended 2004 and 2003.

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

2. Summary of Significant Accounting Policies (continued)

Tax Status

The Authority is a municipal corporation and is exempt from federal and state income tax.

Reclassification

Certain reclassification entries have been made to the financial statements for the year ended June 30, 2003 to conform with the financial statements presented for the year ended June 30, 2004.

Revenue Recognition

The Authority records revenue from car rental surcharges, hotel tax, income taxes related to a professional football franchise, sales tax recapture, event earnings and facility user rentals on the accrual basis. The car rental surcharge is a 3.25 percent surcharge on applicable rental car contracts in Maricopa County (less \$2.50 which goes to the Maricopa County Stadium District). The hotel bed tax is a one percent tax on lodging transactions in Maricopa County. The State of Arizona collects the car rental surcharge and hotel tax on behalf of the Authority and remits the funds to the Authority when collected. The income taxes related to a professional football franchise are a distribution of funds related to income taxes paid by the Arizona Cardinals, employees and their spouses. Sales tax recapture are funds collected by the State of Arizona related to sales taxes collected at the Arizona Cardinals stadium and sales taxes collected on construction activity for the Arizona Cardinals stadium. Event earnings are amounts collected as non-football events are held at the Arizona Cardinals stadium. Facility user rentals are amounts to be paid by the Cardinals and the Fiesta Bowl for use of the Arizona Cardinals stadium. Once the Arizona Cardinals stadium is operational, the Cardinals will pay \$250,000 per year growing at two percent per year thereafter. The Fiesta Bowl will have a ticket surcharge of \$2.50 per ticket with an annual escalation of \$0.20 per ticket. Revenue from each of the revenue sources is recognized as it is earned, except for income taxes related to a professional football franchise, sales tax recapture and the Fiesta Bowl ticket surcharge that are recognized when paid.

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

2. Summary of Significant Accounting Policies (continued)

Legal Expense

Legal expenses were comprised of the following for the year ended June 30:

	<u>2004</u>	<u>2003</u>
General:		
Arizona Cardinals stadium project	\$ 19,815	\$ 35,014
Youth and amateur sports	427	8,125
Cactus league	1,627	11,013
John F. Long lawsuit	--	90,873
Other	133,517	70,641
Bond counsel	7,067	--
	<u>\$ 162,508</u>	<u>\$ 215,666</u>

Description of Accounts

Tourism Revenue Clearing Account

The Tourism Revenue Clearing Account (the "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 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 Arizona Cardinals 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 five percent 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 is to receive \$1.0 million in its first 12 months increasing 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 is reviewed and approved by the board of directors in June of each year. The distribution is based on the total fiscal year's operating budget divided into equal monthly installments. The final funding priorities are for three reserve accounts: the youth and amateur sports reserve, the operating reserve and a capital repair and replacement reserve.

In February 2003, as a result of the issuance of the Senior Bonds, all related Tourism Revenue Clearing Account revenues have been held in trust by the designated trustee, Bank One Global Trust Services, under the terms of the trust indenture. Effective October 31, 2003, J. P. Morgan

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

2. Summary of Significant Accounting Policies (continued)

Chase purchased Bank One's corporate trust operations and is the current trustee. At the present time, all existing terms and conditions under the original trust indenture remain in effect without change or modification except for the change in the name of the trustee.

Facility Revenue Clearing Accounts – Pledged and Non-Pledged

On August 27, 2002, the Arizona Court of Appeals ruled in the Long lawsuit that the Authority cannot constitutionally pledge income taxes paid by Cardinals' employees or their spouses on income unrelated to professional football. The Authority also is prohibited from pledging monies received under A.R.S. § 42-1116(C) in excess of the income taxes paid by the Cardinals and by Cardinals' employees on income related to professional football. The Court's ruling only affects the Authority's ability to pledge these tax revenues for repayment of bonds, not its ability to receive the revenues provided by the Authority legislation. As a result of this ruling, the Authority will utilize its best efforts based on the limited information available from the Arizona Department of Revenue to determine annually what portion of the NFL Franchise income tax will be distributed to the pledged account and the non-pledged account. That amount which is distributed to the pledged account (which is held inside the trust) will be combined with the other Facility Revenue sources of funding for use in meeting the Authority's debt service obligations. That portion which is considered unrelated to professional football and therefore not able to be pledged per the Court's ruling is distributed to the Non-Pledged Facility Revenue Clearing Account held outside of the trust. These accounts are designated as one of the sources used by the Authority in meeting its annual budgeted expenditures as approved by the board of directors.

The Pledged Facility Revenue Clearing Account receives the following revenue sources: the professional football related portion of the NFL Franchise income tax for the Cardinals' organization and its employees, the state sales tax recapture revenues from ticket sales and hard and soft concession sales at Cardinals' home games played currently at ASU's Sun Devil Stadium (this will also apply once the Arizona Cardinals stadium is open and operating), a ticket surcharge on Fiesta Bowl tickets at the rate of \$2.50 per ticket increasing at \$0.20 per year thereafter over the term of the lease agreement, annual rent paid to the Authority by the Cardinals (\$250,000 in year one increasing by 2.0 percent per year over the term of the lease) and other events' revenues from the Stadium's operations. These revenues are used for one primary purpose – to fund the debt service for the Arizona Cardinals stadium bonds and the Cactus League bonds.

The Non-Pledged Facility Revenue Clearing Account receives that portion of the NFL Franchise income tax which is determined as being non-football related.

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

3. Deposits

At June 30, 2004, the Authority had total cash and cash equivalents on deposit of \$164,884,980 through its commercial bank and bond trustee accounts.

The Authority's commercial bank accounts accounted for a total of \$10,077,179 of all cash and cash equivalents. The Authority, at June 30, 2004, had cash and cash equivalents with a carrying value of \$9,646,417 invested in overnight repurchase agreements.

The carrying value of all other commercial bank deposits at June 30, 2004 was \$430,762. These deposit balances are covered by federal depository insurance.

The Authority had a total of \$154,807,801 in all trust related accounts of which there were invested funds of \$153,084,121 at June 30, 2004 that are reflected on the balance sheet at cost of \$153,084,121 plus accrued interest of \$92,004 and are held by the bond trustee. Proceeds to purchase these marketable securities were derived from the Authority's senior bond issue, related debt service accounts for both the senior and subordinate bond issues, Cactus League, Tourism Revenue and Pledged Facility Revenue Clearing Accounts. The funds in all of the accounts except for the senior bond proceed account were invested in the Bank One Institutional Prime Money Market Fund which is AAA-rated, NAIC approved and under the Authority's permitted investments. Senior bond funds of \$14,434,932 were invested by several firms in varying investment vehicles approved and under the Authority's permitted investments. \$100 million was invested in the Merrill Lynch Institutional Fund and the balance was invested by Wells Capital Management in a variety of money market funds and commercial paper.

4. Operations

In October 2000, the Authority entered into a binding Memorandum of Understanding with the Cardinals and the Arizona Sports Foundation (the "Foundation") working on behalf of the Fiesta Bowl. The Cardinals originally agreed and are statutorily obligated to contribute \$85 million toward the development and construction costs of the Arizona Cardinals stadium and entered into a 30-year use agreement with the Authority with the term commencing with the first home game after the completion of the Arizona Cardinals stadium. The Cardinals will pay rent in the amount of \$250,000 with a two percent annual increase from base rent. The Cardinals will receive use of the Arizona Cardinals stadium for all home games, space for a team shop, office space, video production, locker room and training room space. The Cardinals will sell and receive the gross proceeds from all tickets for pre-season, regular season and post-season NFL games conducted at the facility in which the Cardinals are a participant. The Cardinals are responsible for marketing the luxury suites and club seats and will receive all revenues generated thereby. The Cardinals will also receive all net concession from home games and naming rights revenues from the facility. The Authority is responsible for all operating expenses of the facility.

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

4. Operations (continued)

On September 3, 2002, the Authority entered into a Memorandum of Understanding with the Cardinals whereby a "hard cap" of \$355.3 million was placed on the Arizona Cardinals stadium project while the final Gross Maximum Price ("GMP") contract for the project was being finalized. The Cardinals further agreed to purchase the land for the Arizona Cardinals stadium and donate it to the Authority as well as be responsible for project cost overruns which are not the responsibility of the design-builder. The final GMP for the Arizona Cardinals stadium project was agreed to by the Authority on January 13, 2004. The Arizona Cardinals stadium is scheduled for completion by August 2006 and is estimated to cost \$370.6 million. The Authority's contribution to the project's cost will approximate \$266.6 million while the Cardinals will contribute approximately \$104.0 million. The Authority's contribution will come from \$222.0 million in tax exempt bonds issued in February 2003, \$17.1 million in recaptured state sales taxes imposed on the Arizona Cardinals stadium project, approximately \$6.0 million in investment earnings on the bond proceeds, \$7.5 million in future equipment leaseback arrangements, \$1.5 million in other contributions and \$12.5 million in credit for prior project expenditures. On August 12, 2003 the Authority and the Cardinals entered into a Construction Trust Agreement which finalized the funding by both parties for the stadium construction project. The Cardinals portion is being provided through an NFL league-wide credit of \$67,707,870 plus \$30,000,000 under the NFL G-3 program. The Authority recorded a total of \$97,707,870 as a receivable in August 2003 based on the Construction Trust Agreement.

The Foundation agreed to a 30-year use agreement for the annual Fiesta Bowl to commence with the first Fiesta Bowl scheduled after the completion of the facility. The Foundation shall have unqualified scheduling priority for the Fiesta Bowl from December 31 through January 6 of each and every year of the agreement. All revenues related to the suites in the facility for the Fiesta Bowl shall be the sole and exclusive property of the Foundation. The Authority will pay net concessions and parking revenues related to the Fiesta Bowls to the Foundation. The Foundation agrees to pay to the Authority all actual and reasonable game day expenses for the hosting, managing, staging and production of Fiesta Bowls held in the facility. The only exception is that the Authority is responsible for providing the additional temporary seating which is estimated to be between 5,000 and 10,000 extra seats. Commencing with the first Fiesta Bowl conducted in the facility, the Foundation agrees to pay to the Authority an amount equal to \$2.50 per Fiesta Bowl ticket sold, escalating by \$0.20 every year thereafter.

5. Restricted Assets

Restricted assets consisted of the following at June 30:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$164,884,980	\$232,730,140
Accounts receivable	45,897,355	-

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

Hotel tax receivable	1,552,802	1,395,471
Car rental surcharge receivable	1,245,018	1,192,423
Construction sales tax recapture receivable	2,197,785	-
Total	\$215,777,940	\$235,318,034

All cash and cash equivalents are restricted as to use by the State of Arizona. Restrictions on use are as follows: cash in the general account is used for the Authority's approved annual operating budget and/or for meeting the Authority's operating reserve and/or capital reserve requirements. Cash in the Youth and Amateur Sports account is for those purposes as approved by the Board for various grants. Cash in the Cactus League account is restricted to the promotion of spring training baseball (e.g., renovations, marketing, etc.). Cash in the Tourism Account is used for tourism promotion purposes. Cash in the Construction Account is used for financing the Arizona Cardinals stadium project. Cash in the Non-Pledged facility revenue clearing account is a pass-through account that funds the operating budget. Cash in the Pledged facility revenue clearing account is for meeting the debt service requirements. Cash in the tourism revenue clearing account is used for meeting the various waterfall requirements that include all of the above. Cash in the Debt Service Accounts, including the subordinate reserve, are used for meeting our bondholder obligations.

6. Capital Assets

Capital assets activity consisted of the following for the year ended June 30:

	Balance at June 30, 2003	Additions	Disposals	Balance at June 30, 2004
Capital assets not being depreciated (under construction):				
Arizona Cardinals stadium	\$31,203,311	\$107,187,969	\$ -	\$138,391,280
Land	-	2,773,165	-	2,773,165
	31,203,311	109,961,134	-	141,164,445
Capital assets being depreciated:				
Computer equipment	39,588	2,557	-	42,145
Furniture and fixtures	55,722	-	-	55,722
Office equipment	10,787	-	-	10,787
Capitalized software	5,977	1,221	-	7,198
Assets under capital lease	37,360	45,146	(37,360)	45,146
	31,352,745	48,925	(37,360)	160,999
Less: accumulated depreciation				
Computer equipment	(12,172)	(7,885)	-	(20,257)
Furniture and fixtures	(17,399)	(8,916)	-	(26,315)
Office equipment	(3,479)	(1,941)	-	(5,420)
Capitalized software	(2,323)	(1,358)	-	(3,681)

Arizona Sports and Tourism Authority

Notes to Financial Statements

	June 30, 2004			
Assets under capital lease	(28,019)	(10,983)	28,019	(10,983)
	<u>(63,392)</u>	<u>(31,083)</u>	<u>28,019</u>	<u>(66,456)</u>
	<u>\$31,289,353</u>	<u>\$109,978,976</u>	<u>\$(9,341)</u>	<u>\$141,258,988</u>

	<u>Balance at June 30, 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2003</u>
Capital assets not being depreciated (under construction):				
Arizona Cardinals stadium	\$20,622,709	\$10,580,602	\$ -	\$31,203,311
Capital assets being depreciated:				
Computer equipment	39,588	-	-	39,588
Furniture and fixtures	54,805	917	-	55,722
Office equipment	10,787	-	-	10,787
Capitalized software	5,260	717	-	5,977
Assets under capital lease	37,360	-	-	37,360
	<u>20,770,509</u>	<u>10,582,236</u>	<u>-</u>	<u>31,352,745</u>
Less: accumulated depreciation				
Computer equipment	(4,682)	(7,490)	-	(12,172)
Furniture and fixtures	(8,536)	(8,864)	-	(17,399)
Office equipment	(1,537)	(1,942)	-	(3,479)
Capitalized software	(1,127)	(1,196)	-	5,260
Assets under capital lease	(15,566)	(12,453)	-	(28,020)
	<u>(31,448)</u>	<u>(31,944)</u>	<u>-</u>	<u>(63,392)</u>
	<u>\$20,739,061</u>	<u>\$10,550,292</u>	<u>\$ -</u>	<u>\$31,289,353</u>

In fiscal year 2004 the Authority replaced its existing leased network copier/printer with two new units. During the year ended June 30, 2002, the Authority wrote off \$1,114,316 of capital assets. The majority, \$1,113,089, related to the original Arizona Cardinals stadium site in Tempe which was originally capitalized and subsequently abandoned in November 2001.

7. Credit Facility

In January 2001, the Authority entered into a \$15 million bridge financing agreement with a bank, \$3 million of the credit facility for Authority operations and the remaining \$12 million for construction costs. The Authority drew down the entire \$15 million over the period of January 2001 through July 2001. As of June 30, 2002, the Authority had outstanding obligations of \$5 million on the stadium term loan. As of June 30, 2003, the Authority had fully repaid all of these related obligations.

The Authority incurred \$115,225 of interest on the stadium term loan borrowing of which \$115,225 was capitalized for the year ended June 30, 2003.

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

8. Payable to the City of Surprise

In May 2001, the Authority committed to contribute an amount not to exceed \$26 million to the City of Surprise Cactus League Project for the construction of a new Cactus League facility. Until the resolution of the Long lawsuit in December 2002 (note 13), the Authority had been unable to issue the bonds related to the payment of the \$26 million to the City of Surprise. In order to provide additional financial assistance to allow the City of Surprise to continue forward with the project and not incur any delays or additional project construction costs, the Authority and the City of Surprise entered into two separate amendments to the original Intergovernmental Agreement. The first amendment was executed in December 2001 and provided to the City of Surprise, on a loan basis, the funds that were being deposited into the Authority's Cactus League Promotion Account at the rate of \$250,000 per month. The second amendment, executed in January 2002, agreed to provide the City of Surprise with up to an additional \$6.0 million in bond proceeds if the Authority was unable to issue bonds between January and October of 2002. The agreement stated that for every month the Authority was unable to issue bonds, an additional \$600,000 would be accrued as a liability by the Authority. The Authority paid out \$28,742,803 and \$3,257,197 to the City of Surprise during the years ended June 30, 2003 and 2002, respectively. In February 2003, the Authority issued \$32.4 million in Subordinate Bonds for the primary purpose of fulfilling its outstanding obligation to the City of Surprise at which time the Authority paid all remaining obligations to the City of Surprise (Note 9).

9. Bonds Payable

In February 2003, the Authority issued \$221,950,000 in Tax Revenue Bonds, Series 2003A, interest from 3.00 percent to 5.375 percent, due through 2031 ("Senior Bonds"). The Senior Bonds are tax exempt revenue bonds with a final maturity date in 2031. The proceeds will be used, along with several other sources of funding, to finance the construction of the Arizona Cardinals stadium. These bonds are insured by MBIA Insurance.

In February 2003, the Authority issued \$32.4 million in Subordinate Tax Revenue Bonds, Series 2003, interest from 2.25 percent to 5.00 percent, due through 2016 ("Subordinate Bonds"). The Subordinate Bonds are tax exempt revenue bonds with a final maturity in 2016. The proceeds from these bonds were used to pay the balance of the \$32 million committed to the City of Surprise for the Authority's share of funding for the brand new Surprise Spring Training facility, which is home to the Texas Rangers and the Kansas City Royals.

The Subordinate Bonds also allowed the Authority to provide \$4.365 million to the City of Phoenix for the renovation of Phoenix Municipal Stadium, spring training home to the Oakland Athletics. This was contributed to the project's construction trust account in May 2003.

A Subordinate Bond reserve requirement is required under the terms of the indenture governing the Subordinate Bonds. There are several options available to the Authority for fulfilling this requirement. The Authority has opted for the 10 percent of the original principal amount of all

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

9. Bonds Payable (continued)

series of Subordinate Bonds any of which remain outstanding. This equates to a total reserve balance of \$3.2 million which must be fully funded by February 2008. The Authority is using Cactus League funds to meet this requirement. At June 30, 2004, the Authority has the following bonds outstanding:

Tax Revenue Bonds, Series 2003A, interest from 3.00 percent to 5.00 percent, due through 2031 ("Senior Bonds")	\$ 221,950,000
Subordinate Tax Revenue Bonds, Series 2003, interest from 2.25 percent to 5.00 percent, due through 2016 ("Subordinate Bonds")	32,400,000
Total bonds payable	254,350,000
Plus unamortized premium	4,999,509
	<u>\$ 259,349,509</u>

Debt service requirements subsequent to June 30, 2004 are as follows:

Year Ending June 30	Principal Maturities	Interest	Total
2005	\$ 795,000	\$ 12,659,838	\$ 13,454,838
2006	810,000	12,639,756	13,449,756
2007	830,000	12,616,169	13,446,169
2008	1,505,000	12,576,144	14,081,144
2009-2013	22,235,000	60,622,309	82,857,309
2014-2018	37,475,000	53,278,088	90,753,088
2019-2023	53,305,000	41,439,622	94,744,622
2024-2028	69,075,000	25,574,741	94,649,741
2029-2032	68,720,000	7,040,250	75,360,250
	\$ 254,350,000	\$ 238,446,917	\$ 492,796,917

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

10. Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30 was as follows:

	July 1, 2003	Additions	Reductions	June 30, 2004	Amounts Due within One year
Payable to City of Avondale	\$ 3,140,416	\$ -	\$ (321,018)	\$ 2,819,398	\$ 233,604
Obligation under capital lease	9,308	45,146	(34,899)	19,555	18,126
Noncurrent accounts payable	--	2,879,969	--	2,879,969	--
Bonds payable	259,441,443	--	(91,934)	259,349,509	117,350
Total	\$ 262,591,167	\$ 2,925,115	\$ (447,851)	\$ 265,068,431	\$ 369,080

	July 1, 2002	Additions	Reductions	June 30, 2003	Amounts Due within One year
Payable to City of Avondale	\$ 3,430,820	\$ -	\$ (290,404)	\$ 3,140,416	\$ 314,584
Obligation under capital lease	22,056	-	(12,748)	9,308	9,308
Bonds payable	-	259,478,540	(37,097)	259,441,443	-
Total	\$ 3,452,876	\$ 259,478,540	\$ (340,249)	\$ 262,591,167	\$ 323,892

11. Sources of Pledged Revenues

The following are the Revenue Sources Pledged related to the senior note, for the year ended June 30:

	2004	2003
Hotel bed tax	\$ 11,221,247	\$ 10,281,047
Rental car tax	7,892,105	7,547,102
Sales tax recapture	741,816	959,610
NFL Income Tax	2,671,824	3,614,122
Total	\$ 22,526,992	\$ 22,401,881

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

12. Leases

The Authority leases certain office facilities under noncancelable operating leases that expire in various years through 2006. This termination date coincides with the projected opening of the Arizona Cardinals stadium which will become the Authority's new office location and base of operations.

Future minimum payments under noncancelable operating leases with initial terms of one year or more and under capital leases at June 30, 2004, are summarized as follows:

	Capital Leases	Operating Leases
2005	14,608	111,494
2006	16,581	93,210
2007	2,974	--
	<u>34,163</u>	<u>\$204,704</u>
Less amount representing interest	(5,110)	
Present value of minimum lease payment	<u>\$ 29,053</u>	

Total rental expense for all operating leases was approximately \$116,319 and \$104,981 for the years ended June 30, 2004 and 2003, respectively.

13. Capital Contributions

The Authority has received commitments from the Cardinals for contributions toward the construction of the Arizona Cardinals stadium. The Cardinals have pledged up to \$109.3 million to the Arizona Cardinals stadium project. It is currently estimated that the Cardinals contribution will total \$105.9 million. The Cardinals' contributions are for the construction of the Arizona Cardinals stadium. Under the terms of a Construction Trust Agreement executed on August 12, 2003, the Cardinals and the Authority will provide their pro rata amounts to be paid toward the project on a monthly basis. The Cardinals pledge at the time of the Construction Trust Agreement was recorded as a receivable by the Authority. The total amount recorded was \$97,707,870.

During the initial phases of the Authority's formation and preliminary site construction work, the Cardinals contributed cash of \$4,228,017 through fiscal year 2002, provided an additional \$1,061,189 during fiscal year 2003 and \$11,378,934 in fiscal year 2004 (including \$2,773,165 for land contributed for the stadium and pedestrian plaza) for a total contribution of \$16,668,140 as of June 30, 2004.

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

14. Commitments and Contingencies

General

On August 12, 2003, the Authority and the Cardinals entered into a Design Build Agreement with the project's general contractor. This agreement defines the terms and conditions for the construction of the Arizona Cardinals stadium. The Arizona Cardinals stadium is scheduled for completion by August 2006 and is estimated to cost \$370.6 million of which approximately \$357.8 million is associated with the Gross Maximum Price agreement with the General Contractor and \$12.8 million are project costs to be paid directly by the Authority and the Cardinals. The Authority's contribution to the project's cost will approximate \$264.7 million while the Cardinals will contribute approximately \$105.9 million. The Authority's contribution will come from \$221.95 million in tax-exempt bonds issued in February 2003, \$17.1 million in recaptured state sales taxes imposed on the Arizona Cardinals stadium project, approximately \$4.6 million in investment earnings on the bond proceeds, \$7.0 million in future equipment leaseback arrangements, \$1.5 million of other contributions and \$12.5 million in credit for prior project expenditures. Construction of the facility began on July 30, 2003, with the start of mass excavation. During the course of the multipurpose stadium's construction, the Authority will provide its portion of the construction funding from proceeds from the sale of bonds to be repaid from the hotel and car rental taxes as well as the NFL income tax (pledged portion only), state sales tax recapture and revenues from future events to be held at the Arizona Cardinals stadium discussed herein. Prior to the start of construction, certain pre-construction costs have been incurred related to this project which have been partially paid through a bridge loan and, more recently, with the available senior bond proceeds. The Authority, as of June 30, 2004, owes \$15,016,600 related to the Arizona Cardinals stadium project.

The Authority, in its regular course of business, is party to litigation. In the opinion of management, the disposition of such matters will not result in any material liability to the Authority.

Arizona Office of Tourism

The Authority has a statutory obligation to provide to the Arizona Office of Tourism an annual amount for marketing and tourism promotion within Maricopa County. The initial annual amount was \$4.0 million beginning in June 2001. This annual amount is increased by five percent per year thereafter. The Authority distributed \$4,428,375 and \$4,217,500 respectively for the fiscal years 2004 and 2003.

John F. Long Legal Issues

The legal action brought forward by Long during 2001, which challenged the constitutionality of the Authority, ended successfully on December 5, 2002. On that date, the Arizona Supreme

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

14. Commitments and Contingencies (continued)

Court issued its decision to refuse to hear Long's appeal. The court's refusal to hear Long's appeal removed the last impediment to the Authority's moving forward on the Arizona Cardinals stadium project as well as those projects related to Cactus League and youth and amateur sports.

Grants

The Authority, as part of its original charter, is to fund the youth and amateur sports account with \$1 million in year one growing at \$100,000 per year thereafter for 30 years. During this period, the Authority will have granted \$73.5 million to various projects and organizations. The Authority through its Youth and Amateur Sports Committee has implemented a formal grant process.

The new grant process was put into effect during fiscal year 2004. The Authority received ninety-two grant requests totaling \$35.2 million. The Authority's board selected and awarded thirteen grants totaling \$1,325,277. As of June 30, 2004 eight of the award recipients had executed intergovernmental agreements with the Authority totaling \$636,277.

Prior to fiscal year 2004, the Authority's board of directors had approved three projects. The first grant was approved on May 21, 2001, for \$150,000 for the South Mountain YMCA. This grant was paid in full on February 27, 2003.

The second grant was approved on September 28, 2001, for \$3.4 million for the City of Avondale. This grant will fund two-thirds of a regional multipurpose sport fields project that will be front-funded by the City of Avondale with the Authority's contributions being paid over time ending in 2013. During the term of the contributions, the Authority will provide an additional amount in financing costs equal to Avondale's financing costs related to their bond issue (2.98 percent). As of June 30, 2004, the Authority has liabilities of \$3,053,003 related to the Avondale grant.

The third project was approved as part of the Authority's September 3, 2002, Design and Development Agreement with the City of Glendale. In this agreement the Authority has agreed to provide \$1.0 million in funding to the City of Glendale for youth and amateur sports fields in proximity to the Arizona Cardinals stadium site. This funding is contingent upon the City of Glendale acquiring the necessary land for the fields. As of the end of August 2004 the City of Glendale had not met this requirement. Accordingly, no amount has been recorded for this pledge as of June 30, 2004.

Arizona Sports and Tourism Authority

Notes to Financial Statements

June 30, 2004

15. Defined Benefit Plan

The Authority and its employees are members of the Arizona State Retirement System's Defined Benefit Plan ("Plan"), which is administered by the Arizona State Retirement System ("ASRS"). Under the Plan, both the employee and the employer contribute an equal percentage based on the employees' gross wages. Employee contributions are calculated on a pre-tax basis. The current contribution percentage is 5.20 percent as determined by the ASRS. Retirement benefits are determined by ASRS based on the member's credited service along with the member's final average salary. For the years ended June 30, 2004 and 2003, the Authority made contributions of approximately \$28,186 and \$10,384, respectively, to the Plan.

16. Subsequent Events

Memorandum of Agreement with the City of Glendale and the Arizona Cardinals

A Memorandum of Agreement (the "Agreement") between the Authority, the City of Glendale and the Arizona Cardinals is pending final approval and execution. The Agreement outlines the revised structure under which the three parties will pay for, manage, construct and install the agreed-to stadium and stadium site infrastructure improvements. Under the proposed terms of the Agreement, the Authority will issue a minimum of \$32 million of completion bonds to help finance the anticipated \$59.3 million of project costs. The Authority will receive new, additional revenue streams under the Agreement related to the recapture of the City of Glendale's excise taxes from taxable activity once the stadium opens in August 2006.