

FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

Tourism and Sports Authority

Years ended June 30, 2002 and 2001

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and Other Financial Information

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Tourism and Sports Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2002

The following is management's discussion and analysis of the financial performance of Tourism and Sports 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 liabilities 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 liabilities. The statements of revenues, expenses and changes in net liabilities 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 liabilities. 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 liabilities, which are prepared on an accrual basis. Consolidating schedules of net liabilities and statements of revenues and expenses changes in net liabilities and cash flows, which provide more detailed information on the Authority's designated financial activities, are included after the notes to the financial statements.

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 "funds," which are actually separate accounts. These funds are as follows: General Fund, Construction Account, Tourism Revenue Clearing Account, and Facility Revenue Clearing Account. The use of the term "fund" 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 funds, except for the consolidating schedules referenced above.

The General Fund represents the Authority's primary funds aggregating and disbursement account. The Construction Account represents the activities of constructing the multipurpose facility. 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 Facility Revenue Clearing Account represents the activities related to the collection of the revenues from the NFL franchise income tax, state sales tax recapture, future rent and surcharge payments from the Cardinals (the Cardinals) and the Fiesta Bowl and other events held at the multipurpose facility and the disbursement of these funds for debt service. Please refer to the notes to the financial statements for additional information on these funds.

THE AUTHORITY AS A WHOLE

The Authority's total assets as of June 30, 2002 were approximately \$29.0 million. Current assets, including cash, prepaid and other assets and receivables, were approximately \$8.2 million.

THE AUTHORITY'S OPERATIONS

Formation and Startup Operations of the Authority

In April 2000, the Arizona state legislature enacted Senate Bill 1220 in order to provide for a long-term economic benefit to any county in Arizona with a population of more than two million residents with respect to tourism and sports promotion. This would be accomplished through the formation of the Tourism and Sports Authority which would operate as a corporate and political body, that would be responsible for the following activities. The design, construction, financing, ownership and operation of a multipurpose facility that would be the new home of the Cardinals and the Tostito's Fiesta Bowl as well as other sporting and non-sporting events and venues. The Authority would also promote tourism, Cactus League baseball and youth and amateur sports in Maricopa County through statutory distributions of its related funding sources. The enactment and implementation of this legislation was dependent on a successful vote of the related Proposition 302 by the residents of Maricopa County. In November 2000, the voters approved Proposition 302 by a 52:48 margin.

The Authority began its operations with the appointment of nine citizen volunteers to the Authority's Board of Directors (the "Board"). Five of the members were appointed by the Governor and two each were named by the Speaker of the House of Representatives and the Senate President of the State Senate. Of the Governor's appointees one was required to be from the tourism industry, one from the hotel/motel industry and no more than three of the five from the same political party. The two appointees each by the Speaker of the House of Representatives and the Senate President were required to be from different political parties. Currently, the board of directors has one vacancy to be filled by the Governor.

The Board's primary responsibilities include the administration of the Authority, entering into contractual agreements, acquiring, operating and maintaining real and personal property, retaining legal counsel and other consultants, keeping and maintaining accurate records of its proceedings, appointing among its members a chairperson, a secretary and a treasurer and employing an executive director whose responsibility is for the daily activities and operations of

the Authority. Jim Grogan currently serves as the Chairperson, John Benton as Secretary and Rod Williams as Treasurer.

In January 2001, Ted A. Ferris was hired as the Authority's executive director and was given the additional titles of President and Chief Executive Officer. During 2001, Mr. Ferris began hiring the Authority's staff. The positions of Vice President – Facility, Vice President – Operations, Chief Financial Officer, two executive assistants and a receptionist were filled during 2001 to assist the Executive Director in managing the Authority's projects and daily operations. In July 2002, the Vice President – Operations resigned his position and it remains vacant.

Current Developments

Federal Aviation Administration

The Federal Aviation Administration in July 2001 provided notice to the Authority that it was considering issuing a 'hazard' determination for the multipurpose facility's selected site in Tempe, Arizona. When the Tempe site was selected in February 2001, the City of Tempe had assured the Authority that preliminary FAA approval had been received. Therefore, the Authority immediately stopped the construction that had just begun at the site. In the same month, the Authority hired a team of independent consultants to prepare an independent report regarding aviation issues involving the Authority's multipurpose facility development project. During the time the independent consultants prepared their report, the Authority staff continued to work with FAA representatives on possible mitigation of the issues brought forward by the FAA. One of the primary mitigation efforts of the Authority was to move the proposed site farther to the east and south to a location adjacent to the original site thereby moving it further off of the end and the centerline of Sky Harbor Airport's north runway. It was expected that the FAA would provide feedback on the Authority's mitigation efforts by September 11, 2001. However, due to the terrorist attacks of September 11, 2001, the FAA did not issue its ruling until November 2001. The FAA, on November 17, 2001, issued a "Determination of Hazard to Air Navigation" for the Tempe site. Based on the FAA's decision the Authority, at a November 29, 2001 board of directors' meeting, formally abandoned the Tempe site and re-opened the site selection process to find a new site. The City of Tempe subsequently filed an appeal with the FAA's hazard determination. In August 2002, the FAA denied the City of Tempe's request for discretionary review and the original ruling of determination of hazard to all navigation is final.

City of Phoenix

The City of Phoenix, as the owner/operator of Sky Harbor International Airport, filed a Notice of Claim with the Authority on July 27, 2001. The claim asserted that construction of the multipurpose facility at the original Tempe, Arizona site would impede the airport's operations and future growth. Its claim was based on the hazard assertions made by the FAA to the Authority earlier in July 2001. On September 10, 2001, at an Authority board meeting, counsel for the City of Phoenix further advised the Authority that if it elected to order steel related to the multipurpose facility or resume construction activities that the City of Phoenix would file suit against the Authority. The Authority noted that ordering the steel was a time- and cost-sensitive

issue for the Authority and the multipurpose facility project. Delaying the ordering of the steel would potentially increase the cost of the steel and delay the project's construction timetable. It was further noted that the steel was not site-specific and could be used anywhere the multipurpose facility were to be built. The board further voted that in order to resume construction, specifically the mass excavation phase, which the City of Tempe would need to provide the Authority with the \$1 million per its agreement with the Authority. On November 17, 2001, the FAA issued a hazard determination against the original site and on November 29, 2001, the Authority board voted to formally abandon the site as the location for the multipurpose facility. At the December 21, 2001 Authority board meeting, the board voted unanimously to approve a Resolution with Stipulation that would allow the Court to dismiss the City of Phoenix case against the Authority. The Court subsequently dismissed the case on December 24, 2001.

Notice of Claim – Tempe

On March 9, 2002, the Authority issued a notice of claim with the City of Tempe requesting \$1,516,102 for reimbursement of expenses incurred by the Authority for the original Tempe site. The City of Tempe has not reimbursed the Authority for these expenses. The Authority continues to pursue action on this notice of claim.

City of Surprise

On December 13, 2001, the Authority and City of Surprise entered into the First Amendment to the Intergovernmental Agreement ("IGA"). This amendment provided to City of Surprise the existing funds in the Cactus League Promotion Account at the time of the agreement, \$1,757,197, and the full amount of the monthly distribution, \$250,000, every month thereafter until the Authority was able to issue the bonds under the terms of the original IGA. Once the bonds are issued, the amount lent to City of Surprise under the First Amendment would be repaid to the Authority.

On January 1, 2002, the Authority and City of Surprise entered into the Second Amendment to the IGA. This amendment provided to City of Surprise an additional amount in bond proceeds based on their willingness to continue funding the project on a unilateral basis through interfund borrowing. This borrowing had an associated cost to City of Surprise and so the Authority agreed to pay an additional \$600,000 to the City of Surprise for every month the bonds were not issued for the period January 2002 through October 2002, not to exceed an aggregate of \$6,000,000.

Through June 30, 2002, the Authority has accrued an additional \$3,600,000 in liability while lending \$3,257,197 to City of Surprise from the Cactus League Promotion Account. The Authority continued to record the full \$6,000,000 liability through October 2002 and continued to provide the \$250,000 monthly loan until the Long lawsuit was ultimately resolved. The Authority has recorded the amount committed as a note payable totaling \$26,342,803.

Site Selection

Following the abandonment of the original multipurpose facility site in Tempe, Arizona in November 2001, the Authority formally re-opened the site selection process in December 2001. The Authority initially received eighteen expressions of interest which were reviewed by the Authority's staff and consultants. Staff recommendations were made to the board of directors in January 2002 at a public meeting. The board of directors provided their input at the meeting and selected ten of the original eighteen sites for the next step in the process – a request for proposal (the RFP). Based on criteria and minimum performance requirements established by the Authority, six of the ten site proposers submitted an RFP on February 15, 2002. The three RFP evaluation teams for construction, finance and legal and multipurpose reviewed, in detail, the RFP's and presented their findings to the board of directors in advance of the March 5, 2002 deadline. On March 5, 2002, the board of directors chose to move forward with the proposals from the City of Mesa and the Gila River Indian Community as the two site finalists with the proposal from the Ft. McDowell Yavapai Nation in a backup role.

Shortly after this meeting, the Maricopa County attorney issued a ruling that based on his interpretation of the Arizona Revised Statutes, the Authority could not select an Indian nation as a site unless it had a non-Indian municipality acting as the site host. The result of this action was that the Gila River Indian Community withdrew their proposal leaving the City of Mesa as the sole finalist. This ruling also was the impetus for the state legislature to provide for a technical correction to the statute's thereby allowing the Indian communities to participate without having a non-Indian site host. This legislation was enacted in May 2002. Even with the technical correction, the Gila River Indian Community declined to re-submit their proposal for consideration. This new legislation also created a September 12, 2002 deadline by which time the Authority needed to deliver executed agreements for a primary site and as many as two backup sites to the offices of the state governor and attorney general. The Authority met this deadline by delivering agreements on Tuesday, September 3, 2002. If the Authority had not met this deadline, a proposition would have been put on the November 2002 general ballot which would have had the voters of Maricopa County deciding if the Authority should remain in existence and the multipurpose facility be constructed. It also avoided an estimated \$618,500 in election costs that the Authority would have had to absorb. The Authority did incur \$515 in costs associated with the early preparation of the publicity pamphlet.

The Authority continued forward with the site selection process by negotiating a final agreement with the City of Mesa that could be delivered in advance of the September 12, 2002 deadline. While the two parties were negotiating, a private citizens group was successful in obtaining sufficient signatures to put a referendum on the City of Mesa's September 10, 2002 ballot that, if successful, would reverse the City of Mesa's council action which had approved the financing plan for the city's costs related to the land and infrastructure at the proposed site. The Mesa voters had previously voted down two other proposals that would have built a stadium for the Arizona Cardinals in their city. This was cause for concern for the Authority as the common belief was that the proposition would fail and the Authority would be without a site host two days prior to the Authority's September 12, 2002 deadline. It was imperative that the Authority negotiate with another potential site host and it was at that time that the City of Glendale resurfaced as a site host candidate for the multipurpose facility.

On August 29, 2002, the Authority's board of directors heard final verbal proposals from both the City of Glendale and the City of Mesa. The board, on a 7 – 1 vote, selected the City of Glendale as the site host finalist for the multipurpose facility. The City of Glendale's council voted, unanimously, the following day to enter into an agreement with the Authority. On Tuesday, September 3, 2002, the Authority delivered the executed agreements to the offices of the governor and state attorney general and received written confirmation of the delivery.

The citizens of the City of Mesa, on September 10, 2002, voted against the stadium proposition thereby ending Mesa's chances of hosting the multipurpose facility.

City of Glendale

The Authority's board of directors selected the City of Glendale as the site host finalist for the multipurpose facility on August 29, 2002. On September 3, 2002, the Authority and the City of Glendale entered into a Development and Disposition Agreement and Intergovernmental Agreement to memorialize this contractual agreement. This primary agreement was delivered to the governor and state attorney general of Arizona on that date. The agreement covers a number of subjects related to the construction of the facility, the deliverables by the parties involved, the resulting costs and sources of funding of which some have a financial impact on the Authority. The term of the agreement is for a minimum of thirty years which is equal to the use agreements between the Authority and the Arizona Cardinals and the Fiesta Bowl – the Authority's two primary long-term tenants. The City of Glendale will provide to the Authority the land for the multipurpose facility, the pedestrian plaza and the roll-out field on a fee simple basis – the Authority will own, operate and control this parcel. The City of Glendale is responsible for delivering all of the required infrastructure to the multipurpose facility site including, but not limited to, parking, utilities, streets, etc. The City of Glendale will also provide \$10.0 million toward the development of the pedestrian plaza which will surround the facility based on certain events occurring. They will also provide the Authority with \$300,000 annually increasing by 3% per year thereafter for marketing expenses associated with the facility. A \$4.00 parking ticket surcharge will be added to each ticket for events of 10,000 attendees or more, a \$2.00 surcharge for events of between 6,000 and 10,000 attendees and no surcharge for events of less than 6,000 attendees. This surcharge revenue will be collected and remitted to the City of Glendale. The ticket surcharge rates will increase by 5% per year for the first thirty years. The Authority will provide a total of \$1.0 million from its youth and amateur sports fund to the City of Glendale to develop sports fields in near proximity to the facility. The Authority will provide \$250,000 within thirty days of the deeding of the property to the Authority and \$250,000 by June 30 of each of the years 2003 through 2005.

Opponents to the multipurpose facility have been seeking 1,305 valid signatures within the City of Glendale to force a vote challenging the city council's resolutions approving the agreements between the city and the Authority. The petitions were filed, but there are questions as to whether or not they were filed timely as well that they may contain a few technical violations of the elections law and referendum law that would be fatal to the petitions. The Authority has made a motion to intervene. The City of Glendale Clerk's office has concluded that nearly half of the signatures were unregistered and that only 1,000 signatures appear to be valid which is less than

the minimum requirement of 1,305. The City of Glendale has asked the judge to dismiss the lawsuit and invalidate the petitions.

Elections

In May 2002, the Arizona state legislature enacted House Bill 2177 in response to a number of issues related to the Authority and the site selection process that was currently underway. One of the new requirements mandated by this legislation was that the Authority complete the site selection process by September 12, 2002 or face another vote by the residents of Maricopa County. The Authority met this requirement by delivering documents to the state governor and attorney general on September 3, 2002 in advance of the deadline. Confirmation of this delivery was obtained and the election process eliminated at that point. The Authority did have to enter into an Intergovernmental Agreement with the Maricopa County Elections Department in order to provide them with the lead time to print, publish and mail a publicity pamphlet as well as add our proposition to the general ballot. The Authority spent \$515 on related election costs.

FUND SOURCES

The Authority receives funding for its activities from a variety of sources. The three primary accounts into which funds are received are the Tourism Revenue Clearing Account, the Facility Revenue Clearing Account and the Construction Account.

Tourism Revenue Clearing Account

The Tourism Revenue Clearing Account receives the Authority's primary sources of funding. The sources are comprised of a one percent hotel bed tax and a 3.25% car rental surcharge. These tourism-related taxes began in March 2001, will be collected for 360 months and are applied only on transactions within Maricopa County. The hotel bed tax applies to all lodging transactions without exception. The 3.25% car rental surcharge is applied on all car rental transactions, with a minimum of \$2.50 per contract, unless an exemption is granted because the rental is for a repair or replacement vehicle. If an exemption is to be granted by the car rental agency, the person renting the vehicle must provide written evidence such as an estimate from a repair facility to the car rental agency. The \$2.50 minimum still applies on all car rental contracts as part of a funding agreement that started in 1992 to provide funds to the Maricopa County Stadium District to pay for debt service on bonds issued for the construction and/or renovation of spring training facilities. The balance of the revenues between the 3.25% surcharge and the \$2.50 per contract minimum is provided to the Authority.

The Authority receives its tourism revenue funding on a monthly basis. There is a two-month lag between the collection of the tax and its distribution to the Authority. In the month following the sale transaction, each vendor is responsible for reporting and remitting to the Arizona Department of Revenue the related transaction taxes collected during the prior month. The Department of Revenue then processes the monthly sales tax returns and directs the State Treasurer's office to disburse the related funds to the Authority on or around the 20th of the second month following the point-of-sale.

The Authority collected in the fiscal year ended 2002, on an accrual basis, \$9,811,027 and \$6,824,977 for the hotel bed tax and the car rental surcharge, respectively. This was the Authority's first full fiscal year of revenue collections. For fiscal year 2001, the Authority recorded \$4,183,977 and \$2,528,507 in revenues for the hotel bed tax and car rental surcharge, respectively. These amounts represented collections for the first four months of the taxes' existence from March through June 2001. The fiscal year 2002 actual amounts are compared to a forecast of \$12,165,291 for the hotel bed tax – a \$2,354,264, (19.4%), decrease and a \$8,899,056 forecast for the car rental surcharge – a \$2,074,079, (23.3%), decrease. The lower-than-expected outcome for these two tourism tax revenue sources was the result of the effects of the events of September 11, 2001 terrorist attacks on the nation as a whole and specifically the travel industry. Arizona's economy is heavily dependent on tourism and the September 11, 2001 events created a downturn in this industry nationwide from which we continue to slowly recover. A portion of the decreased car rental surcharge results for fiscal year 2002, appear to have resulted from an incorrect administration of the surcharge at the car rental agency level. Our analysis of the surcharge during fiscal year 2002 noted a higher-than-expected exemption rate which reduces the amount of the 3.25% surcharge collected as well as lowers the resulting revenues for the Authority.

At the end of fiscal year 2002, the Tourism Revenue Clearing Account had total assets of \$5,734,674 consisting of cash of \$3,078,130 and a receivable of \$2,656,544. The cash balance is further segregated into \$1,096,844 for youth and amateur sports, \$83,333 for the youth and amateur sports reserve account and \$1,897,953 representing the June 2002 receipt of the hotel bed tax and car rental surcharge revenues which will be distributed in July 2002. The receivable is recorded to account for the two-month lag between the actual sales activity in May and June 2002 and the actual receipt of the revenues in July and August 2002. All assets are restricted in nature. The listed liabilities for this fund totaled \$30,273,623 as of June 30, 2002. The significant portion of this liability is related to the \$26,342,803 commitment by the Authority to the City of Surprise for their dual-team spring training facility scheduled to open in 2003. The balance, \$3,930,820, represents the amount due and owing to the Arizona Office of Tourism in July 2002 for tourism revenues received in June 2002, \$350,000, a \$150,000 grant to the South Mountain YMCA for a youth sports project and \$3,430,820 for an eleven-field youth sports complex in the City of Avondale.

Facility Revenue Clearing Account

The Facility Revenue Clearing Account receives the Authority's secondary sources of funding. They are comprised of an NFL franchise income tax, state sales taxes currently collected on Cardinals home games and on all future event activity at the multipurpose facility, revenues from other events at the multipurpose facility, ticket surcharges on the annual Fiesta Bowl and rent payments from the Cardinals. Until the multipurpose facility is operational, the current revenue streams are limited to the NFL franchise income tax and the state sales taxes collected at Cardinals home games currently held at Arizona State University's Sun Devil Stadium.

The NFL franchise income tax is an annual amount guaranteed by the state from its general fund. The annual amount is based on the higher of a minimum of \$3,504,000 in the first year growing at eight percent per year or the actual corporate income taxes reported by the Cardinals franchise

combined with the personal income taxes that are reported by the Cardinals employees, whether resident or non-resident, and their spouses. In March of each year, the Arizona Department of Revenue reports to the Authority the amount that it will receive in the following fiscal year. In fiscal year 2002, the Authority collected \$4,420,872 which was \$916,872, 26.2%, higher than the guaranteed minimum of \$3,504,000. The Authority, in fiscal year 2003, was originally informed that it would collect \$4,138,999 in NFL income tax revenues as reported to the Authority by the state treasurer. The Arizona Department of Revenues has informed the Authority to expect to receive the minimum amount guaranteed, \$3,784,320, for fiscal year 2003. There is no expiration of this revenue source and it will eventually replace the tourism tax revenues as the primary source of revenue for the Authority.

John F. Long, a private citizen and former site proposer for the multipurpose facility, has pursued legal action challenging the constitutionality of the Tourism and Sports Authority (the "Authority"). In August 2001, Long requested that the Arizona Attorney General opine on this issue. In September 2001, the Attorney General issued an opinion that the Authority is constitutional. Mr. Long subsequently filed a special action in the same month with the Arizona Superior Court. On November 2, 2001, the Superior Court ruled in favor of the Authority on all constitutional challenges brought by Long. The Court also concluded that Long had delayed too long in filing his special action and that his claims were therefore barred by the doctrine of laches. Long filed a motion for new trial that was denied by the Superior Court on December 13, 2001. On January 11, 2002, Long appealed the case to the Arizona Court of Appeals. On January 15, 2002, the Authority requested that the appeal be transferred to the Arizona Supreme Court for immediate consideration and decision, and also asked that the Court of Appeals set an expedited briefing and argument schedule. The Arizona Supreme Court denied the transfer request, but the Court of Appeals granted the motion to expedite in part. The Court of Appeals heard oral arguments in the case on June 3, 2002 and returned its opinion on August 27, 2002. The unanimous three-judge decision found a narrow portion of the statute unconstitutional, severed the invalid portion, and held the remainder of the statute constitutional. On October 17, 2002, Long filed a petition for review with the Arizona Supreme Court. The Authority and other parties in the case filed a response that opposes Supreme Court review. On December 3, 2002 the Arizona Supreme Court formally denied Long's petition for review. This ruling will allow the Authority to move forward on a number of issues including the proposed bond issues for both the multipurpose facility and the Cactus League stadium in Surprise, Arizona.

The second funding source currently being received by the Authority is the state's sales tax receipts related to ticket and concession sales currently occurring at Cardinals' home games held at ASU's Sun Devil Stadium. These revenues are typically received between the months of July and February starting with the state sales taxes associated with the Cardinals' pre-season ticket sales and culminating with the final home game in December. If post-season game(s) were to be played, the sales tax recapture would continue. Due to the two-month lag discussed in the Tourism Revenue Clearing Account section, December home game sales are reported to Arizona Department of Revenue in January and distributed to the Authority in February. The Authority projected that it would receive \$1,000,000 in fiscal year 2002 for these sales tax collections. Our actual receipts totaled \$946,394 for a \$53,606, (5.4)% deficit. Similar to the NFL franchise income tax, there is no expiration of this revenue source. The current state sales tax rate is 5%.

The other revenue sources mentioned for the Facility Revenue Clearing Account will become effective once the multipurpose facility is open for operations. It is expected that the multipurpose facility will open during fiscal year 2006.

There were \$368,549 in restricted assets in this account at the end of fiscal year 2002 and no liabilities.

Construction Account

The Construction Account receives and disburses the various sources of funding for the multipurpose facility project. The primary sources of funding for the Construction Account are the Authority's authorized bond issuance of up to \$250,000,000 in tax-exempt bonds, the Cardinals' \$85,000,000 required capital contribution plus an additional \$24,300,000 agreed to with the Authority on September 3, 2002, other capital contributions, the recapture of the state sales tax paid on construction materials and the interest income generated from available fund balances over the course of construction. Under current financial and economic conditions we are forecasting approximately \$10,000,000 each for the state sales tax recapture and interest income. There are no other capital contributions currently identified.

On September 3, 2002, the Authority and the Cardinals entered into a Memorandum of Understanding whereby the Cardinals committed up to an additional \$24,300,000 in capital contributions. The Memorandum also provides for a "hard cap" of \$355.3 million on the multipurpose facility project and places the responsibility on the Cardinals for project cost overruns that are not the responsibility of the design-build contractor.

The Authority and the Cardinals continued to fund the design/pre-construction phase of the multipurpose facility project in fiscal year 2002 on the pro-rata share basis formulated the prior year. During fiscal year 2002, the Authority committed \$16,603,805 on the multipurpose facility project of which the Cardinals contributed \$3,570,523.

In January 2001, the Authority entered into a Credit and Pledge Agreement with Wells Fargo Bank and Bank One whereby the banks would provide to the Authority a \$3,000,000 operating credit line and a \$12,000,000 stadium credit line. During fiscal year 2001, the Authority had borrowed \$1,000,000 of the operating credit line and \$3,912,500 of the stadium credit line in order to finance the Authority's startup operations and the initial design phase for the multipurpose facility respectively. At the beginning of August 2001, the Authority borrowed the remaining balances on both credit lines bringing the total amount to \$15,000,000 outstanding. The Authority, as of June 30, 2002, owes a remaining balance of \$5,000,000 having repaid \$2,000,000 on December 31, 2001 and \$5,000,000 on May 23, 2002. The \$5,000,000 balance is due on or before December 31, 2002. The Authority has utilized the stadium credit line along with the Cardinals' pro-rata capital contributions to fund the design phase of the multipurpose project as well as the purchase of the steel order for the facility's roof. The project has progressed minimally since January 2002 as the Authority's \$12,000,000 borrowing was fully expended at that point. The Authority has attempted to obtain additional credit facilities but has been unsuccessful due to the existence of the John F. Long lawsuit.

The actual ground breaking for the multipurpose facility has been delayed a minimum of one year due to the FAA's concerns and the Authority's formal abandonment of the original Tempe, Arizona site in November 2001. The Authority re-opened its site selection process in December 2001 and received a total of eighteen expressions of interest from various site proposers. On August 29, 2002, the Authority's Board of Directors formally selected the final, permanent site for the multipurpose facility by choosing the City of Glendale. The City of Mesa was chosen as the backup site. The Mesa site's backup status was contingent upon the successful outcome of a city ballot proposition on September 10, 2002. The proposition did fail and Mesa was not able to continue forward as the Authority's backup site. The Authority and the City of Glendale entered into and executed a Development Agreement and other related agreements on September 3, 2002 which were then delivered to the offices of the governor and state attorney general that same day in order to meet the legislatively-imposed deadline of September 12, 2002. If the Authority had not met this deadline, the citizens of Maricopa County would have been asked to vote on a ballot proposition in November 2002 that put the fate of the Authority and the multipurpose facility project in their hands. By delivering the documents before the end of business on September 3, 2002, the Authority also avoided significant expenditures related to a November election. The Authority was required to pay for all of the associated costs of printing a publicity pamphlet as well as a pro-rata portion of the actual election costs. The Authority did provide a total of \$100,000 to the Maricopa County Elections Department as a refundable deposit. The actual election related expenditures totaled \$515 and the balance, \$99,485, was returned to the Authority.

At the end of fiscal year 2002, the Construction Account had \$20,623,543 in total assets versus total liabilities of \$10,141,344 for a net asset position of \$10,482,199. Total assets consisted of cash in the construction account of \$834 and property and equipment of \$20,622,709. The total liabilities in this fund are comprised of \$5,141,344 for payables associated with the multipurpose facility project and the \$5,000,000 liability for funds borrowed against the stadium credit line.

FUND USES

The Authority uses and disburses its fund sources described above in accordance to the legislative directives contained within Senate Bill 1220 and the newly enacted May 2002 House Bill 2177. The following discussion outlines, account by account, the statutory uses for the various funds. Please refer to a flowchart of all Funds Sources and Uses at the end of this section.

Tourism Revenue Clearing Account

The funds collected in this account are required to be disbursed in an order of priority commonly referred to as the "waterfall". The original order of priority is as follows: debt service on the senior/multipurpose facility bonds, tourism promotion, Cactus league, Authority's operating budget and youth and amateur sports. In May 2002, the Arizona State Legislature passed House Bill 2177 which changed the order of the "waterfall". The legislation granted priority to the youth and amateur sports funding over the Authority's operating budget. It also created a youth and amateur sports reserve account that requires the Authority, if funds are available, to fund a reserve account that is equal to the prior twelve month funding distribution for youth and

amateur sports. In fiscal year 2003, the amount of the reserve is scheduled to equal \$1,000,000. \$83,333 was reserved in June 2002.

The funds are received by the Authority from the State treasurer's office the second month after they are collected. The Authority is then required to distribute those funds on the second Tuesday of the succeeding month in accordance to the funding order of priority described above. The distribution is executed by either the Authority's Treasurer or its Fiscal Agent, Charles M. Foley, Chief Financial Officer. If the revenues collected the prior month are not sufficient to fund some or all of the funding priorities in the next month, the Authority may deal with them in several ways. The Authority may carry the deficits forward and fund them in future month(s) when revenues are sufficient. The Authority may also choose to fund these deficits from operating reserves if they are available. Or, the Authority may choose to not fund the non-debt service related deficits.

In fiscal 2002 there were no funding deficits.

Debt Service – Senior Bonds for Multipurpose Facility

These bonds were not issued prior to the end of fiscal year 2002 and as such, no debt service distributions were made. When bonds are issued a monthly 1/12th distribution of the annual debt service will be calculated and distributed from the Tourism Revenue Clearing Account to the Debt Service Account under the terms of the Trust Indenture. The Arizona Revised Statutes limits the amount of the debt service distribution from the Tourism Revenue Clearing Account to the annual debt service associated with no more than one-half of the three hundred thirty-one million capital construction costs for the multipurpose facility. The balance of the debt service coverage, if sufficient funds are available, will come from the Facility Revenue Clearing Account and those monies related to the football-only portion of the NFL income tax as well as the state sales tax recapture revenues.

Tourism Promotion

The Authority distributes to the Arizona Office of Tourism an equal monthly amount based on a funding schedule per the Arizona Revised Statutes. This distribution occurs for a total of 360 months. The first twelve month period began in June 2001 and totaled \$4,000,000 which was fully funded by the Authority. The annual amount increases by five percent for every successive twelve month period. Over the life of this funding distribution, the Authority will provide more than \$265,000,000 for tourism promotion funding. In fiscal year 2002, the Authority distributed \$4,033,333.

For fiscal year 2003, the Authority is required to change the funding distribution based on legislative action related to House Bill 2177. The Authority is required to re-direct \$2,200,000 of the scheduled \$4,217,500 total distribution to the Arizona state general fund through the Arizona Office of the State Treasurer. The balance, \$2,017,500, will be distributed as normal to the Arizona Office of Tourism.

The Arizona Office of Tourism is required to use this distribution for the marketing and promotion of tourism within Maricopa County, Arizona.

Cactus League

The Authority has been given the responsibility to provide funds for the marketing, promotion, construction and/or the renovation of spring training baseball and/or its facilities within Maricopa County. The funding for this priority covers 360 months and increases on a scheduled basis so that the Authority will provide a total of \$205,000,000 over the course of 360 months. The distribution for the first twelve-month period totaled \$3,000,000 (\$250,000 monthly) and was fully funded by the Authority. The Authority made its full-required distribution of \$3,000,000 during fiscal year 2002 to the Cactus League Promotion Account. On January 1, 2002, the Authority and City of Surprise entered into the Second Amendment to the IGA. This amendment provided to City of Surprise an additional amount in bond proceeds based on their willingness to continue funding the project on a unilateral basis through interfund borrowing. This borrowing had an associated cost to City of Surprise and so the Authority agreed to pay an additional \$600,000 to the City of Surprise for every month the bonds are not issued for the period January 2002 through October 2002 not to exceed an aggregate of \$6,000,000.

The Authority may pledge all or part of these revenues to secure bonds or other debt obligations issued by the Authority for the purpose of providing monies to accomplish any of these Cactus League funding goals. In May 2001, the Authority entered into an Intergovernmental Agreement (the "IGA") with the City of Surprise, Arizona to provide them with up to \$26,000,000 in bond proceeds toward the construction of their dual-team spring training facility estimated to cost \$48,000,000. The Authority has been unable to issue bonds due to the John F. Long lawsuit. Subsequently, the Authority and the City of Surprise have entered into two separate amendments to the IGA. The first amendment, entered into in December 2001, provides the City of Surprise with all of the monies distributed to the Cactus League account on a loan basis to be repaid to the Authority once bonds are issued. As of the end of fiscal year 2002, the Authority had paid a total of \$3,257,197 to the City of Surprise. The second amendment, executed in January 2002, increases the amount of bond proceeds that the Authority will provide to the City of Surprise once the Authority is able to issue such bonds. For every month between January and October 2002 that the Authority was unable to issue its bonds, the Authority incurred an additional \$600,000 liability for additional bond proceeds to be provided to the City of Surprise. The maximum incremental amount is capped at \$6,000,000 so that the total maximum amount the Authority may need to provide to the City of Surprise is \$32,000,000. The Arizona Court of Appeals heard oral arguments with respect to the Long lawsuit on June 3, 2002 and returned their opinion on August 27, 2002. The three-judge panel ruled unanimously that a narrow portion of the TSA statute was unconstitutional, that the invalid portion could be severed from the rest of the statute, and that the remaining portions of the statute are constitutional. This opinion largely confirms what the Superior Court and Arizona Attorney General have also opined – that the law creating the Authority is constitutional. As a result, Long asked the Arizona Supreme Court to review the Court of Appeals decision. On December 3, 2002, the Arizona Supreme Court formally denied Long's petition to review. This ruling by the Supreme Court will allow the Authority to move forward on a number of issues including the proposed bond sales for both the multipurpose facility and the Cactus League stadium in Surprise, Arizona.

At the end of June 2002, the Authority had a net amount due and owing to the City of Surprise of \$26,342,803 comprised of the original \$26,000,000 commitment, plus an additional \$3,600,000 in additional bond proceeds less the monies loaned under the first amendment - \$3,257,197.

Youth and Amateur Sports

The Authority's responsibility for youth and amateur sports is the same as with the Cactus League. The funds that are dedicated to this priority will advance the cause of amateur sports within Maricopa County. This funding will be provided for a total of 360 months and will total \$73,500,000. In fiscal year 2002, the Authority transferred \$1,013,511 into the youth and amateur sports fund which is comprised of \$1,008,333 in statutory disbursements plus \$5,178 in interest earned. In addition, the Authority deposited the first monthly amount of \$83,333 into the new youth and amateur sports reserve account that was established in May 2002 through House Bill 2177. This new requirement is scheduled to reserve, providing funds are available, an amount equal to the prior twelve months' statutory distribution to the regular youth and amateur sports account. Our procedure is to build this reserve account over the course of fiscal year 2003 and then maintain it on an annual basis thereafter.

Each succeeding twelve month period the amount for the non-reserve youth and amateur sports account increases by \$100,000. At the end of fiscal year 2002, no monies had been expended on youth and amateur sports grants leaving a balance in the account of \$1,096,844. There were two projects for which funding had been approved by the Authority's board of directors totaling \$3,580,820 -- \$3,430,820 for the City of Avondale and \$150,000 for the South Mountain YMCA. The Authority's preliminary agreement with Avondale provides \$3.4 million in principal plus a five-percent financing fee for a total of approximately \$4.5 million over a period of twelve years. The Authority will dedicate twenty-five percent of its annual youth and amateur sports funding to the Avondale project. A proposed final Intergovernmental Agreement is pending with the City of Avondale.

The Authority has also agreed to provide to the City of Glendale \$1.0 million through the Development and Disposition Agreement executed on September 3, 2002 for youth and amateur sports fields in proximity to the multipurpose facility. These fields will perform double-duty as turf parking for football games and other large events held at the new multipurpose facility. The grant will be paid out in \$250,000 increments between now and June 30, 2005.

The Authority, with advice from its outside Youth and Amateur Sports Advisory Committee, oversees the review and authorization process for project grants. From September through March of each year, project proposals from organizations are received and reviewed by the Authority's staff. During the period of April through August, the staff reviews the proposals and forwards its recommendations to the outside advisory committee for their review. In the next step of reviews, the outside advisory committee provides their recommendations to the Authority's staff who then forwards the final project funding recommendations to the Authority's board of directors.

Authority's Operating Budget

The Authority is required to prepare an annual budget for approval by its board on or before June 30th of each year. The first official operating budget for the Authority was for the fiscal year ending June 2002. It was approved by the board of directors in June 2001. The fiscal year 2002 budget, as approved, totaled \$2,937,912 which was later reduced by \$307,551 (10.5%) in voluntary support of the governor's requirement of a 4% across-the-board reduction by all Arizona state agencies (the Authority is a political subdivision of the state of Arizona but is not an agency of the state). The Authority's operating expenses excluding the Arizona tourism distribution during this period were \$4,105,253 – an increase of \$1,167,341 (39.7%) over the original budget. The primary causes for this overage were due to unanticipated consulting and legal expenses associated with the FAA hazard determination at the original Tempe location, the Authority's defense in the John F. Long lawsuit and the re-opened site selection process which lasted for nine months from December 2001 through August 2002.

The funding for the Authority's operations comes from both the Tourism and Facility Revenue Clearing Accounts. The priority of funding under the Tourism Revenue Clearing Account for fiscal 2002 put the Authority's budget in fourth place out of five funding priority items. Beginning in fiscal 2003, the order of funding priority changes. The youth and amateur sports' funding requirement is moved ahead of the Authority's operating budget (see "Flowchart of All Funds Sources and Uses"). The Authority's operating account received total distributions of \$8,483,735 from the Tourism Revenue Clearing Account of which \$2,693,086 was for the Authority's budget and the balance, \$5,790,646, was a result of undistributed statutory obligations. This amount was placed into an operating reserve. An additional amount of \$5,001,737 was distributed into the operating reserve from the Facility Revenue Clearing Account.

Fiscal year 2002 was the first full year for the Authority's operations. The work of the Authority is carried out by its Executive Director, Ted Ferris, and his staff under the direction of the board of directors. The Authority operated during most of fiscal 2002 with a fulltime staff of seven. The staff consists of four management and three administrative support personnel. The Authority has been operating from its current leased offices since October 2001 which, under the current lease agreement, which expires in 2003, but can be extended through August 2005. Based on the Authority's current plans for starting the multipurpose facility construction in December 2002 with completion in the summer of 2005, the staff will move into the multipurpose facility in August 2005.

In order to fund its startup operations, the Authority entered into a Credit and Pledge Agreement with Wells Fargo Bank and Bank One Arizona in January 2001. During fiscal 2002, the Authority drew down the available balances bringing the total amount borrowed to a total of \$15,000,000 – split \$3,000,000 for operations and \$12,000,000 for the multipurpose facility. During fiscal 2002, the Authority repaid the full \$3,000,000 owing for operations and \$7,000,000 of the \$12,000,000 for the multipurpose facility. As of the end of the fiscal year, \$5,000,000 in total was due and owing the two banks. This amount is due on or before December 31, 2002. The credit line does not have a revolving credit feature allowing the Authority to further borrow against the line.

During the normal course of operations and moving to its new offices in October 2001, the Authority expended monies on both capital and non-capital items. The Authority invested \$43,780 on property and equipment and capital lease equipment during fiscal 2002. This primarily covered the additional furniture and fixtures required for the new offices.

Facility Revenue Clearing Account

The Facility Revenue Clearing Account has one major funding priority – provide debt service coverage on the portion of the senior bonds (i.e. for the multipurpose facility) that are not paid from the Tourism Revenue Clearing Account. The Tourism Revenue Clearing Account is statutorily limited in its ability to fund the entire debt service coverage associated with bond or other debt obligations issued by the Authority for the capital construction costs of the multipurpose facility. The limitation states that only the annual debt service associated with no more than one-half of the three hundred thirty-one million dollars of capital costs associated with constructing the multipurpose facility may be paid for by the Tourism Revenue Clearing Account. This limitation means that only the debt service on \$165,500,000 of the total bonds issued would be able to be paid from the Tourism Revenue Clearing Account. The balance is to be paid from the Facility Revenue Clearing Account. The Authority is authorized by its board of directors to issue up to \$250,000,000 in senior bonds.

Of the revenues received into the Facility Revenue Clearing Account, \$5,001,737 were distributed to the operating account of the Authority.

Construction Account

The Construction Account exists to pay for the construction of the multipurpose facility. During fiscal 2001, the Authority borrowed \$3,912,500 from its stadium credit line with Wells Fargo Bank and Bank One Arizona to pay for the early design phase costs for this project. The Authority subsequently borrowed the remaining balance, \$8,087,500, in August 2001. The Authority did so to continue funding its portion of the design phase as well as to pay for a special steel order from Europe that would become the retractable roof's framework. The intent was to borrow the funds prior to the issuance of the bonds to prevent any possible slowdown in the progress of the design activities. Shortly after the balance of the credit line was drawn down, the John F. Long lawsuit was filed and eliminated the Authority's ability to issue its bonds and repay, in total, the stadium credit line. This borrowing limitation created a stoppage to the primary design phase of the project in January 2002. In addition, the Authority has been required to make repayments on the credit line totaling \$7,000,000 since December 2001. The funds for these repayments have come from the Authority's operating reserves. A balance of \$5,000,000 as of June 30, 2002 exists on the stadium credit line. It is due to be repaid on or before December 31, 2002. The Authority will repay the balance from its operating reserves if the bonds for the multipurpose facility have not been issued by that time.

During the latter half of fiscal year 2002, the Authority re-opened its site selection process for the multipurpose facility stadium site in response to its abandonment of the Tempe site in November 2001. The Authority received a total of eighteen Expressions of Interest and selected,

on August 29, 2002, the City of Glendale as its primary site with the City of Mesa as the backup site. The planned start of construction for the multipurpose facility will be sometime during the second half of fiscal year 2003.

On September 3, 2002, the Authority and the Cardinals entered into a Memorandum of Understanding (the MOU) that further clarified the two organizations' relationship with respect to the design, construction and financing of the multipurpose facility. The principal terms of the MOU are: an agreement to place a "hard cap" of \$355.3 million on the project's total costs, have the Cardinals fund an additional \$24.3 million of the project's costs as well as fund the purchase of the land, infrastructure and parking at the Glendale site for another estimated \$23.0 million, place the burden of project cost overruns that are not the responsibility of the design-builder on the Cardinals, define the design and construction management roles of the two organizations, and to complete all preliminary design, project scope, project budget and Design-Build Agreement by December 1, 2002, provided that Long did not file an appeal with the State Supreme Court. The appeal was filed and on December 3, 2002, the Arizona Supreme Court formally denied Long's petition for review.

As of the end of fiscal year 2002, the Authority has a net balance of \$20,622,709 related to capital items related to the project – an increase of \$15,490,716 over the prior fiscal year. A total of \$16,603,805 in additional commitments were made for design, construction, site selection, engineering and architecture services as well as for specialized steel to be used in the roof trusses. The authority disposed of \$1,113,089 in assets related to the original multipurpose facility site in Tempe, Arizona.

COMPARATIVE ANALYSIS – FINANCIAL STATEMENTS

Statements of Net Liabilities

Total assets between fiscal years ending June 30, 2002 and 2001 increased 108%, \$15,043,647, from \$13,935,081 to \$28,978,728. This change is primarily due to the additional net capital expenditures of \$15,490,716 in fiscal year 2002, for the design and pre-construction phases for the multipurpose facility as well as the purchase of specialized imported steel for the facility's roof trusses. Of the incremental amount expended, the Arizona Cardinals organization contributed \$3,570,523 per their agreement with the Authority. The balance of the expenditure was made through the Authority's borrowing of \$8,087,500 against the Stadium Term Loan and an increase in the related construction payables.

Total liabilities for this same period increased by \$5,674,206, 15.8%. Increases in accounts payable of \$2,492,745 (construction related), the Stadium Term Loan payable of \$1,087,500 (\$8,087,500 additional in borrowings offset by \$7,000,000 in repayments), the City of Surprise payable by \$342,803 and a payable of \$3,430,820 to the City of Avondale (grant for youth and amateur sports fields) were offset by decreases in accrued expenses, \$668,236, and the line of credit, \$1,000,000 (\$2,000,000 in additional borrowings offset by \$3,000,000 in repayments).

The current liabilities section was significantly increased with the reclassification of \$26,150,000 of non-current liabilities from the prior fiscal year. \$26,000,000 is for the Authority's obligation

toward the City of Surprise's dual-team spring training facility and \$150,000 is a grant for a youth and amateur sports at the South Mountain YMCA. Consequently, the non-current liability section was reduced by this amount and a new payable of \$3,292,278 for a grant to the City of Avondale was recorded for the non-current portion of the Authority's obligation. The Authority has committed 25% of its annual youth and amateur sports funding to this project and it will require twelve-plus years to complete the grant funding.

Overall, the Authority's total net liabilities decreased \$9,369,441 from the prior fiscal year due primarily to the significant increase in the Authority's investment in capital assets related to the multipurpose facility project.

Statements of Revenues, Expenses and Changes in Net Liabilities

The Authority received minimal operating revenues of \$494 during fiscal year ending June 30, 2002. In the prior year, \$25,647 was received of which \$25,000 was from the Fiesta Bowl as a one-time payment per their agreement with the Authority. The Authority is expected to receive minimal operating revenues until the multipurpose facility is open and operational.

The fiscal year ending June 30, 2002 was the Authority's first full year of operations. The prior year had been a startup year for the Authority with the enabling legislation passing in November 2000, the board of directors being appointed and the first Authority employees being hired. As a result, for fiscal year 2002 the Authority incurred \$8,138,586 in operating expenses versus \$3,181,092 for the prior year. This increase of \$4,957,494, 156%, is primarily due as a result of the following line item increases:

- \$3,366,667 in increased Arizona tourism distributions that are used by the Arizona Office of Tourism to promote tourism in Maricopa County
- \$451,729 in increased legal fees primarily due to the Authority's defense in the John F. Long lawsuit
- \$505,493 in increased employee-related expenditures such as payroll, insurance, payroll taxes. The Authority grew from an average of two fulltime employees in fiscal year 2001 to nearly seven fulltime employees in fiscal year 2002
- \$153,163 in increased site selection expenses – the Authority abandoned the original Tempe site in November 2001 and spent the next nine months in selecting a final site in Glendale, Arizona
- the balance of \$480,442 is attributable to various office-related expenses

The Authority's non-operating revenues (expenses) are currently the organization's primary sources (uses) of funding. For the fiscal year ended June 30, 2001, the Authority recorded \$19,449,135 in net non-operating expenses while for the current fiscal year we recorded \$13,937,010 in net non-operating revenues – an improvement of \$33,386,145. Among the significant events for this improvement are the following:

- \$3,600,000 in Cactus League facility expenses recorded in fiscal year ended June 30,

2002 versus \$26,000,000 in expense during the prior fiscal year. These are directly related to the spring training facility under construction in the City of Surprise. The \$3,600,000 is the Authority's additional commitment based on the second amendment to the Intergovernmental Agreement with the City of Surprise.

- \$9,811,027 and \$6,824,977 in fiscal year 2002 non-operating revenues for the hotel bed tax and car rental surcharge respectively. This is an increase of \$5,627,050 for the hotel bed tax and \$4,296,470 for the car rental surcharge over the prior period – a total increase of \$9,923,520. The primary factor in fiscal year 2002 was a full year of tax revenue collections while fiscal year 2001 was the initial year and only recorded four months of collections.
- \$4,420,872 in NFL income taxes and \$946,394 for state sales tax recapture revenues for fiscal year 2002. This was the first year for both of these non-operating revenue sources.
- Interest income increased by \$134,036 over the prior period due to the larger fund balances from increased non-operating revenues and the loan borrowings from the Stadium Term Loan and the line of credit.
- Additional non-operating expense of \$3,430,820 for the City of Avondale's youth and amateur sports fields
- A one-time fixed asset write-off of \$1,114,316 for capital expenditures primarily related to the original multipurpose facility site in Tempe, Arizona and the Authority's decision to abandon it in November 2001

The Cardinals increased their capital contribution from \$657,584 in fiscal year 2001 to \$3,570,523 in fiscal year 2002 in accordance with our pro-rata capital contribution arrangement. As of the end of June 2002 the Cardinals had committed a total of \$85 million to the multipurpose facility project. In September 2002 the Cardinals increased that amount by an additional \$24.3 million.

Statements of Cash Flow

For the fiscal year ended June 30, 2002, the Authority realized a net decrease in cash of \$689,422 compared to the prior period's net increase of \$6,264,299. Fiscal year 2002 was the Authority's first full year of operations encompassing its full regimen of funding sources and uses. The Authority employed its current level of fulltime employees for most of fiscal year 2002 and was engaged in all activities under its charter. The Authority experienced a significant increase in its current year 'cash flows from operating activities. From the prior period, the Authority's payments to suppliers were up by \$9,358,222 but they were more than offset by the \$17,622,296 increase in other receipts which significantly contributed to the net \$7,756,811 increase in net cash provided by operating activities over the prior year. During fiscal year 2002, the Authority drew down on its existing line of credit, \$2,000,000, and stadium term loan, \$8,087,500, to continue financing its operations and the multipurpose facility project. However, unlike the prior fiscal year, the Authority was required to repay the entire line of credit, \$3,000,000, and \$7,000,000 of the outstanding \$12,000,000 of the stadium term loan. The net result of these borrowings and repayments was an increase of \$87,500 which, in addition to the Arizona Cardinals capital contribution of \$3,570,523, accounted for the majority of the \$3,646,597 in net

cash provided by capital and related financing activities for fiscal year 2002. This result is a decrease of \$1,919,609 from the prior fiscal year. These two categories resulted in net cash to the Authority of \$14,072,789.

The Authority experienced net cash outflows from non-capital financing activities, \$3,257,197, and from investing activities, \$11,505,014, for a total outflow of \$14,762,211. These represent, respectively, the payments to the City of Surprise under the terms of the Authority's first amendment to the Intergovernmental agreement and for the on-going design and pre-construction costs for the multipurpose facility.

The net result for the fiscal year ended June 30, 2002 was a decrease in cash of \$689,422.

Tourism and Sports Authority

Flowchart of all Funds Sources and Uses

Order	TRCA	Order	FRCA	Order	CONSTRUCTION
	SOURCES		SOURCES		SOURCES
	Hotel Bed Tax Car Rental Surcharge		NFL Franchise Income Tax Sales Tax Recapture Other Events - TSA Hosted Fiesta Bowl Ticket Surcharge AZ Cardinals Rent		Bond Proceeds AZ Cardinals Capital Contribution Other Capital Contributions Construction Sales Tax Recapture Interest Income
	USES		USES		USES
1	<u>Debt Service</u> on senior bonds issued for \$165M of MPF construction costs	1	<u>Debt Service</u> on bonds not covered in TRCA Priority 1	1	Construction costs related to the TSA/Arizona Cardinals Multipurpose Facility
2	<u>Debt Service</u> on bonds not covered in FRCA Priority 1			2	Once 100% of the MPF construction costs have been paid, any remaining funds will be used to retire debt service
3	Arizona Office of Tourism				
4	<u>Debt Service</u> on subordinate bonds up to statutorily scheduled Cactus League Promotion Distribution	2	<u>Debt Service</u> on subordinate bonds not covered in TRCA Priority 4		
5	<u>Debt Service</u> on subordinate bonds not covered in FRCA Priority 2				
6	Cactus League statutory amount less distributions from TRCA Priority 4 & 5 and FRCA Priority 2				
7	Youth & Amateur Sports (YAS)				
8	TSA Operating budget 1/12th distribution as approved by Board of Directors				
9	<u>Reserves</u> Youth & Amateur Sports	3	<u>Reserves</u> Operating		
10	Operating				
11	Capital Repair/Replacement				

Footnote

TRCA = Tourism Revenue Clearing Account
FRCA = Facility Revenue Clearing Account

Report of Independent Auditors

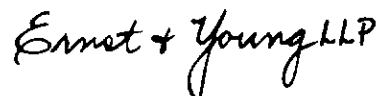
The Board of Directors
Tourism and Sports Authority

We have audited the accompanying statements of net liabilities of the Tourism and Sports Authority (the "Authority") as of June 30, 2002 and 2001, and the related statements of revenues, expenses and changes in net liabilities, and cash flows for the year ended June 30, 2002, and the period from August 9, 2000 (inception) through June 30, 2001. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The management's discussion and analysis included herein 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 supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tourism and Sports Authority at June 30, 2002 and 2001, and the results of its operations and its cash flows for the year ended June 30, 2002, and the period from August 9, 2000 (inception) through June 30, 2001 in conformity with accounting principles generally accepted in the United States.



September 13, 2002, except for note
13[b] for which the date is
December 3, 2002

Tourism and Sports Authority

Statements of Net Liabilities

	June 30	
	2002	2001
Assets		
Current assets:		
Cash – restricted	\$ 5,574,877	\$ 6,264,299
Hotel tax and car rental surcharge receivable	2,656,544	2,427,092
Other assets	8,246	12,638
Total current assets	8,239,667	8,704,029
Noncurrent assets:		
Property and equipment, less accumulated depreciation of \$15,882 and \$3,075 for 2002 and 2001, respectively	20,717,267	5,196,805
Capital lease equipment, less accumulated depreciation of \$15,566 and \$3,113 for 2002 and 2001, respectively	21,794	34,247
Total noncurrent assets	20,739,061	5,231,052
Total assets	\$ 28,978,728	\$ 13,935,081
Liabilities		
Current liabilities:		
Accounts payable	\$ 6,167,359	\$ 3,674,614
Accrued expenses	443,245	1,111,481
Line of credit	–	1,000,000
Stadium Term Loan	5,000,000	3,912,500
Payable to City of Surprise	26,342,803	–
Payable to South Mountain YMCA	150,000	–
Current portion of payable to City of Avondale	138,542	–
Current portion of obligation under capital lease	12,748	11,426
Total current liabilities	38,254,697	9,710,021
Noncurrent liabilities:		
Payable to City of Surprise	–	26,000,000
Payable to South Mountain YMCA	–	150,000
Payable to City of Avondale	3,292,278	–
Long-term portion of obligation under capital lease	9,308	22,056
Total noncurrent liabilities	3,301,586	26,172,056
Total liabilities	41,556,283	35,882,077
Net liabilities		
Investment in capital assets, less related debt	20,717,005	5,197,570
Restricted	8,231,421	8,691,391
Unrestricted deficit	(41,525,981)	(35,835,957)
Total net liabilities	(12,577,555)	(21,946,996)
Total liabilities and net liabilities	\$ 28,978,728	\$ 13,935,081

See accompanying notes.

Tourism and Sports Authority

Statements of Revenues, Expenses and Changes in Net Liabilities

	Year Ended June 30, 2002	Period from August 9, 2000 (inception) through June 30, 2001
Operating revenues		
User fees	\$ —	\$ 25,000
Other operating revenues	494	647
Total operating revenues	494	25,647
Operating expenses		
Legal	1,390,313	938,584
Arizona tourism distribution	4,033,333	666,666
Consulting	763,492	585,040
Payroll	707,331	201,838
Professional fees	568,624	424,431
Marketing and promotion	118,767	190,728
Bank service charge	16,537	38,839
Insurance	138,584	30,956
Travel	12,561	25,678
Office	56,432	21,805
Site selection	172,973	19,810
Communications	38,420	13,518
Rent	93,591	17,011
Depreciation	27,628	6,188
Total operating expenses	8,138,586	3,181,092
Operating loss	(8,138,092)	(3,155,445)
Nonoperating revenues (expenses)		
Cactus League facility expense	(3,600,000)	(26,000,000)
South Mountain YMCA facility expense	—	(150,000)
City of Avondale facility expense	(3,430,820)	—
Hotel bed tax	9,811,027	4,183,977
Rental car tax	6,824,977	2,528,507
NFL tax	4,420,872	—
Sales tax recapture	946,394	—
Interest income	136,887	2,851
Interest expense	(58,011)	(14,470)
Loss on disposal of property and equipment	(1,114,316)	—
Total nonoperating revenues (expenses)	13,937,010	(19,449,135)
Net income (loss) before contributions	5,798,918	(22,604,580)
Capital contributions	3,570,523	657,584
Increase (decrease) in net liabilities	9,369,441	(21,946,996)
Net liabilities, beginning of period	(21,946,996)	—
Net liabilities, end of period	\$(12,577,555)	\$(21,946,996)

See accompanying notes.

Tourism and Sports Authority
Statements of Cash Flows

	Year Ended June 30, 2002	Period from August 9, 2000 (inception) through June 30, 2001
Cash flows from operating activities		
Receipts from customers	\$ —	\$ 25,000
Payments to suppliers	(10,856,969)	(1,498,747)
Payments to employees	(628,035)	(145,772)
Other receipts	21,914,792	4,288,900
Net cash provided by operating activities	10,429,788	2,669,381
Cash flows from capital and related financing activities		
Capital contributions	3,570,523	657,584
Proceeds from line of credit	2,000,000	1,000,000
Payments on line of credit	(3,000,000)	0
Proceeds from stadium term loan	8,087,500	3,912,500
Payments on stadium term loan	(7,000,000)	0
Payments on capital leases	(11,426)	(3,878)
Net cash provided by capital and related financing activities	3,646,597	5,566,206
Cash flows from non-capital financing activities		
Payments for Cactus League facility – City of Surprise	(3,257,197)	—
Net cash used in non-capital financing activities	(3,257,197)	—
Cash flows from investing activities		
Acquisition and construction of property and equipment	(11,508,610)	(1,971,288)
Net cash used in investing activities	(11,508,610)	(1,971,288)
Net (decrease) increase in cash	(689,422)	6,264,299
Cash at beginning of period	6,264,299	—
Cash at end of period	\$ 5,574,877	\$ 6,264,299
Reconciliation of net income (loss) to net cash provided by operating activities		
Net income (loss)	\$ 5,798,918	\$(22,604,580)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	27,628	6,188
Cactus League Facility expense	3,600,000	26,000,000
Note payable to City of Avondale	3,430,820	—
South Mountain YMCA facility expense	—	150,000
Loss on disposal of property and equipment	1,114,316	—
Changes in operating assets and liabilities:		
Receivables	(229,452)	(2,427,092)
Other assets	4,392	(12,638)
Accounts payable	(2,648,598)	446,022
Accrued expenses	(688,236)	1,111,481
Net cash provided by operating activities	\$ 10,429,788	\$ 2,669,381
Supplemental Noncash Investing Activities		
Note payable issued to City of Surprise	\$ 3,600,000	\$ 26,000,000
Acquisition of property and equipment with accounts payable	\$ 5,141,344	\$ 3,228,593
<i>See accompanying notes.</i>		

Tourism and Sports Authority

Notes to Financial Statements

June 30, 2002

1. Organization and Reporting Entity

Tourism and Sports Authority (the "Authority"), was formed on August 9, 2000 as a political subdivision of the State of Arizona empowered, among other things, (i) to construct, finance, furnish, maintain, improve, own, operate, market, and promote the use of a multipurpose facility suitable to be used to accommodate sporting events and entertainment, cultural, civic, meeting, trade show or convention events or activities, including a stadium, on-site infrastructure, parking garages and lots and related commercial uses within the facility in Maricopa County, (ii) to acquire land or construct, finance, furnish, improve market or promote the use of existing or proposed major league baseball spring training facilities located in Maricopa County, and (iii) to acquire land or construct, finance, furnish, maintain, improve, operate, market or promote the use of community youth and amateur sports facilities, recreational facilities and other community facilities or programs in Maricopa County.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States as applicable to an enterprise fund of a governmental unit. Accordingly, the accrual basis of accounting is utilized, whereby revenues are recorded when they are earned, and expenses are recorded when the liability is incurred. The Authority has elected, in accordance with Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, and GASB Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*, 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*, as well as GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The Authority's books and records include separate accounts that are described as funds: a general fund, construction account, revenue clearing account, and facility revenue clearing account. These "funds" have been combined in the accompanying financial statements. All material interfund transactions have been eliminated.

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.

Tourism and Sports Authority

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

Property and Equipment

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

Tax Status

The Authority is a municipal corporation and is exempt from federal and state income 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. The hotel tax is a 1 percent tax on lodging transactions in Maricopa County. Maricopa County collects the car rental surcharge and hotel tax on behalf of the Authority and remits the funds to the Authority when collected. The income taxes related to a professional football franchise are a distribution of funds related to income taxes paid by the Arizona Cardinals ("Cardinals"), employees and their spouses. Sales tax recapture are funds collected by the State of Arizona related to sales taxes collected at the multipurpose facility and sales taxes collected on construction activity for the multipurpose facility. Event earnings are amounts collected as non-football events are held at the multipurpose facility. Facility user rentals are amounts to be paid by the Cardinals and the Fiesta Bowl for use of the multipurpose facility. The Cardinals will pay \$250,000 per year growing at two percent per year thereafter. The Fiesta Bowl will have a ticket surcharge of \$2.50 per ticket with an annual escalation of \$0.20 per ticket. Revenue from each of the revenue sources is recognized as it is earned, except for income taxes related to a professional football franchise, sales tax recapture and the Fiesta Bowl ticket surcharge that are recognized when paid.

Tourism and Sports Authority

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Legal Expense

Legal expenses were comprised of the following:

	Year Ended June 30, 2002	Period from August 9, 2000 (Inception) Through June 30, 2001
General:		
Multipurpose facility project	\$ 79,061	\$ 50,429
Youth and amateur sports	20,751	6,213
Cactus league	42,814	58,605
John F. Long lawsuit	636,404	-
Other	508,015	686,762
Bond counsel	103,268	136,575
	<u>\$1,390,313</u>	<u>\$ 938,584</u>

Descriptions of Accounts ("Funds")

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 multipurpose facility. 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 fund based on \$4.0 million in the first twelve months growing by five percent every twelve-month period thereafter during the term of the tourism taxes. The third funding priority is to promote and market Cactus League baseball. This fund will receive \$250,000 per month during the first eighty-four 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 twelve months increasing by \$100,000 every twelve-month period thereafter during the term of the tourism taxes. The next priority is the Authority's annual operating budget, which is reviewed and approved by the board of directors in June of each year. The distribution is based on the total fiscal year's operating budget divided into equal monthly installments. The final funding priorities are for three reserve accounts: the youth and amateur sports reserve, the operating reserve and a capital repair and replacement reserve.

Tourism and Sports Authority

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Facility Revenue Clearing Account

The Facility Revenue Clearing Account (the "FRCA") receives the following revenue sources: the NFL Franchise income tax related to the Cardinals organization and its employees, the state sales tax recapture revenues from ticket sales and hard and soft concession sales at Cardinals home games played currently at ASU's Sun Devil Stadium (this will also apply once the multipurpose facility is open and operating), a ticket surcharge on Tostito's 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 multipurpose facility's operations. These revenues are used for one primary purpose – to fund the debt service for the multipurpose facility bonds and the Cactus League bonds.

On August 27, 2002, the Arizona Court of Appeals ruled that the Authority cannot constitutionally pledge income taxes paid by Arizona 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 TSA legislation.

3. Deposits

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed as restricted cash.

	June 30	
	2002	2001
Insured (FDIC Insured)	\$ –	\$ 500,000
Uninsured (Category 3)	5,574,877	5,764,299
Total	<u>\$5,574,877</u>	<u>\$6,264,299</u>

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 (see Note 13) toward the development and construction costs of the multipurpose facility (as further discussed in Note 10) and entered into a 30-year use agreement with the Authority with the

Tourism and Sports Authority

Notes to Financial Statements

4. Operations (continued)

term commencing with the first home game after the completion of the multipurpose facility. The Cardinals will pay rent in the amount of \$250,000 with a two percent annual increase from base rent. The Cardinals will receive use of the multipurpose facility for all home games, space in the team shop, office space, video production, locker room and training room space. The Cardinals will sell and receive the gross proceeds from all tickets for pre-season, regular season and post-season NFL games conducted at the facility in which the Cardinals are a participant. The Cardinals are responsible for marketing the luxury suites and club seats and will receive all revenues generated thereby. The Cardinals will also receive all net concession from home games and naming rights revenues from the facility. The Authority is responsible for all operating expenses of the facility. On September 3, 2002, the Authority and the Cardinals amended their agreement through a Memorandum of Understanding which further obligates the Cardinals to an additional \$24.3 million in project costs up to a total project maximum price of \$355.3 million. The Cardinals also agreed to purchase the land for the multipurpose facility 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 Foundation agreed to a 30-year use agreement for the annual Fiesta Bowl to commence with the first Fiesta Bowl scheduled after the completion of the facility. The Foundation shall have unqualified scheduling priority for the Fiesta Bowl from December 31 through January 6 of each and every year of the agreement. All revenues related to the suites in the facility for the Fiesta Bowl shall be the sole and exclusive property of the Foundation. The Authority will pay net concessions and parking revenues related to the Fiesta Bowls to the Foundation. The Foundation agrees to pay to the Authority all actual and reasonable game day expenses for the hosting, managing, staging and production of Fiesta Bowls held in the facility. The only exception is that the Authority is responsible for providing the additional temporary seating which is estimated to be between 5,000 and 10,000 extra seats. Commencing with the first Fiesta Bowl conducted in the facility, the Foundation agrees to pay to the Authority an amount equal to \$2.50 per Fiesta Bowl ticket sold, escalating by \$0.20 every year thereafter.

5. Restricted Assets

Restricted assets consisted of the following at June 30:

	<u>2002</u>	<u>2001</u>
Cash	\$5,574,877	\$6,264,299
Hotel tax and car rental surcharge receivable	2,656,544	2,427,092
Total	<u>\$8,231,421</u>	<u>\$8,691,391</u>

Tourism and Sports Authority

Notes to Financial Statements

6. Property and Equipment

Property and equipment activity consisted of the following for the year ended June 30, 2002 and the period from August 9, 2000 (inception) through June 30, 2001:

	Balance at August 9, 2000	Additions	Disposals	Balance at June 30, 2001
Multipurpose facility	\$ —	\$5,131,993	\$ —	\$5,131,993
Computer equipment	—	36,860	—	36,860
Furniture and fixtures	—	26,844	—	26,844
Office equipment	—	1,266	—	1,266
Capitalized software	—	2,917	—	2,917
Assets under capital lease	—	37,360	—	37,360
	—	5,237,240	—	5,237,240
Accumulated depreciation	—	(6,188)	—	(6,188)
Total	\$ —	\$5,231,052	\$ —	\$5,231,052

	Balance at June 30, 2001	Additions	Disposals	Balance at June 30, 2002
Multipurpose facility	\$5,131,993	\$16,603,805	\$(1,113,089)	\$20,622,709
Computer equipment	36,860	3,955	(1,227)	39,588
Furniture and fixtures	26,844	27,961	—	54,805
Office equipment	1,266	9,521	—	10,787
Capitalized software	2,917	2,343	—	5,260
Assets under capital lease	37,360	—	—	37,360
	5,237,240	16,647,585	(1,114,316)	20,770,509
Accumulated depreciation	(6,188)	(27,628)	2,368	(31,448)
Total	\$5,231,052	\$16,619,957	\$(1,111,948)	\$20,739,061

During the year ended June 30, 2002, the Authority wrote off \$1,114,316 of property and equipment. The majority, \$1,113,089, related to the original multipurpose facility site in Tempe which was originally capitalized and subsequently abandoned in November 2001.

Tourism and Sports Authority

Notes to Financial Statements

7. Credit Facility

In January 2001, the Authority entered into a \$15 million bridge financing agreement with a bank, \$3 million of the credit facility is to be used for operations of the Authority and the remaining \$12 million is to be used for construction costs. The credit facility is collateralized by the pledged tax revenues to be received by the Authority as set forth by Arizona Senate Bill 1220. The line has a variable interest rate of LIBOR +1.5 percent (4.681 percent at June 30, 2002).

The balances outstanding as of June 30, 2002 on the operating (line of credit) and construction stadium term loan components of the credit facility are \$0 and \$5,000,000, respectively. The construction loan is due on December 31, 2002.

The Authority incurred \$573,090 and \$79,404 of interest on borrowings of which \$515,079 and \$65,434 was capitalized and \$58,011 and \$14,470 was expensed during the year ended June 30, 2002 and the period from August 9, 2000 (inception) through June 30, 2001, respectively.

8. Payable to the City of Surprise

In May 2001, the Authority committed to contribute an amount not to exceed \$26 million to the City of Surprise Cactus League Project for the construction of a new Cactus League facility. Subsequent to that time, the Authority has been unable to issue the bonds related to the payment of the \$26 million to the City of Surprise because of the John F. Long lawsuit. In order to provide additional financial assistance to allow Surprise to continue forward with the project and not incur any delays or additional project construction costs, the Authority and Surprise entered into two separate amendments to the original Intergovernmental Agreement. The first amendment was executed in December 2001 and provided to Surprise, on a loan basis, the funds that were being deposited into the Authority's Cactus League Promotion Account at the rate of \$250,000 per month. The second amendment, executed in January 2002, agreed to provide Surprise with up to an additional \$6.0 million in bond proceeds if the Authority was unable to issue bonds between January and October of 2002. The agreement stated that for every month the Authority was unable to issue bonds, an additional \$600,000 would be accrued as a liability by the Authority. Through June 30, 2002 the Authority has accrued an additional \$3,600,000 in liability while paying \$3,257,197 to Surprise from the Cactus League Promotion Account. It is expected that the Authority will record the full \$6,000,000 liability by the end of October 2002 and will continue to provide the \$250,000 monthly loan until the Long lawsuit is ultimately resolved. The Authority has recorded the amount committed as a note payable. See Note 12 for additional discussion of payment timing.

Tourism and Sports Authority

Notes to Financial Statements

9. Leases

The Authority leases certain office facilities under noncancelable operating leases that expire in various years through 2003.

Future minimum payments under noncancelable operating leases with initial terms of one year or more and under capital leases at June 30, 2002 are summarized as follows:

	Capital Leases	Operating Leases
2003	\$14,544	\$88,221
2004 and thereafter	9,697	—
	<u>24,241</u>	<u>\$88,221</u>
Less amount representing interest	<u>(2,185)</u>	
Present value of minimum lease payment	<u>\$22,056</u>	

Total rental expense for all operating leases was approximately \$93,591 and \$17,011 for the year ended June 30, 2002 and the period from August 9, 2000 (inception) through June 30, 2001, respectively.

10. Contributed Capital

The Authority has received commitments from the Cardinals for contributions toward the construction of the multipurpose facility. The Cardinals initially pledged \$85,000,000 which has been increased by \$24.3 million under the terms and conditions of the September 3, 2002 Memorandum of Understanding and may be higher if the project results in cost overruns that are determined to be the responsibility of the Cardinals. The Cardinals' contributions are for the construction of the multipurpose facility to be paid to the Authority over the period that the multipurpose facility is to be constructed contingent upon the completion of the design and bond financing related to the facility. As the Authority has not met each of these conditions, the pledge has not been reflected in the accompanying financial statements. During the initial phases of the Authority's formation and preliminary site construction work, the Cardinals contributed \$657,584 to the Authority during fiscal year 2001 and an additional \$3,570,523 during fiscal year 2002 for a total of \$4,228,107 which has been included as contributed capital. In November 2001, the Authority formally abandoned the Tempe site for the location of the multi-purpose facility (see Note 12).

General

In September 2000, the Authority entered into a letter of intent with a construction company for the design-build of the multipurpose stadium facility at a cost of \$331 million. During the course

Tourism and Sports Authority

Notes to Financial Statements

11. Commitments and Contingencies

of the multipurpose stadium's construction, the Authority will provide the funding for the construction from proceeds from the sale of bonds to be repaid from the hotel and car rental taxes as well as the NFL income tax, state sales tax recapture and revenues from future events to be held at the multipurpose facility discussed herein. Certain pre-construction costs have been incurred related to this project which have been paid through a bridge loan until the bond offering occurs. The Authority, as of June 30, 2002 owes \$5,141,344 related to the multipurpose facility construction costs including design work as well as for roof steel that was purchased in late 2001 to avoid cost increases and import tariffs.

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

John F. Long Legal Issues

John F. Long, a private citizen and former site proposer for the multipurpose facility, has pursued legal action challenging the constitutionality of the Tourism and Sports Authority (the "Authority") legislation. In August 2001, Long requested that the Arizona Attorney General opine on this issue. In September 2001, the Attorney General issued an opinion that the Authority is constitutional. Mr. Long subsequently filed a special action in the same month with the Arizona Superior Court. On November 2, 2001, the Court ruled in favor of the Authority on all constitutional challenges brought by Long. The Superior Court also held that Long's claims were barred by the doctrine of laches because he had delayed too long in filing his lawsuit. Long filed a motion for a new trial which was denied by the Superior Court on December 13, 2001. On January 11, 2002, Long appealed the case to the Arizona Court of Appeals. On January 15, 2002, the Authority requested that the case be transferred to the Arizona Supreme Court for immediate review and decision, and also requested that proceedings be expedited in the Court of Appeals. The Arizona Supreme Court denied the Authority's request for transfer, but the Court of Appeals agreed to expedite the appeal in part. The Court of Appeals heard oral arguments in the case on June 3, 2002 and returned its opinion on August 27, 2002. The three-judge panel ruled unanimously that a narrow portion of the Authority's statute is unconstitutional, that the invalid portion can be severed from the remainder of the statute, and that the remainder of the statute is constitutional.

Grants

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

Tourism and Sports Authority

Notes to Financial Statements

11. Commitments and Contingencies (continued)

process. Currently, the Authority's board of directors has approved two projects. The first grant was approximated on May 21, 2001 for \$150,000 for the South Mountain YMCA. The second grant was approved on September 28, 2001 for \$3.4 million for the City of Avondale. The grant will fund a regional multipurpose sport fields project that would be front funded by the City of Avondale with the Authority's contributions being made over a twelve-plus year time period through 2013. During the term of the contributions, the Authority will provide 5 percent in financing costs in addition to the \$3.4 million. The Authority has also agreed to provide \$1.0 million in funding to the City of Glendale for youth and amateur sports fields in proximity to the multipurpose facility site. The amount is to be paid in \$250,000 increments over the course of the next three years. Additional requests for grants have been received by the Authority and are under consideration. At June 30, 2002, the Authority has accrued \$3,580,820 in its financial statements for these grants.

12. Reclassifications

Certain reclassifications have been made to the 2001 consolidated financial statements to conform with the 2002 presentation.

13. Subsequent Events

- [a] On September 3, 2002, the Authority entered into a Memorandum of Understanding with the Cardinals whereby the Cardinals place a "hard cap" on the multipurpose facility project of \$355.3 million, it increases the Cardinals' capital contribution by up to an additional \$24.3 million for a total of \$109.3 million and provides for a commitment by the Cardinals to be responsible for project cost overruns which are not the responsibility of the design-build contractor.
- [b] On October 4, 2002, John F. Long filed a Motion to Reconsider with the Court of Appeals that was denied without comment. On October 17, 2002, Long filed a petition for review with the Arizona Supreme Court asking that it review the Court of Appeals decision. The Authority and other parties filed a response that opposes the Supreme Court review. On December 3, 2002, the Arizona Supreme Court formally denied Long's petition for review. This ruling puts an end to Long's legal challenge and will allow the Authority to move forward on a number of issues including issuing bonds for the multipurpose facility project and the Cactus League facility in Surprise, Arizona. The Long lawsuit has required the Authority to spend significant monies defending itself in court and has impeded the Authority's efforts to issue bonds both for the multipurpose facility project and for the Cactus League baseball facility which is nearing completion in the City of Surprise, Arizona.

Report of Independent Auditors on Other Financial Information

The Board of Directors
Tourism and Sports Authority

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Tourism and Sports Authority as of June 30, 2002, and for the year then ended taken as a whole. The following financial information on pages 16 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

September 13, 2002

Tourism and Sports Authority

Schedule of Net Liabilities - by Fund

June 30, 2002

	Total	General Fund	Construction Account	Revenue Clearing Account	Tourism Revenue Clearing Account	Facility Revenue Clearing Account
Assets						
Current assets:						
Cash - restricted	\$ 5,574,877	\$ 2,127,364	\$ 834	\$ 834	\$ 3,078,130	\$ 368,549
Hotel tax and car rental surcharge receivable	2,656,544	-	-	-	2,656,544	-
Other assets	8,246	8,246	-	-	-	-
Total current assets	8,239,667	2,135,610	834	834	5,734,674	368,549
Noncurrent assets:						
Property and equipment, net	20,717,267	94,558	20,622,709	-	-	-
Capital lease equipment, net	21,794	21,794	-	-	-	-
Total noncurrent assets	20,739,061	116,352	20,622,709	-	-	-
Total assets	\$ 28,978,728	\$ 2,251,962	\$ 20,623,543	\$ 5,734,674	\$ 368,549	\$ 368,549
Liabilities and net assets (liabilities)						
Current liabilities:						
Accounts payable	\$ 6,167,359	\$ 1,026,015	\$ 5,141,344	\$ -	\$ -	\$ -
Accrued expenses	443,245	93,245	-	350,000	-	-
Line of credit	5,000,000	-	5,000,000	-	-	-
Current portion of note payables	26,631,345	-	-	26,631,345	-	-
Current portion of obligation under capital lease	12,748	12,748	-	-	-	-
Total current liabilities	38,254,697	1,132,008	10,141,344	26,981,345	-	-
Noncurrent assets (liabilities):						
Payable to City of Avondale	3,292,278	-	-	3,292,278	-	-
Notes payable, less current	9,308	9,308	-	-	-	-
Total noncurrent liabilities	3,301,586	9,308	-	3,292,278	-	-
Total liabilities	41,556,283	1,141,316	10,141,344	30,273,623	-	-
Net liabilities						
Investment in capital assets, less related debt	20,717,005	94,296	20,622,709	-	-	-
Restricted	8,231,421	2,127,364	834	5,734,674	368,549	-
Unrestricted	(41,525,981)	(1,111,014)	(10,141,344)	(30,273,623)	-	-
Total net assets (liabilities)	(12,577,555)	1,110,646	10,482,199	(24,538,949)	368,549	-
Total liabilities and net liabilities	\$ 28,978,728	\$ 2,251,962	\$ 20,623,543	\$ 5,734,674	\$ 368,549	\$ 368,549

Tourism and Sports Authority
Schedule of Revenues, Expenses and Changes in Net Liabilities – By Fund
Year Ended June 30, 2002

	Total	General Fund	Construction Account	Tourism Revenue Clearing Account	Facility Revenue Clearing Account
Operating revenues					
Other operating revenues	\$ 494	\$ 494	\$ -	\$ -	\$ -
Total operating revenues	494	494	-	-	-
Operating expenses					
Legal	1,390,313	1,390,313	-	-	-
Arizona tourism distribution	4,033,333	-	-	4,033,333	-
Consulting	763,492	763,492	-	-	-
Payroll	707,331	707,331	-	-	-
Professional fees	568,624	568,624	-	-	-
Marketing and promotion	118,767	118,767	-	-	-
Bank service charge	16,537	16,537	-	-	-
Insurance	138,584	138,584	-	-	-
Travel	12,561	12,561	-	-	-
Office	56,432	56,432	-	-	-
Site selection	172,973	172,973	-	-	-
Communications	38,420	38,420	-	-	-
Rent	93,591	93,591	-	-	-
Depreciation	27,628	27,628	-	-	-
Total operating expenses	8,138,586	4,105,253	-	4,033,333	-
Operating loss	(8,138,092)	(4,104,759)	-	(4,033,333)	-
Nonoperating revenues (expenses)					
Cactus League facility expense	(3,600,000)	-	-	(3,600,000)	-
City of Avondale facility expense	(3,430,820)	-	-	(3,430,820)	-
Hotel bed tax	9,811,027	-	-	9,811,027	-
Rental car tax	6,824,977	-	-	6,824,977	-
NFL income tax	4,420,872	-	-	-	4,420,872
State sales tax recapture	946,394	-	-	-	946,394
Interest income	136,887	57,120	50,325	26,441	-
Interest expense	(58,011)	(58,011)	-	-	-
Loss on disposal of property and equipment	(1,114,316)	(1,227)	(1,113,089)	-	-
Total nonoperating revenues (expenses)	13,937,010	(2,118)	(1,062,764)	9,631,625	5,370,267
Net income (loss) before contributions (transfers)	5,798,918	(4,106,877)	(1,062,764)	5,598,292	5,370,267
Interfund transfers	-	6,005,261	7,480,211	(8,483,735)	(5,001,737)
Capital contributed	3,570,523	-	3,570,523	-	-
Increase (decrease) in net liabilities	9,369,441	1,898,384	9,987,970	(2,885,443)	368,530
Net assets (liabilities), beginning of period	(21,946,996)	(787,738)	494,229	(21,653,506)	19
Net assets (liabilities), end of period	\$(12,577,555)	\$ 1,110,646	\$10,482,199	\$(24,538,949)	\$ 368,549

Tourism and Sports Authority
Schedule of Cash Flows – By Fund

Year Ended June 30, 2002

	Total	General Fund	Construction Account	Tourism Revenue Clearing Account	Facility Revenue Clearing Account
Cash flows from operating activities					
Receipts from customers	\$ (10,856,969)	\$ 9,359,288	\$ (2,714,121)	\$ (12,500,399)	\$ (5,001,737)
Payments to suppliers	(628,035)	(628,035)	-	-	-
Payments to employees	21,911,196	57,614	50,324	16,432,991	5,370,267
Other receipts	10,426,192	8,788,867	(2,663,797)	3,932,592	368,530
Net cash provided by (used in) operating activities					
Cash flows from capital and related financing activities					
Capital contribution	3,570,523	-	3,570,523	-	-
Proceeds from line of credit	2,000,000	2,000,000	-	-	-
Payments on line of credit	(3,000,000)	(3,000,000)	-	-	-
Proceeds from stadium term loan	8,087,500	-	8,087,500	-	-
Payments on stadium term loan	(7,000,000)	(7,000,000)	-	-	-
Payments on capital leases	(11,426)	(11,426)	-	-	-
Net cash provided by (used in) capital and related financing activities	3,646,597	(8,011,426)	11,658,023	-	-
Cash flows from non-capital financing activities					
Payments for Cactus League facility – City of Surprise	(3,257,197)	-	-	(3,257,197)	-
Net cash used in non-capital financing activities	(3,257,197)	-	-	(3,257,197)	-
Cash flows from investing activities					
Acquisition and construction of property and equipment	(11,505,014)	(44,921)	(11,460,093)	-	-
Net cash used in investing activities	(11,505,014)	(44,921)	(11,460,093)	-	-
Net (decrease) increase in cash	(689,422)	732,520	(2,465,867)	675,395	368,530
Cash at beginning of period	6,264,299	1,394,844	2,466,701	2,402,735	19
Cash at end of period	\$ 5,574,877	\$ 2,127,364	\$ 834	\$ 3,078,130	\$ 368,549

Tourism and Sports Authority
 Schedule of Cash Flows – By Fund (continued)
 Year Ended June 30, 2002

Reconciliation of net income (loss) to net cash provided by operating activities				
Net income (loss)	\$ 5,798,918	\$ (4,106,877)	\$ (1,062,764)	\$ 5,598,292
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	27,628	-	-	-
Cactus League Facility expense	3,600,000	-	-	3,600,000
Note payable to City of Avondale	3,430,820	-	-	3,430,820
Loss on disposal of property and equipment	1,114,316	1,227	1,113,089	-
Changes in operating assets and liabilities:				
Receivables	(229,452)	-	-	(229,452)
Prepaid and other assets	4,392	-	-	-
Accounts payable	(2,648,598)	7,007,685	(9,656,283)	-
Accrued expenses	(671,832)	(150,449)	(538,050)	16,667
Interfund transfers	-	6,005,261	7,480,211	(8,483,735)
Net cash provided by (used in) operating activities	<u>\$ 10,426,192</u>	<u>\$ 8,788,867</u>	<u>\$ (2,663,797)</u>	<u>\$ 3,932,592</u>
				<u>\$ 368,530</u>
Supplemental noncash investing activities				
Note payable issued to City of Surprise	\$ 3,600,000	\$ -	\$ -	\$ 3,600,000
Acquisition of property and equipment with accounts payable	\$ 5,141,343	\$ -	\$ 5,141,343	\$ -

