



Arizona Sports and Tourism Authority Audited Financial Statements Years ended June 30, 2007 and 2006

A Successful Inaugural Season!

Save the Date...The Excitement is Building!

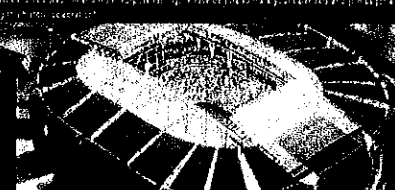

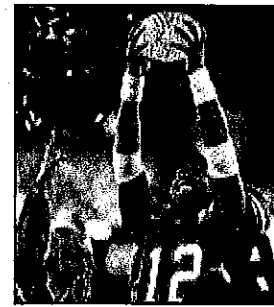
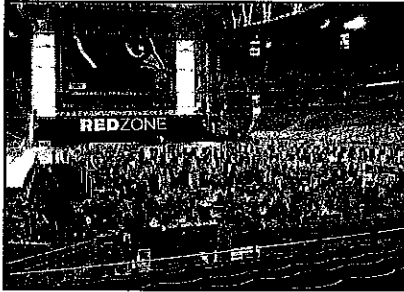
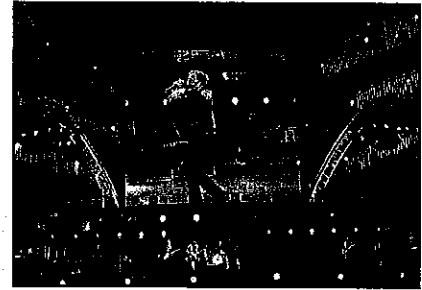
Arizona Cardinals • Arizona Sports and Tourism Authority • City of Glendale • Fiesta Bowl
Global Spectrum • Hunt Construction Group

As the Cardinals prepare to take the field for "The Kickin' Canons", together we will bring you an unforgettable evening celebrating the world's most illustrious stadium in America. Help us help you. Please come to mark your calendar and to support the Cardinals' inaugural season in our new stadium.

Tribute to Teamwork
Friday, August 3, 2006
8:00pm - 10:00pm

Cardinals Stadium
Multi-Purpose Facility
Glendale, Arizona

Reservation Only

BASIC FINANCIAL STATEMENTS

Arizona Sports and Tourism Authority

Years ended June 30, 2007 and 2006

Arizona Sports and Tourism Authority

Financial Statements

Years ended June 30, 2007 and 2006

Contents

Report of Independent Auditors 2

Management’s Discussion and Analysis 3

Basic Financial Statements

Statements of Net Assets10

Statements of Revenues, Expenses and Changes in Net Assets11

Statements of Cash Flows12

Notes to Financial Statements13



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Arizona Sports and Tourism Authority (the Authority), as of and for the years ended June 30, 2007 and 2006, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3-9 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
October 29, 2007

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

1850 N. Central Avenue • Suite 400 • Phoenix, Arizona 85004 • Phone 602.264.5844 • Fax 602.277.4845 • EOE

Arizona Sports and Tourism Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2007

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 that 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 University of Phoenix 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 University of Phoenix 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, 2007 and 2006. 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).

The purpose of the Statements of Net Assets is to show the user what is available for 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. The user is able to determine what cash and cash equivalents are available and amounts owed to and by the Authority.

Statements of Net Assets

	June 30	
	2007	2006
Assets		
Current assets	\$ 35,642,368	\$ 82,354,061
Capital assets non-depreciable	2,773,165	462,754,117
Capital assets depreciable, net	470,187,599	103,172
Noncurrent assets	10,163,454	5,534,993
Total assets	<u>518,766,586</u>	<u>550,746,344</u>
Liabilities		
Current liabilities	13,724,902	42,228,319
Noncurrent liabilities	445,632,973	351,237,270
Total liabilities	<u>459,357,875</u>	<u>393,465,590</u>
Net assets		
Invested in capital assets, net of related debt	88,701	103,172
Restricted	954,857	40,493,690
Unrestricted surplus/(deficit)	58,365,154	116,683,892
Total net assets	<u>59,408,712</u>	<u>157,280,754</u>
Total liabilities and net assets	<u>\$ 518,766,586</u>	<u>\$ 550,746,344</u>

Total assets decreased by \$31,979,758, or 5.8 percent, between the fiscal years ended June 30, 2007 and 2006. This change is primarily related to a net decrease in current assets of \$46,711,693 comprised of a \$41,391,705 reduction in accounts receivable related to the Arizona Cardinals capital contributions to the final year of construction of the University of Phoenix Stadium and a net decrease of \$3,869,932 in cash and cash equivalents reflecting the Authority's additional operating capital requirements for its first year of stadium operations. During fiscal year 2007 the Cardinals' organization paid \$35,878,754 toward the stadium construction costs. This decrease in current assets was partially offset by an increase of \$14,731,936 to the capital and noncurrent assets. During the final year of stadium construction there was a net increase to the capital assets of \$10,206,647 which reflects the first year of stadium depreciation of \$10,103,475 and a \$4,628,461 increase to the deferred bond issuance costs related to the Authority's issuance of \$90 million in 2007A Revenue Refunding bonds as part of an advance refunding of \$87,420,000 in 2003A Senior Revenue bonds. At the start of fiscal year 2007 the stadium was put into service. This is reflected in the transfer of all but the value of the stadium land, \$2,773,165, from the non-depreciable capital assets to the depreciable capital assets.

Total liabilities for the same period increased by \$65,892,285 or 16.7 percent. The primary reason for this increase was as a result of the Authority's continued commitment to fund Cactus League spring training projects. The Authority provided long-term financial commitments of \$37,375,000 and \$53,800,000 respectively to the cities of Goodyear and Glendale for new baseball stadiums that are scheduled to open in the spring of 2009. In addition, there was a net increase in bonds payable of \$3,691,386 related to the advance refunding and its associated bond premium payable. This increase to the noncurrent liability section of the statement of net assets was partially offset by a decrease of \$28.5 million in current liabilities resulting from a net decrease in accounts payable of \$26.3 million related to

the stadium construction project as well as a \$2.0 million reduction in YAS grant award payable and \$405,044 in accrued expenses.

Overall, the Authority's total net assets decreased a total of \$97,872,042, or 62.2 percent, from the prior fiscal year.

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, 2007 and 2006. 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	
	2007	2006
Operating revenues	\$ 19,282,865	\$ -
Operating expenses	45,109,666	5,920,409
Operating loss	(25,826,801)	(5,920,409)
Nonoperating revenues (expenses)	(73,632,422)	21,966,931
Net income before contributions	(99,459,223)	16,046,522
Capital contributions	1,587,181	28,285,691
Increase/(Decrease) in net assets	(97,872,042)	44,332,213
Net assets, beginning of year, as previously reported	157,280,754	110,874,561
Prior period adjustment (Note 2)	-	2,073,980
Net assets, end of year	\$ 59,408,712	\$ 157,280,754

Overall, the decrease in net assets of \$97,872,042 was attributable to four expense categories – two each from the operating expenses and nonoperating revenues (expenses) sections of this financial statement. The first was the recognition of a one-time expense of \$91,175,000 in Cactus League facility expense to account for the Authority's financial commitment to the cities of Goodyear and Glendale for their new spring training practice stadiums and fields. Second, an increase of \$15,449,220 to depreciation expense was booked as a result of placing the stadium and its associated capital assets into service at the start of the fiscal year. Third, for the same reason as with the depreciation expense, interest expense increased by \$13,307,722 over the prior year as the senior bond interest was no longer capitalized as part of the stadium project. Lastly, the expenses related to the stadium management operations increased by 604% to \$27,835,683 with the opening of the University of Phoenix Stadium and its 130+ events in its inaugural year.

With the start of stadium operations at the beginning of fiscal year 2007, operating revenues began to be generated and recorded. \$19,282,865 was recorded in the first year of

operations. They were generated from four primary sources – ticket admission and use fees, building rent, facility use fees and commissions from concession sales.

The Authority's non-operating revenues (expenses) continue to be the organization's primary sources (uses) of funding. For fiscal year 2007, the Authority recorded \$73,632,422 in net non-operating expenses, a decrease of \$95,599,353 from the prior fiscal year's net operating revenues of \$21,966,931. The primary events accounting for this year-over-year change are as follows:

- The Authority recorded \$91,175,000 in expenses related to Cactus League stadium construction projects for the cities of Goodyear (\$37,375,000) and Glendale (\$53,800,000).
- Interest expense of \$15,898,231 was recorded as a nonoperating expense – an increase of \$13,307,722 over the prior fiscal year as a result of the stadium having been placed in service at the start of fiscal year 2007. During the previous three fiscal years, during the stadium's construction, the Authority had capitalized the interest related to the bonds that were issued for stadium construction purposes.
- The Authority's tourism-based tax revenues, the hotel bed tax and the rental car tax, continued to improve and recorded increases of \$1,237,824, 8.8 percent, and \$491,489, 5.0 percent, respectively. These increases are attributable to the continued strengthening of the tourism industry both locally and nationally.
- The Authority experienced an increase in the NFL income taxes of \$381,372, 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 as the actual tax collections were less than the amount guaranteed by Arizona revised statute. During fiscal year 2007, the Arizona legislature voted to repeal the guaranteed minimum beginning with fiscal year 2008. The Authority received notification that the actual amount to be distributed to the Authority during fiscal year 2008 will be \$4,121,337 – a net decrease of \$1,027,190 or 20 percent – due to the removal of the guaranteed minimum.
- The Authority continued to receive the final state and city sales tax recapture amounts from the stadium construction project. These amounts were significantly lower than in the prior fiscal year as the stadium project was winding down. This, combined with the sales tax recapture from Arizona Cardinals' home games and the Authority's events during the stadium's inaugural season, resulted in a \$1,568,524, 19.4 percent, decrease from the prior fiscal year.
- Interest income decreased by \$1,381,502, 57.5 percent, which was a reflection of the Authority's having fully expended its bond proceeds for the stadium construction project during the prior fiscal year as well as the additional working capital requirements during the stadium's first operating season.
- The distribution to the Arizona Office of Tourism increased \$245,128, 5 percent, over

fiscal year 2006. This percentage increase is statutory and will be distributed on an annual basis through May 2031.

- There was a net decrease of \$3,295,415 in youth and amateur sports expenses as the Authority was in its off-year of its biennial grant award cycle and did not make any grant awards. It is expected that the Authority will award upwards of \$2.25 million during fiscal year 2008 for the current biennial grant cycle.

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 investing 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	
	2007	2006
Cash (used in) provided by:		
Operating activities	\$ (13,166,048)	\$ (3,019,362)
Noncapital financing activities	15,689,633	26,120,974
Capital and related financing activities	(7,415,791)	(55,362,052)
Investing activities	1,022,274	2,403,774
Net increase (decrease) in cash and cash equivalents	\$ (3,869,932)	\$ (29,856,666)
Cash and cash equivalents, beginning of year	33,008,491	62,865,157
Cash and cash equivalents, end of year	\$ 29,138,559	\$ 33,008,491

For the fiscal year ended June 30, 2007, the Authority realized an overall net decrease in cash and cash equivalents of \$3,869,932 compared to the prior period's net decrease of \$29,856,666 – an improvement of \$25,986,734 or 87.0 percent. This positive change continues to be related to the capital and related financing activities section of the Authority. There was a \$47.9 million positive swing over the prior fiscal year. This resulted from a \$96.0 million decrease in construction activity as the stadium project was substantially completed and allowed operations to begin. This was partially offset by a net decrease in bond proceeds from the prior fiscal year when the Authority had issued \$53,050,000 in new bond proceeds for the stadium project. The Authority's cash flow from operating activities contributed to the decrease in cash and cash equivalents by \$10.2 million. This was expected as operating costs greatly increased during fiscal year 2007 as a result of the stadium's first year of operations and the 130+ events that were held during the fiscal year. The non-capital financing activities also contributed to the decrease in cash by \$10.4 million as interest payments related to the bonds issued for stadium construction were no longer

capitalized. This decrease was partially reduced by continued improvements in the Authority's non-operating revenues for hotel bed tax, rental car tax, NFL income tax and sales tax recapture which, when combined, accounted for an increase over the prior fiscal year of \$2,941,513, or 8.3 percent.

Capital Assets and Debt Administration

The Authority had additions to capital assets during fiscal year 2007. The additions to the capital assets resulted from the final wrap-up of the stadium construction as well as stadium improvements made by the Authority in conjunction with its tenant, the Arizona Sports Foundation (d/b/a the Tostitos Fiesta Bowl). The Authority and the Arizona Sports Foundation funded nearly \$7.0 million in improvements to the loft and service levels of the stadium between August 2006 and January 2007. Unimproved spaces on the loft level were converted into three mega-suites with each providing for upwards of 140 attendees. At the service level, previously entombed spaces were converted to approximately 14,000 square feet of additional exhibition, meeting, office and storage room uses. The cost for the entire project plus the additional improvements is approximately \$464.7 million of which the Authority provided an estimated \$303.5 million. The Authority issued tax-exempt revenue bonds in February 2003 in the amount of \$221.95 million in Senior Bonds for stadium construction purposes and \$32.4 million in Subordinate Bonds for the Authority's contribution to the two-team Cactus League stadium in Surprise, Arizona for the Texas Rangers and Kansas City Royals. On September 29, 2006 the Authority issued additional senior bonds of \$53,050,000 as Series 2005A Variable Rate Revenue Bonds of which approximately \$50,000,000 was used for stadium project costs as well as for extravaganza seating and associated storage for the seating which will allow up to an additional 9,000 patrons at events. In January 2007 the Authority issued \$90,000,000 in Revenue Refunding bonds which were issued to defease \$87,420,000 in existing 2003A Senior Revenue Bonds. The advance refunding was undertaken by the Authority due to a favorable interest rate environment which allowed the Authority to replace higher-interest rate debt for lower-interest rate debt. The resulting savings as a result of the advance refunding was estimated to be nearly \$2.8 million on a present value basis.

Arizona Sports and Tourism Authority
Statements of Net Assets

	June 30	
	2007	2006
Assets		
Current assets:		
Cash and cash equivalents - restricted	\$ 29,138,559	\$ 33,008,491
Accounts Receivable	1,708,254	42,924,473
Hotel bed tax and car rental surcharge receivables	3,377,514	3,476,910
Sales tax recapture receivables	1,382,518	2,670,249
Other assets	35,523	273,939
Total current assets	<u>35,642,368</u>	82,354,061
Noncurrent assets:		
Capital assets non-depreciable	2,773,165	462,754,117
Capital assets depreciable, net	470,187,599	103,172
Deferred bond issue costs, net	10,163,454	5,534,993
Total noncurrent assets	<u>483,124,219</u>	468,392,283
Total assets	<u>\$ 518,766,586</u>	<u>\$ 550,746,344</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 2,031,087	\$ 28,363,962
Accrued expenses	2,801,663	3,206,707
Current portion of payable to City of Avondale	338,671	307,871
YAS grant award payable	688,695	2,697,972
Bond principal payable	1,000,000	830,000
Bond interest payable	6,186,966	6,314,309
Deferred revenue, current	672,822	500,000
Current portion of capital lease obligation	4,997	7,498
Total current liabilities	<u>13,724,902</u>	42,228,319
Noncurrent liabilities:		
Payable to City of Avondale	1,764,901	2,103,572
Payable to City of Tempe	12,782,610	12,265,601
Payable to City of Scottsdale	18,955,570	19,411,566
Payable to City of Goodyear	37,375,000	-
Payable to City of Glendale	53,800,000	-
Deferred revenue, noncurrent	1,000,000	1,500,000
Payable to Arizona Cardinals	6,551,406	6,239,434
Long-term portion of capital lease obligation	5,251	10,248
Bonds payable	313,398,235	309,706,849
Total noncurrent liabilities	<u>445,632,973</u>	351,237,270
Total liabilities	<u>459,357,875</u>	393,465,590
Net assets		
Invested in capital assets, net of related debt	88,701	103,172
Restricted	954,857	40,493,690
Unrestricted surplus/(deficit)	58,365,154	116,683,892
Total net assets	<u>59,408,712</u>	157,280,754
Total liabilities and net assets	<u>\$ 518,766,586</u>	<u>\$ 550,746,344</u>

See accompanying notes.

Arizona Sports and Tourism Authority
Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2007	2006
Operating revenues		
Stadium operating revenues	\$ 19,282,865	\$ -
Total operating revenues	<u>19,282,865</u>	<u>-</u>
Operating expenses		
Stadium Management Operations	27,835,683	3,953,281
Legal	208,676	264,598
Consulting	188,852	112,288
Payroll	585,487	681,559
Professional fees	196,250	165,749
Marketing and promotion	72,102	6,958
Bank management and service fees	62,247	118,770
Insurance	89,841	118,130
Travel	14,887	5,531
Meetings	3,117	2,580
Office	20,044	35,134
Communications	14,018	19,767
Rent	-	116,477
Depreciation	15,485,151	35,931
Amortization of deferred bond issue costs	192,500	157,538
Remarketing and liquidity fees	140,809	126,118
Total operating expenses	<u>45,109,666</u>	<u>5,920,409</u>
Operating loss	<u>(25,826,801)</u>	<u>(5,920,409)</u>
Nonoperating revenues (expenses)		
Arizona tourism distribution	(5,147,670)	(4,902,542)
Cactus League facility expense	(91,175,000)	-
Youth and Amateur Sports Grant Awards	(40,572)	(3,335,987)
Arizona Cardinals	-	(6,239,434)
Hotel bed tax	15,244,876	14,007,052
Rental car tax	10,245,857	9,754,368
NFL Income tax	5,148,528	4,767,156
Sales tax recapture	6,521,224	8,089,748
Glendale marketing funds	300,000	-
Interest income	1,022,274	2,403,776
Interest expense	(15,898,231)	(2,590,509)
Swap receipt income	171,828	12,453
Swap payment expense	(25,535)	-
Gain on disposal of capital assets	-	850
Total nonoperating revenues (expenses)	<u>(73,632,422)</u>	<u>21,966,931</u>
Net income before contributions	<u>(99,459,223)</u>	<u>16,046,522</u>
Capital contributions	1,587,181	28,285,691
Increase/(Decrease) in net assets	<u>(97,872,042)</u>	<u>44,332,213</u>
Net assets, beginning of year, as previously reported	157,280,754	110,874,561
Prior period adjustment (Note 2)	-	2,073,980
Net assets, end of year	<u>\$ 59,408,712</u>	<u>\$ 157,280,754</u>

See accompanying notes.

Arizona Sports and Tourism Authority Statements of Cash Flow

	Year Ended June 30	
	2007	2006
Cash flows from operating activities		
Cash received from operations	19,282,865	-
Payments to suppliers	\$ (31,863,426)	\$ (2,337,804)
Payments to employees	(585,487)	(681,558)
Net cash used in operating activities	<u>(13,166,048)</u>	<u>(3,019,362)</u>
Cash flows from noncapital financing activities		
Payments for Arizona Office of Tourism	(5,147,670)	(4,902,542)
Payments for Youth and Amateur Sports - City of Avondale	(307,870)	(277,670)
Payments for Youth and Amateur Sports	(2,049,849)	(1,392,420)
Receipts from hotel bed tax	15,215,901	13,662,130
Receipts from rental car tax	10,374,228	9,487,602
Receipts from NFL Income tax	5,148,528	4,767,156
Receipts from sales tax recapture	7,808,954	7,689,210
Payment for Cactus League	61,013	(322,833)
Glendale marketing funds	300,000	-
Arizona Cardinals Rent	-	-
Gain on sale from disposal of assets	-	850
Interest payments	(15,713,602)	(2,590,509)
Net cash provided by noncapital financing activities	<u>15,689,633</u>	<u>26,120,974</u>
Cash flows from capital and related financing activities		
Capital contributions	40,950,527	38,937,947
Payments for senior and subordinate bond principal	(830,000)	(810,000)
Payments on capital leases	(7,498)	(16,700)
Proceeds from senior bonds	-	53,050,000
Proceeds from advance refunding	90,000,000	-
Defeased senior bonds	(87,420,000)	-
Swap receipt income	171,828	12,453
Swap payment expense	(25,535)	-
Acquisition and construction of capital assets	(50,255,113)	(146,535,752)
Net cash used in capital and related financing activities	<u>(7,415,791)</u>	<u>(55,362,052)</u>
Cash flows from investing activities		
Interest received	1,022,274	2,403,774
Net cash provided by investing activities	<u>1,022,274</u>	<u>2,403,774</u>
Net increase (decrease) in cash and cash equivalents	(3,869,932)	(29,856,666)
Cash and cash equivalents at beginning of year	33,008,491	62,865,157
Cash and cash equivalents at end of year	<u>\$ 29,138,559</u>	<u>\$ 33,008,491</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (25,826,801)	\$ (4,067,429)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	15,485,151	35,931
Amortization of deferred bond issue costs	(4,628,461)	(1,295,456)
Amortization of bond premium	2,111,386	(140,309)
Effects of changes in assets and liabilities:		
Other assets	238,416	50,622
Accounts payable	(140,694)	45,868
Accrued expenses	(405,044)	2,351,411
Net cash used in operating activities	<u>\$ (13,166,048)</u>	<u>\$ (3,019,362)</u>

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

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, among other things, (i) to construct, finance, furnish, maintain, improve, own, operate, market, and promote the use of the University of Phoenix 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.

Fiscal year 2007 represented the Authority's seventh full year of operations but its first year of stadium operations commencing with its grand opening in August 2006. The Authority began the year with five full-time employees, ended the year with three full-time employees and was engaged in all activities under its charter.

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*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures* and GASB Statement No. 40, *Deposit and Investment Risk 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

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

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 at the University of Phoenix Stadium. Revenues and expenses not meeting this definition are reported as nonoperating 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.

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 forty years. Amortization of capital assets acquired through a capital lease is included in depreciation expense. Capital assets are defined by the Authority as an asset with an initial cost of \$750 or greater for office related assets and \$5,000 for stadium related assets and an estimated useful life in excess of one year.

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 impairment loss is recorded at June 30, 2007 and 2006.

Receivables

Total Authority accounts receivable at June 30, 2007 were \$1,708,254 of which the total current Arizona Cardinals' receivable at June 30, 2007 was \$954,857. There were no noncurrent Arizona Cardinals' receivables. Total Authority receivables at June 30, 2006 were \$42,924,473 of which the Arizona Cardinals' portion was \$40,463,690.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

Costs of Borrowing

The Authority has deferred bond issue costs of \$10,163,454, net of accumulated amortization of \$545,356 at June 30, 2007, related to the issuance of the Senior and Subordinate Bonds (note 8). This reflects a net increase of \$4,628,461 from the previous fiscal year due to the costs incurred related to the Authority's advance refunding of \$87,420,000 in 2003A senior bonds. This net increase also reflects the Authority's reduction of deferred bond issuance costs related to the 2003A bond issuance by \$1,986,239 in order to reflect the defeasance of \$87,420,000 in 2003A senior bonds. The Authority had deferred bond issue costs of \$5,534,993, net of accumulated amortization of \$410,340 at June 30, 2006, related to the issuance of the Senior and Subordinate Bonds (note 8). The Authority amortizes deferred bond issue costs using the effective interest method for the 2003 and 2007 bonds and the straight-line method for the 2005 bonds over the term of the bonds.

Interest costs related to the Authority's bond debt were previously capitalized as a component of capital assets as a cost of acquiring the stadium assets during construction. Beginning with fiscal year 2007 the Authority expensed all bond-related interest. The Authority capitalized senior bond interest of \$10,966,707 for the fiscal year ended 2006.

Tax Status

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

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 ("MCSD")). The Authority received its first distribution of excess car rental surcharge revenues from the MCSD in fiscal year 2005 under the terms of the October 2003 intergovernmental agreement. These excess car rental revenues are used, currently, to repay a portion of the noncurrent liability to the City of Scottsdale. 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

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

related to income taxes paid by the Arizona Cardinals, employees and their spouses. Sales tax recapture are funds collected by the State of Arizona and the City of Glendale, Arizona related to sales taxes collected at the University of Phoenix Stadium and sales taxes collected on construction activity for the University of Phoenix Stadium. Event earnings are amounts collected as non-football events are held at the University of Phoenix Stadium. Facility user rentals are amounts paid by the Cardinals and the Fiesta Bowl for use of the University of Phoenix Stadium. The Cardinals annual rent starts at \$250,000 per year and grows by two percent per year thereafter. The Fiesta Bowl remits to the Authority an initial 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, the MCSO excess car rental surcharge, sales tax recapture and the Fiesta Bowl ticket surcharge that are recognized when paid.

In connection with the September 2005 Authority issuance of its Series 2005A Bonds several additional revenue sources were created which will be treated as non-operating revenues starting in fiscal year 2007. These new revenue sources are pledged directly toward the debt service associated with the Series 2005A bonds.

The City of Glendale ("Glendale") has assigned, transferred and pledged to the Authority an amount of its unrestricted excise taxes equal to all sales, transaction privilege, license, excise or similar taxes imposed by Glendale which are presently at a rate of 1.2% (or 2.2% for the restaurant and bars classification), that Glendale is entitled to receive that arise out of transactions or other business activities associated with events held at the Stadium. This agreement will remain in effect through the expiration of the Cardinals Use Agreement in 2036.

A Facility Use Fee ("FUF") per ticket for events at the multipurpose facility for all events at the multipurpose facility other than Team home games and Fiesta Bowl games that are described below. The facility use fee initially will be in the amount of \$4.25 per ticket sold for events with a projected attendance of more than 18,000 per event day, and \$1.00 per ticket sold for events with projected attendance of up to 18,000 per event day or for general admission tickets where no assigned seating is provided, no matter the attendance per event day. The facility use fee will be increased by \$0.25 per year in the case of the charge for events with projected attendance of more than 18,000 per event day and will be increased by \$1.00 every seven years in the case of the charge for events with projected attendance of up to 18,000 per event day or for general admission tickets where no assigned seating is provided, no matter the attendance per event day. For events for which no tickets are sold, there will be no facility use fee imposed. The Authority is the party who will determine the projected

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

attendance in connection with all events at the multipurpose facility and such projection will be binding on all parties for purposes of imposing the facility use fee. The facility use fee will only be imposed on those tickets that are sold and not on tickets distributed, attendance, turnstile count or other measurement.

The facility use fee to be paid by the Team to the Authority, as provided in the Facility Use Fee Use Agreement dated August 15, 2005, provides that, in general, there will be imposed a charge of \$4.25 per ticket sold for Team home games, increasing \$0.25 per year, during the term of the Amended and Restated Cardinals Use Agreement, dated as of August 15, 2005, between the Authority, the Team and Stadium LLC (an affiliate of the Team). The portion of this facility use fee that will be made available to the Authority for use in paying debt service associated with the Series 2005A bonds will be the facility use fees collected by the Team and Stadium LLC minus a maintenance and capital repair charge equaling 17.5 percent. The Team and Stadium LLC will transfer the net facility use fees to a facility use fee trust account under the terms of the Facility Use Fee Trust Agreement, dated as of August 15, 2005, between the Authority, the Team and Stadium LLC. On an annual basis, the Authority will provide to the Team and Stadium LLC a statement which will detail whether or not the Authority will need to draw upon these funds in order to meet its Series 2005A bond debt service. Those funds not required for debt service will be transferred to and become the property of the Team and Stadium LLC. This agreement will remain in effect up through the expiration of the Cardinals Use Agreement in 2036.

The facility use fee to be paid by the Fiesta Bowl to the Authority, as provided in the Amended and Restated Fiesta Bowl Use Agreement, dated as of August 15, 2005 provides that, in general, there will be imposed a charge of \$4.25 per ticket sold for each Fiesta Bowl game, increasing \$0.25 per year during the term of the agreement. The Fiesta Bowl Use Agreement provides that the Fiesta Bowl may no later than July 1, 2010, elect to discontinue imposing, collecting and paying to the Authority the Fiesta Bowl Use Fee and in that event, the Authority is entitled to receive the revenues from parking spaces sold for a Fiesta Bowl game up to a maximum amount equal to what the Authority would have received if the Fiesta Bowl had imposed the Fiesta Bowl Use Fee and 70,000 tickets were sold, as and to the extent provided in the Fiesta Bowl Use Agreement. This agreement will remain in effect up through the expiration of the Fiesta Bowl Use Agreement in 2036.

The Authority covenants that these additional revenues are and shall be treated by the Authority as other Authority revenues for purposes of the Series 2005A Bond Indenture, shall be subject to the lien of the Indenture as other Authority revenues and shall be transferred to the Trustee as soon as is practicable after receipt by the Authority for

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

deposit into the Facility Revenue Clearing Subaccount Held by the Trustee. The Authority covenants to collect and enforce the provisions establishing these additional revenues for so long as any Series 2005A Bond remains outstanding.

Legal Expense

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

	2007	2006
General:		
University of Phoenix Stadium project	\$ --	\$ 41,942
Cactus League	22,068	3,928
Fiesta Bowl	49,873	20,787
Other	132,638	197,941
Bond counsel	4,097	--
	\$ 208,676	\$ 264,598

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 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 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 also includes the operating budget for the stadium management company, Global Spectrum, L. P., and 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

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

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.

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, 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 University of Phoenix 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. The Arizona State Legislature, as part of the State of Arizona's fiscal year 2007 budget package, voted to remove the guaranteed minimum provision related to the NFL Franchise

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

income tax. This became effective on July 1, 2007. The Authority will no longer receive the greater of the guaranteed minimum increasing by eight percent per year or actual collections. The Authority will automatically receive the actual collections related to the NFL Franchise income tax. The Authority has determined that due to the removal of the guaranteed minimum by the Arizona legislature, all of the NFL Franchise income taxes are able to be pledged starting with fiscal year 2008.

3. Cash and Cash Equivalents

The Authority considers all highly liquid investments with an original maturity of three months or less at the time of acquisition to be cash equivalents. The Authority, at various times during the year, maintains cash at financial institutions in excess of the \$100,000 per bank limit insured by the Federal Deposit Insurance Corporation (FDIC). The Authority has cash balances on deposit with multiple financial institutions that exceed the balance insured by the FDIC in the amount of \$29,038,559 and \$32,908,491 at June 30, 2007 and 2006, respectively.

At June 30, 2007 and 2006, the Authority had total cash and cash equivalents on deposit of \$29,138,559 and \$33,008,491, respectively, through its commercial bank and bond trustee accounts.

At June 30, 2007 and 2006, the Authority's commercial bank accounts accounted for a total of \$13,780,302 and \$19,498,508, respectively, of all cash and cash equivalents. The Authority, at June 30, 2007 and 2006, had cash and cash equivalents with a carrying value of \$13,698,014 and \$19,314,730, respectively, invested in overnight repurchase agreements. The carrying value of all other commercial bank deposits at June 30, 2007 and 2006 was \$82,288 and \$183,778, respectively.

The Authority had a total of \$15,358,257 and \$13,509,983, respectively, in all trust related accounts of which all funds were invested at June 30, 2007 and 2006 and are reflected on the balance sheet at cost of \$15,358,257 and \$13,509,983, respectively, and are held by the bond trustee. Proceeds to purchase these marketable securities were derived from the Authority's senior bond issue, construction sales tax recapture, contributed capital, related debt service accounts for both the senior and subordinate bond issues, Cactus League, Tourism Revenue, Pledged Facility Revenue Clearing Account and the Construction Trust Account. The funds in all of the accounts were invested in the JPMorgan Chase Bank Prime Money Market Fund which is AAA-rated, NAIC approved and under the Authority's permitted investments.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

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 University of Phoenix 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 University of Phoenix Stadium. The Cardinals will pay rent in the amount of \$250,000 with a two percent annual increase from base rent. The Cardinals have received the use of the University of Phoenix 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. In fiscal year 2007 the Cardinals entered into a twenty year agreement with the University of Phoenix company for the naming rights of the stadium which were reported to be approximately \$154 million. The Authority is responsible for all operating expenses of the facility.

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 University of Phoenix 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 University of Phoenix 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 University of Phoenix Stadium project was agreed to by the Authority on January 13, 2004 at which time the University of Phoenix Stadium was estimated to cost \$370.6 million. In August 2005 the Authority and the Cardinals executed several amended and restated agreements which govern the completion of the stadium project including the related site improvements, the Cardinals' use of the stadium and the use of the parking adjacent to the stadium. In addition, the Authority and the Cardinals entered into an agreement that outlines the implementation and use of a Facility Use Fee ("FUF") related to tickets for Arizona Cardinals' home games. The total cost of the stadium project and site improvements is currently estimated to be \$457.5 million which includes \$379.4 million for the stadium, \$60.3 million for the site improvements including \$23.8 million from the City of Glendale and the Arizona Department of Transportation for transportation improvements and \$17.8 million for land. The Authority's contribution to the overall project cost is an estimated \$303.5 million including improvements made in partnership with the Fiesta Bowl while the

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

4. Operations (continued)

Cardinals will contribute an estimated minimum of \$134.6 million. The Authority's contribution was sourced from \$220.7 million in tax-exempt bonds issued in February 2003, \$45.1 million in tax-exempt bond proceeds issued in September 2005, \$12.4 million in recaptured state sales taxes imposed on the University of Phoenix Stadium project, approximately \$5.1 million in investment earnings on the bond proceeds, \$4.1 million in other contributions, \$12.5 million in credit for prior project expenditures and the balance from its operating reserves. 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's G-3 program. The Authority recorded a total of \$97,707,870 as a receivable in August 2003 based on the Construction Trust Agreement. In August 2005 the Authority and the Cardinals executed several amended and restated agreements including the Cardinals Use agreement and the Project Management Agreement. Under the revised terms of the Project Management Agreement the Team's minimum commitment to the project was estimated at the time of the agreement to be \$116.8 million (total commitment is \$134.6 million with their 2003 purchase of 160 acres for the stadium site and on-site parking).

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. In August 2005 the Authority and the Fiesta Bowl executed an amended and restated Fiesta Bowl use agreement. The Authority and the Fiesta Bowl on July 20, 2007 entered into a second amendment to the amended and restated Fiesta Bowl use agreement which capped the Authority's game day related expenses for the Fiesta Bowl to \$300,000 growing by 2 percent per year thereafter.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

5. Restricted Assets

Restricted assets consisted of the following at June 30:

	2007	2006
Cash and cash equivalents	\$29,138,559	\$33,008,491
Accounts receivable	1,708,254	42,924,473
Hotel tax receivable	2,092,427	2,063,452
Car rental surcharge receivable	1,285,087	1,413,458
Sales tax recapture receivable	1,382,518	2,670,249
Total	\$35,606,845	\$82,080,123

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. The Youth and Amateur Sports account is for those purposes as approved by the Board for various grants. The Cactus League account is restricted to the promotion of spring training baseball (e.g., renovations, marketing, etc.). The Tourism Account is used for tourism promotion purposes. The Construction Account is used for financing the University of Phoenix Stadium. The Non-Pledged facility revenue clearing account is a pass-through account that funds the operating budget. The Pledged facility revenue clearing account is for meeting existing debt service requirements. The tourism revenue clearing account is used for meeting the various waterfall requirements that include all of the above. The Debt Service Accounts, including the subordinate reserve, are used for meeting bondholder obligations.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

6. Capital Assets

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

	June 30, 2006	Additions	Disposals	Transfers In/(Out)	June 30, 2007
Capital assets not being depreciated:					
University of Phoenix Stadium	\$ 450,391,006	\$ 24,264,171	\$ -	\$ (474,655,177)	\$ -
On-site Improvements	1,534,008	44,948	-	(1,578,956)	-
Stadium FF&E	8,055,938	1,660,010	(394,235)	(9,321,713)	-
Land	2,773,165	-	-	-	2,773,165
	462,754,117	25,969,129	(394,235)		2,773,165
Capital assets being depreciated:					
University of Phoenix Stadium	\$ -	-	-	476,234,133	\$ 476,234,133
Stadium FF&E	-	-	-	9,321,713	9,321,713
Computer equipment	46,921	1,182	-	-	48,103
Furniture and fixtures	124,513	9,050	-	-	133,563
Office equipment	12,077	3,500	-	-	15,577
Capitalized software	10,168	-	-	-	10,168
Assets under capital lease	60,039	-	-	-	60,039
	253,718	13,731	-	485,555,846	485,823,296
Less accumulated depreciation:					
University of Phoenix Stadium	\$ -	(14,057,157)	-	-	(14,057,157)
On-site Improvements	-	-	-	-	-
Stadium FF&E	-	(1,399,791)	-	-	(1,399,791)
Land	-	-	-	-	-
Computer equipment	(40,409)	(1,942)	-	-	(42,351)
Furniture and fixtures	(56,685)	(15,276)	-	-	(71,961)
Office equipment	(3,535)	(2,457)	-	-	(5,992)
Capitalized software	(7,625)	(1,030)	-	-	(8,654)
Assets under capital lease	(42,292)	(7,498)	-	-	(49,791)
	(150,545)	(15,485,151)	-	-	(15,635,697)
	\$ 462,857,290	\$ 10,497,709	\$ (394,235)		\$ 472,960,764

	June 30, 2005	Additions	Disposals	June 30, 2006
Capital assets not being depreciated:				
Arizona Cardinals Stadium	\$ 306,846,270	\$ 143,544,736	\$ -	\$ 450,391,006
On-site Improvements	1,344,268	189,740	-	1,534,008
Stadium FF&E	-	8,055,938	-	8,055,938
Land	2,773,165	-	-	2,773,165
	310,963,703	151,790,414	-	462,754,117
Capital assets being depreciated:				
Computer equipment	42,145	4,776	-	46,921
Furniture and fixtures	55,722	68,791	-	124,513
Office equipment	10,787	8,549	(7,259)	12,077
Capitalized software	10,168	-	-	10,168
Assets under capital lease	45,146	14,893	-	60,039
	163,968	97,009	(7,259)	253,718
Less accumulated depreciation:				
Computer equipment	(33,308)	(7,101)	-	(40,409)
Furniture and fixtures	(48,604)	(8,082)	-	(56,685)
Office equipment	(8,656)	(2,137)	7,259	(3,535)
Capitalized software	(5,715)	(1,910)	-	(7,625)
Assets under capital lease	(25,891)	(16,701)	-	(42,292)
	(121,873)	(35,931)	7,259	(150,545)
	\$ 311,005,797	\$ 151,851,493	\$ -	\$ 462,857,290

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

6. Capital Assets (continued)

The Authority placed into service the University of Phoenix Stadium and its related stadium furniture, fixtures and equipment at the start of fiscal year 2007. This created the need to reclassify these assets from 'Capital assets not being depreciated' to 'Capital assets being depreciated'. This was done through the Transfers In/(Out) column leaving Land as the only capital asset not being depreciated as of June 30, 2007.

7. Long Term Payables

Payable to the Cities of Tempe, Scottsdale, Goodyear and Glendale

The Authority entered into agreements with the cities of Tempe and Scottsdale in November 2004 and March 2005 respectively and with the City of Goodyear in January 2007 and the City of Glendale in August 2007 related to their Cactus League stadium and practice field renovation and/or new construction projects.

The Authority committed a maximum of \$12 million to the City of Tempe and a maximum of \$20 million to Scottsdale with both cities issuing bonds to pay for the Authority's commitment during the construction phase. The City of Tempe project was completed in February 2006 and 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 is accruing interest on its commitments at the agreed-to rate of interest based on the cities' respective bond issuances. The Authority began to repay its commitments to Tempe and Scottsdale in fiscal year 2005 from available Cactus League and Maricopa County Stadium District funds related to its excess car rental surcharge revenues. The amount of these noncurrent liabilities as of the end of June 30, 2007 is \$12,782,610 and \$18,955,570 respectively for Tempe and Scottsdale. This represents an increase of \$517,009 for Tempe and a reduction of \$455,996 for Scottsdale over the prior fiscal year. For the fiscal year ended June 30, 2006 these noncurrent liabilities were \$12,265,601 and \$19,411,566 for Tempe and Scottsdale, respectively. Final maturity of these payables is estimated to be during fiscal year 2017.

The Authority formalized its commitment to the City of Goodyear in January 2007 for up to 50% of the projected cost of constructing a one-team stadium for the Cleveland Indians. The final cost of the stadium construction will be determined during fiscal year 2008 with the Authority's estimated maximum contribution to be \$37,375,000. Goodyear will provide the entire financing for the project with the Authority's commitment to provide principal plus interest to the city once repayment is begun which is estimated to be during fiscal year 2017. The stadium is projected to be opened in time for the 2009 spring training baseball season.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

7. Long Term Payables (continued)

The Authority formalized its commitment to the City of Glendale in August 2007 for up to two-thirds of the projected cost of constructing a two-team stadium for the Chicago White Sox and the Los Angeles Dodgers. The final cost of the stadium construction will be determined during fiscal year 2008 with the Authority's estimated maximum contribution to be \$53,800,000. Glendale will provide the entire financing for the project with the Authority's commitment to provide principal plus interest to the city once repayment is begun which is estimated to be during fiscal year 2017. The stadium is projected to be opened in time for the 2009 spring training baseball season.

Arizona Cardinals

The Authority initially recorded \$6,239,434 in fiscal year 2006 as a noncurrent liability to B&B Holdings, Inc. (d/b/a/ The Arizona Cardinals) per the August 15, 2005 Facility Use Agreement. The nature of this liability is the repayment of a portion of the costs incurred by the Arizona Cardinals for on-site improvements and the purchase of the 165 acres of land on which the stadium and its adjacent parking reside. Repayment of this liability is to begin in 2012 and is to be funded from the Authority's new revenues which began once the stadium opened for operation in August 2006. The Authority increased this liability by \$311,972, five percent, to a total of \$6,551,406 in fiscal year 2007 to reflect the accrued interest per the contractual financing carrying cost.

8. Bonds Payable

Senior Bonds - Stadium Construction Related Bonds

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 University of Phoenix Stadium. These bonds are insured by MBIA Insurance.

On September 29, 2005 the Authority issued \$53,050,000 in tax exempt, variable rate revenue bonds which were issued in order to secure the necessary final funding for the stadium project, site improvements and extravaganza seating and related storage space buildout. The Authority realized net bond proceeds of \$50,000,000 which will be disbursed \$32.3 million for site improvements, \$12.8 million for stadium costs and \$4.9 million for approximately 10,000 temporary seats to be used for mega-events such as the Super Bowl and the annual Fiesta Bowl game. These bonds are on par with the Authority's existing senior bonds which were issued in February 2003 and share the

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

8. Bonds Payable (continued)

same pledged revenues as the existing senior bonds in addition to several new revenue sources including local sales tax recapture revenues and the Facility Use Fee. These Series 2005A bonds have a final maturity in 2036. The bonds' variable rate is reset on a weekly basis. The bonds are insured by Ambac Assurance.

The Authority, at the time of the variable rate bond issuance, entered into a Series 2005A Swap Agreement in order to reduce the risk of future interest rate increases to the bonds' variable rate. Under the swap agreement, the Authority is the fixed rate payor and Royal Bank of Canada, the swap counterparty and liquidity facility issuer, is the variable rate payor. On September 29, 2006, the Authority and Royal Bank of Canada negotiated the fixed rate the Authority is to pay during the initial fifteen-year term of the swap agreement at 3.516%. Royal Bank of Canada will pay to the Authority a variable rate which is based on 72% of LIBOR (London Interbank Offer Rate). These two amounts are calculated on a monthly basis to be paid on the first of the succeeding month and that net amount is paid by the Authority to Royal Bank of Canada when the fixed rate amount is greater than the variable rate amount.

Senior Bonds – Advance Refunding

In January 2007, the Authority issued \$90,000,000 in Senior Revenue Refunding Bonds (Multipurpose Stadium Facility Project) Series 2007A as part of an advance refunding of \$87,420,000 in Tax Revenue Bonds, Series 2003A. The June 30, 2007 net carrying amount of the Series 2003A senior bonds as a noncurrent liability, following the refunding, is \$134,530,000. The Series 2007A bonds mature between 2010 and 2024 and carry coupon rates from 4.00 percent to 5.00 percent. The Authority issued the Refunding Bonds in order to replace higher interest debt instruments with those with lower interest carrying costs. It is estimated that the Authority will realize nearly \$2.8 million in net present value savings through the advance refunding. The Authority received total proceeds from the advance refunding of \$94,256,773 which was recorded to the Authority's financial statements as a noncurrent liability comprised of \$90,000,000 in bond proceeds and \$4,256,773 in bond premium. In addition, the Authority recorded a net amount of \$4,820,962 to deferred bond issuance costs as part of the refunding transaction. A total of \$6,807,201 was recorded as new deferred bond issuance costs for the advance refunding which was offset by a \$1,986,239 reduction to the 2003A senior bond deferred bond issuance amount on the Authority's financial statements. This offset was recorded to accurately reflect the effect on the deferred bond issuance costs related to the defeasance of the \$87,420,000 in 2003A senior bond noncurrent liabilities. The net proceeds from the sale of the 2007A Refunding bonds, \$92,270,533, were put into an escrow account with the Authority's trustee, The Bank of New York, and invested in State and Local Government Series. The escrow account will

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

8. Bonds Payable (continued)

be used to pay the debt service on the old debt during the period between the refunding date and the call date. The Authority considers the amount of the Series 2003A senior bond debt, \$87,420,000, to be defeased and has reflected this in its financial statements as of June 30, 2007. The refunding bonds are insured by MBIA Insurance.

Subordinate Bonds – Cactus League Related Bonds

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 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 and investment earnings on the reserve account to meet this requirement.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

8. Bonds Payable (continued)

At June 30, 2007, 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")	\$134,530,000
Subordinate Tax Revenue Bonds, Series 2003, interest from 2.25 percent to 5.00 percent, due through 2016 ("Subordinate Bonds")	29,965,000
Senior Variable Rate Demand Revenue Bonds, Series 2006A, variable rate interest, due through 2036 ("Senior Bonds")	53,050,000
Senior Revenue Refunding Bonds (Multipurpose Stadium Facility Project) Series 2007A	<u>90,000,000</u>
Total bonds payable	<u>\$307,545,000</u>
Plus unamortized premium	<u>6,853,235</u>
	<u><u>\$314,398,235</u></u>

Debt service requirements subsequent to June 30, 2007 are as follows:

Year Ending June 30	Principal Maturities	Interest	Total
2008	1,000,000	14,411,294	15,411,294
2009	1,135,000	14,068,304	15,203,304
2010	3,770,000	13,992,004	17,762,004
2011	5,170,000	13,785,923	18,955,923
2012	5,550,000	13,533,398	19,083,398
2013-2017	36,060,000	62,890,738	98,950,738
2018-2022	56,735,000	50,708,534	107,443,534
2023-2027	75,710,000	35,775,918	111,485,918
2028-2032	99,270,000	17,680,037	116,950,037
2033-2036	23,145,000	1,750,503	24,895,503
	<u>\$ 307,545,000</u>	<u>\$ 238,596,654</u>	<u>\$ 546,141,654</u>

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

9. Noncurrent Liabilities

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

	July 1, 2006	Additions	Reductions	June 30, 2007
Payable to City of Avondale	\$ 2,103,572	-	(338,671)	\$ 1,764,901
YAS grant award payable	75,000	-	(75,000)	-
Payable to City of Tempe	12,265,601	545,050	(28,041)	12,782,610
Payable to City of Scottsdale	19,411,566	871,162	(1,327,158)	18,955,570
Payable to City of Goodyear	-	37,375,000	-	37,375,000
Payable to City of Glendale	-	53,800,000	-	53,800,000
Obligation under capital lease	10,248	-	(4,997)	5,251
Bonds payable	309,706,849	92,111,386	(88,420,000)	313,398,235
Deferred revenue, noncurrent	1,500,000	-	(500,000)	1,000,000
Payable to Arizona Cardinals	6,239,434	311,972	-	6,551,406
Total	\$ 351,312,270	\$ 185,014,570	\$ (90,693,867)	\$ 445,632,973

	July 1, 2005	Additions	Reductions	June 30, 2006
Payable to City of Avondale	\$ 2,411,443	\$ -	\$ (307,871)	\$ 2,103,572
YAS grant award payable	150,000	-	(75,000)	75,000
Payable to City of Tempe	12,000,000	363,362	(97,760)	12,265,601
Payable to City of Scottsdale	20,000,000	924,274	(1,512,709)	19,411,566
Obligation under capital lease	2,974	14,773	(7,499)	10,248
Construction retainage payable	7,006,662	-	(7,006,662)	-
Bonds payable	257,627,158	53,050,000	(970,309)	309,706,849
Deferred revenue, noncurrent	-	1,500,000	-	1,500,000
Payable to Arizona Cardinals	-	6,239,434	-	6,239,434
Total	\$ 299,198,237	\$ 62,091,843	\$ (9,977,810)	\$ 351,312,270

10. Sources of Pledged Revenues

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

	<u>2007</u>	<u>2006</u>
Hotel bed tax	\$ 15,244,876	\$ 14,007,052
Rental car tax	8,946,741	8,646,643
Sales tax recapture	6,481,231	880,027
NFL income tax	4,586,340	3,710,748
Operating Revenues	19,282,865	--
Total	<u>\$ 54,542,052</u>	<u>\$ 27,244,470</u>

Several of the pledged revenues presented above vary from the amounts presented in the Statement of Revenues, Expenses and Changes in Net Assets due to various

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

10. Sources of Pledged Revenues (continued)

statutory or contractual agreements which amend the amount the Authority may claim as a pledge to its senior bond debt repayment. The rental car tax has been reduced by \$1,299,117 and \$1,107,725 respectively for fiscal years 2007 and 2006. These reductions represent the annual amounts forwarded to the Authority from the Maricopa County Stadium District (the "MCS D") under our existing intergovernmental agreement. This agreement provides the District's annual excess funds exclusively for the Authority's Cactus League purposes. These funds, in turn, are used by the Authority to defease the amount due and owing to the City of Scottsdale under our intergovernmental agreement for their Cactus League stadium and practice field renovation project. The pledged sales tax recapture revenues were reduced by \$39,993 and \$7,209,721 respectively for fiscal years 2007 and 2006. These reductions represent the amount of sales tax recapture revenues received by the Authority from its University of Phoenix Stadium construction project and which were obligated to the payment of the actual stadium construction costs. The NFL income tax was reduced by \$562,188 and \$1,056,408 respectively for fiscal years 2007 and 2006. These reductions represent the amount of the NFL income tax received which was associated with non-football related activities and which, by Arizona Appellate Court order, cannot be pledged to the repayment of the Authority's senior bond debt.

11. Leases

The Authority leased certain office facilities under non-cancelable operating leases that expired in June 2006. This termination date coincided with the Authority's move from its leased office space to its permanent location at the University of Phoenix Stadium.

Future minimum payments under non-cancelable operating leases with initial terms of one year or more and under capital leases at June 30, 2007, are summarized as follows:

	Capital Leases	Operating Leases
2008	\$ 5,799	--
2009	5,642	--
	\$ 11,441	\$ --
Less amount representing interest	(1,193)	
Present value of minimum lease payment	\$ 10,248	

Total rental expense for all operating leases was zero during fiscal year 2007 and approximately \$116,477 for the year ended June 30, 2006.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

12. Capital Contributions

The Authority has received commitments from the Cardinals for contributions toward the construction of the University of Phoenix Stadium. The Cardinals have pledged a minimum of \$129.2 million to the University of Phoenix Stadium and site improvement project (total commitment is \$147.0 million with their 2003 purchase of 160 acres for the stadium site and on-site parking). The Cardinals' contributions are for the construction of the University of Phoenix 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 in August 2003 was \$97,707,870.

During the initial phases of the Authority's formation and preliminary site construction work, the Cardinals contributed cash of \$16,668,140 (including \$2,773,165 for land contributed for the stadium and pedestrian plaza) through fiscal year 2004, \$37,790,651 in fiscal year 2005, \$38,174,270 in fiscal year 2006 and \$35,878,754 for a total contribution of \$128,511,815 as of June 30, 2007.

13. Commitments and Contingencies

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 \$5,147,670 and \$4,902,542 respectively for the fiscal years 2007 and 2006.

14. 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 contribution percentage through the end of fiscal year 2007 was 9.10 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, 2007 and 2006, the Authority made contributions of \$45,704 and \$43,630 respectively to the Plan.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

14. Defined Benefit Plan (continued)

The ASRS has increased the contribution percentage to 9.60 percent for fiscal year 2008 – an increase of 0.50% from fiscal year 2007.

15. Interest Rate Swap

On September 29, 2005 the Authority issued \$53,050,000 in tax exempt, variable rate revenue bonds which were issued in order to secure the necessary final funding for the stadium project, site improvements and extravaganza seating and related storage space buildout. At the time of the bond issuance, the Authority entered into a Series 2005A Swap Agreement in order to reduce the risk of future interest rate increases to the bonds' variable rate. The counterparty to the swap is Royal Bank of Canada.

The credit ratings of the counterparty, terms and fair value of the outstanding swaps as of June 30, 2007 are as follows:

	Royal Bank of Canada
Credit ratings ⁽¹⁾	Aa2/AA/AA-
Notional amount	\$53,050,000
Effective date	September 29, 2005
Fixed-rate paid	3.516%
Variable rate received	72% of LIBOR ⁽²⁾
Termination date	July 1, 2020
Fair value	\$2,445,608

(1) Moody's Investors Service, Fitch Ratings and Standard & Poors respectively

(2) One-month LIBOR reset monthly. One-month LIBOR as of June 1, 2007 was 3.8304%

The notional amounts of the swaps match the principal amount of the associated debt. The swap agreement contains scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

Fair value

Interest rates have risen since the inception of the swap agreement resulting in a positive fair value as of June 30, 2007. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap agreement, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

15. Interest Rate Swap (continued)

Credit risk

If the swap was terminated on June 30, 2007, the fair value of the swap would represent the Authority's credit exposure to the counterparty if the Authority were owed a payment and the counterparty could not make the termination payment. Since the fair value of the swap was a positive \$2,445,608 the Royal Bank of Canada would have owed the Authority payments if the swap were terminated on that date, and therefore, the Authority had counterparty exposure as of June 30, 2007. The fair value of the swap as of June 30, 2006 was a positive \$2,738,143.

Basis risk

The Authority is exposed to basis risk on the swap when the relationship between 72 percent of LIBOR and the actual rates on the associated variable rate bonds diverge where 72 percent of LIBOR is less than the actual rates paid to the bondholders. For fiscal year 2007 through June 30, 2007, the weighted average rate on the variable rate bonds was 3.6393 percent while 72% of the weighted average of LIBOR was 3.8399 percent. The Authority's interest cost on its variable rate bonds was below its floating rate swap receipts by approximately \$171,828 during this period. In contrast, for fiscal year 2006 the Authority's interest cost on its variable rate bonds exceeded its floating rate swap receipts by approximately \$107,953 during this period.

Termination risk

The swap agreement provides for certain events that could cause the counterparty or the Authority to terminate the swap, including, but not necessarily limited to, (i) the failure to make payments when due, (ii) a material breach of representations or warranties, an event of illegality, (iii) the failure by the LIBOR counterparty to maintain ratings of at least BBB by Fitch IBCA or Baa2 by Moody's Investors Service, Inc. and (iv) the failure to comply with any other provisions of the agreements after a specific notice period. The Authority also has the right to terminate the swap agreement at any time. If, at the time of termination, a swap has a negative fair value, the Authority would owe the counterparty a termination payment equal to the fair value.

16. Subsequent Events

Youth and Amateur Sports

The Authority's board of directors granted approval for the funding of 17 youth and amateur sports projects for an approximate total of \$2,250,000. This approval was voted upon at their October 23, 2007 meeting.

Arizona Sports and Tourism Authority
Notes to Financial Statements
For the years ended June 30, 2007 and 2006

17. Prior Period Adjustments

The Authority recorded a prior period adjustment and increased net assets by \$2,073,980 for the beginning of the year June 30, 2006. The adjustment was a result of a correction of an error for the accounting treatment of the activity to begin stadium operations. Prior to 2007 the stadium activity was treated as a separate entity and should have been treated as a division of the authority. The result was to record the net assets of the stadium operations as a division of the Authority. Global Spectrum, which operates as division of the Authority, manages the operations of University of Phoenix Stadium.



To the Board of Directors
Arizona Sports and Tourism Authority
Glendale, Arizona

We have audited the financial statements of Arizona Sports and Tourism Authority (the Authority) for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted In The United States of America

As stated in our engagement letter dated May 22, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

Review of Internal Control

In planning and performing our audit of the financial statements of the Authority as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the above paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control that we consider to be a material weakness and significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

1850 N. Central Avenue • Suite 400 • Phoenix, Arizona 85004 • Phone 602.264.5844 • Fax 602.277.4845 • EOE

Material Weakness:

Segregation of Duties

The Authority has a limited number of personnel, and, accordingly, lacks adequate internal controls in certain areas due to limited segregation of duties. This lack of proper segregation of duties could adversely affect the Authority's ability to properly record, process, summarize and report financial information and to safeguard its resources.

The Authority is aware of the need to segregate incompatible duties and therefore has policies in place to segregate duties to the extent possible. Additionally, management is always open and receptive to further recommendations for improvement. With a limited number of personnel, the most effective internal control lies in the current distribution of duties along with management's knowledge of matters relating to the Authority's operations with effective oversight by the CEO, the CFO, and the Board of Directors.

Significant Deficiency:

Audit Adjustments

We identified misstatements in the Authority's financial statements that are reported in this letter under the heading "Audit Adjustments" which were not identified by the Authority's internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustments, in our judgment, indicate matters that could have a significant effect on the Authority's financial reporting process:

- Prior period adjustment of \$221,004 to properly state net assets due to the reporting of the assets, liabilities, and equity of the University of Phoenix Stadium being recognized as expenditures in prior year.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

This report is intended solely for the information and use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation we received during the course of the audit. We look forward to many years of continued service to Arizona Sports and Tourism Authority.



Phoenix, Arizona
October 29, 2007