FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Tourism and Sports Authority

June 30, 2001

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Financial Statements
and Other Financial Information

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Contents

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Management's Discussion and Analysis

For the Period August 9, 2000 (Inception) through June 30, 2001

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 statement of net assets summarize the Authority's current and long-term obligations (liabilities) and the assets available to meet those obligations. The difference between total assets and total liabilities represents the Authority's net assets. The statement of revenues, expenses and changes in fund net assets summarize the Authority's operating and non-operating expenses for the year and the revenues that were available to cover those expenses, as well as changes in net assets. The statement of cash flows summarize the Authority's uses of cash during the year and the sources of cash available to finance those uses. The statement of cash flows, as cash based statements, include reconciliations to the statements of revenues, expenses and changes in fund net assets, which are prepared on an accrual basis. Consolidating schedules of net assets and statements of revenues and expenses changes in fund net assets 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 generally accepted 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, TSA 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 the collection of the revenues from the NFL franchise income tax, state sales tax recapture, future rent and surcharge payments from the Arizona 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, 2001 were approximately $13.9 million. Current assets, including cash, prepaid and other assets and receivables, were approximately $8.7 million.

THE AUTHORITY'S OPERATIONS

Formation and Startup Operations of the Authority

The Arizona state legislature, in 2000, voted favorably on 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 an Arizona Tourism and Sports Authority which would operate as a corporate and political body, without the right of taxation, that would be responsible for the following activities. The design, construction, financing, ownership and operation of a multipurpose facility that would host professional football events through the local NFL franchise and the college post-season 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 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 – the only county in Arizona that met the population criteria. In November 2000 the residents of Maricopa County voted in favor of Prop 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. Five of the members were appointed by Arizona's Governor and two each were named by the Speaker of the House of Representatives and the Senate President. 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 affiliation. The two appointees each by the Speaker of the House of Representatives and the Senate President were required to be from different political affiliations. Currently, the board of directors has one vacancy.

The Authority's board primary responsibilities include the administration of the Authority, entering into contractual agreements, acquire, operate and maintain real and personal property, retain legal counsel and other consultants, keep and maintain accurate records of its proceedings, appoint among its members a chairperson, a secretary and a treasurer and employ 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 to assist the Executive Director in managing the Authority's projects and daily operations.

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 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 2001, on an accrual basis, $4,183,977 and $2,528,507 respectively for the hotel bed tax and the car rental surcharge. This compared to a forecast of $4,568,435 for the hotel bed tax – a $384,458, (8.4%), decrease and a $3,305,161 forecast for the car rental surcharge – a $776,654, (23.5%), decrease. The lower-than-expected outcome for the hotel bed tax and a portion of the car rental surcharge results are related to the mild economic recession that the United States' economy experienced during most of calendar year 2001. Arizona's economy is heavily dependent on tourism and the recession created a downturn in this industry nationwide. The balance of the decreased car rental surcharge results for fiscal year 2001 we believe were due in large part to an incorrect administration of the surcharge at the car rental agency level. An internal 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 and results in lower revenues for the Authority. While this is difficult to ascertain without a detailed review or audit of the data being reported to the Arizona Department of Revenue, the Authority continued to experience lower-than-expected results during fiscal year 2002.

At the end of fiscal 2001, the Tourism Revenue Clearing Account had total assets of $4,829,827 consisting of cash of $2,402,735 and a receivable of $2,427,092 for future tax revenues to be received in the months of July and August 2001 but which were related to actual tax collections in the months of May and June 2001. The listed liabilities for this fund totaled $26,483,333 as of June 30, 2001. The significant portion of this liability is related to the $26,000,000 commitment by the Authority to the City of Surprise for their dual-team spring training facility scheduled to open in 2003. The balance, $483,333, represents the amount due and owing to the Arizona Office of Tourism in July 2001 for tourism revenues received in June 2001, $333,333 and $150,000 for a grant to the South Mountain YMCA for a youth sports project.

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 Arizona 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 Arizona 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 Arizona 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 $3,500,000 in the first year growing at eight percent per year or the actual corporate income taxes reported by the Arizona Cardinals' franchise combined with the personal income taxes that are reported by the Arizona 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. Since these revenues are guaranteed from the state's general fund, there should never be a discrepancy between the amount reported in March and what the Authority collects. In fiscal 2001 the Authority collected $4,420,872 which was $920,872, 21%, higher than the guaranteed minimum of $3,500,000. The Authority has been informed that for the coming fiscal year 2003, we are to expect $4,138,999. While this is a decrease of $281,873, (6)%, over the prior fiscal year's actuals, it is still $358,999, 9%, higher than the guaranteed minimum of $3,780,000. There is no expiration of this revenue source and will eventually replace the tourism tax revenues as the primary source of revenue for the Authority.

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 Arizona 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 Arizona 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 2001 for these sales tax collections. Our actual receipts totaled $946,394 for a $53,606, (5.4)%, decrease. 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 minimal assets in this account at the end of fiscal 2001 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 planned bond issuance of up to $250,000,000 in tax-exempt bonds, the Arizona Cardinals' $85,000,000 required capital contribution, other capital contributions, the state sales tax recapture on the purchases of materials for the multipurpose facility project and the interest income generated from the available fund balance in this account over the course of the approximately 36-month construction schedule. Other capital contributions, of which none are currently identified, could potentially come from the final site host and/or its partners. Under current financial and economic conditions we are forecasting approximately $10,000,000 each for the state sales tax recapture and interest income. The Authority could generate approximately $355,000,000 for the multipurpose project.

The Authority and the Arizona Cardinals formally agreed near the end of fiscal 2001 to jointly fund the design/pre-construction phase of the multipurpose facility project on a pro-rata basis. The formula for determining the pro-rata share was based on an initial $331,000,000 estimated multipurpose facility cost plus another $3,000,000 in capital contributions from the City of Tempe. Based on an estimated total project cost of $334,000,000, the Arizona Cardinals' pro-rata share would equal 25.4491% ($85,000,000 divided by $334,000,000). The Authority's pro-rata percentage would be the balance or 74.5509%. In fiscal 2001 the Authority expended $1,546,451 from the Construction Account and the Arizona Cardinals contributed $657,584 for a total of $2,204,035. There is a difference between the actual contribution percentages for fiscal 2001 and those that were agreed-to because of the timing of the implementation of the formal percentages. There was no formal budget for the Construction Account in fiscal 2001.

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. As of June 30, 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 has utilized the stadium credit line along with the Arizona 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 Authority, as of June 30, 2002, owes a remaining balance of $5,000,000 having repaid $2,000,000 December 31, 2001 and $5,000,000 May 23, 2002. The balance is due on or before December 31, 2002.

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 is, as of June 2002, continuing to identify the final, permanent site for the multipurpose facility. The Authority has a legislatively-imposed deadline of September 12, 2002 to present to the state's representatives executed agreements with prospective site hosts to avoid another vote by Maricopa County residents in November 2002.

At the end of fiscal 2001, the Construction Account had $7,598,694 in total assets versus total liabilities of $7,104,465 for a net asset position of $494,229. Total assets consisted of cash in the construction account of $2,466,701. These funds represent the remaining cash balance of the $3,912,500 borrowed by the Authority against the stadium credit line. The remaining assets, $5,131,993, represents the capital investment expenditures by the Authority on the multipurpose facility project consisting of related design, construction, real estate, site selection, engineering and architecture services. The total liabilities in this fund are comprised of $3,191,965 for payables associated with the multipurpose facility project and the $3,912,500 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 the funds uses at 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 2003, the amount of the reserve is scheduled to equal $1,000,000.

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 2001 there were no funding deficits.

Debt Service – Senior Bonds for Multipurpose Facility

These bonds were not issued prior to the end of fiscal year 2001 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.

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.

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 may pledge all of 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 Surprise have entered into two separate amendments to the IGA. The first amendment, entered into in December 2001, provides 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. The second amendment, executed in January 2002, increases the amount of bond proceeds that the Authority will provide to Surprise. For every month between January and October 2002 that the Authority is unable to issue its bonds, the Authority will incur an additional $600,000 liability for additional bond proceeds to be provided to Surprise. The maximum incremental amount is capped at $6,000,000 so that the total maximum amount the Authority may need to provide to Surprise is $32,000,000.

It is hoped that the John F. Long lawsuit will be resolved the fall of 2002 so that the Authority can issue the bonds prior to the end of October 2002 thereby minimizing the amount of additional bond proceeds to be provided to Surprise. The Arizona Appellate Court heard oral arguments on this lawsuit in early June 2002 with their promise to return an opinion as quickly as possible. To date, the Authority has won every ruling and expects to receive a favorable ruling at the appellate court level.

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 2001 the Authority disbursed $83,333 to this account and, in the first twelve months of funding, the Authority distributed the total statutory amount of $1,000,000. Each succeeding twelve month period the amount increases by $100,000. In fiscal 2001 there were no monies expended on youth and amateur sports projects.

The Authority, through its outside Youth and Amateur Sports Advisory Committee and the internal youth and amateur sports committee consisting of Authority board members and staff, 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 internal committee who then forwards the final project funding recommendations to the Authority's board of directors.

During fiscal year 2002, the Authority's board of directors approved the funding for two projects. The first is for a sports field at the YMCA's South Mountain facility totaling $150,000. The second project was approved for the City of Avondale, Arizona who is building a regional soccer/sports complex in the western portion of Maricopa County. Avondale will initially fund the entire cost of the project through a bond issuance. The Authority's 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. Final agreements for both projects are being completed and as of the end of fiscal year 2002 no monies have been expended by the Authority for either of these projects.

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. Due to the Authority's actual operational startup after the November 2000 general election there was no requirement for a fiscal year 2001 budget. Therefore, there are no comparisons available between actual and budget for fiscal year 2001. 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 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 2001 and 2002 put the Authority's budget in fourth place out of five funding priority items. Beginning in fiscal 2003, the order of priority changes with youth and amateur sports receiving their funding ahead of the Authority's operating budget. The Authority received its first operating revenues from the Tourism Revenue Clearing Account in June 2001 with an actual cash distribution to the operating account of $1,549,323.

Prior to June 2001, the Authority entered into a Credit and Pledge Agreement with Wells Fargo Bank and Bank One Arizona in January 2001 in order to obtain startup funding for both operations and the multipurpose facility project. The banks provided a total of $15,000,000 in credit lines split $3,000,000 and $12,000,000 respectively for operations and the multipurpose facility. In fiscal 2001, during the months of January through March, the Authority drew down a total of $1,000,000 of its available $3,000,000 to help pay for the initial startup costs of the Authority prior to June 2001's actual cash receipts from the Tourism Revenue Clearing Account. Subsequently, the Authority drew down the remaining $2,000,000 credit line in August 2001 and repaid the entire balance of $3,000,000 in even installments of $1,500,000 on October 1, 2001 and December 31, 2001. The credit line does not have a revolving credit feature allowing the Authority to further borrow against the credit line. The Authority currently owes nothing on this credit line.

Fiscal year 2001 was the startup year for the Authority's operations. The work of the Authority is carried out by its Executive Director and his staff under the direction of the board of directors. The Executive Director, Ted A. Ferris, was hired in January 2001. He began to build staff, locate offices and establish all of the requisite administrative, financial and operating systems in order to carryout the Authority's responsibilities. During fiscal 2001 four additional fulltime employees were added consisting of a Vice President of Facilities, a Vice President of Operations and two executive assistants. The Authority also contracted with a local personnel firm in March 2001 for the services of an interim-chief financial officer. That person was subsequently hired as the Authority's fulltime chief financial officer in July 2001.

The Authority, in January 2001, located its offices temporarily within the offices of its general counsel – Fennemore Craig, P. C.. In March 2001, the Authority's two fulltime employees and its interim-CFO relocated offices to executive suites in the Scottsdale Airpark area for a period of seven months while a search for more permanent offices was taking place. In October 2001, the Authority entered into a sublease agreement for office space east of the Scottsdale Airpark. The purpose for locating offices in this area was to provide the Authority's staff good access to the original multipurpose facility site as well as to its general contractor. The office lease agreement provides for a lease period of thirty-five months with the option to extend for two more six-month periods. If all of the options were exercised, this lease arrangement would end in August 2005. This arrangement was originally intended to provide the Authority the time it needed to construct the multipurpose facility, move its offices to the multipurpose facility and open it for operation in the fall of 2004. With the abandonment of the original site in Tempe, Arizona and the re-opened site selection process which is still on-going as of July 2002, it is hoped that the multipurpose facility will be constructed and ready for operation in the fall of 2005. If not, the Authority will need to renegotiate its current lease in order to extend the lease period.

In the normal course of startup operations during fiscal 2001 the Authority expended monies on both capital and non-capital items. The Authority invested $99,059 on property and equipment and capital lease equipment. This covered the startup cost of computer and office equipment, software and furniture and fixtures.

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.

In fiscal 2001 no senior bonds were issued. Therefore, all of the revenues received into the Facility Revenue Clearing Account 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 appeared and completely hindered 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.

The Authority is hoping to finalize its multipurpose facility site selection in early-fall 2002 and, if the Long lawsuit has been successfully resolved, issue the bonds shortly thereafter. Once the bonds are issued, the Authority will immediately repay the remaining $5,000,000 balance that is due and owing on the stadium credit line.

As of the end of fiscal 2001, the Authority had expended $5,131,993 in capital items related to the project. This amount represents expenditures for design, construction, real estate, site selection, engineering and architecture services.

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	Debt Service on senior bonds issued for $165M of MPF construction costs			1	Construction costs related to the TSA/Arizona Cardinals Multipurpose Facility
		1	Debt Service on bonds not covered in TRCA Priority 1	2	Once 100% of the MPF construction costs have been paid, any remaining funds will be used to retire debt service
2	Debt Service on bonds not covered in FRCA Priority 1				
3	Arizona Office of Tourism				
4	Debt Service on subordinate bonds up to statutorily scheduled Cactus League Promotion Distribution				
		2	Debt Service on subordinate bonds not covered in TRCA Priority 4		
5	Debt Service 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				
	Reserves		Reserves		
9	Youth & Amateur Sports	3	Operating		
10	Operating				
11	Capital Repair/Replacement				

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

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Report of Independent Auditors

The Board of Directors
Tourism and Sports Authority

We have audited the accompanying statement of net liabilities of the Tourism and Sports Authority (the "Authority") as of June 30, 2001, and the related statements of revenues, expenses and changes in net liabilities, and cash flows for 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 audit.

We conducted our audit 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 audit provides 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, 2001, and the results of its operations and its cash flows for the period from August 9, 2000 (inception) through June 30, 2001 in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

June 5, 2002, except for Note 12 for
which the date is August 16, 2002

Tourism and Sports Authority

Statement of Net Liabilities

June 30, 2001

Assets	
Current assets:	
Cash – restricted	$ 6,264,299
Hotel tax and car rental surcharge receivable – restricted	2,427,092
Prepaid and other assets	12,638
Total current assets	8,704,029
Noncurrent assets:	
Property and equipment, less accumulated depreciation of $3,075	5,196,805
Capital lease equipment, less accumulated depreciation of $3,113	34,247
Total noncurrent assets	5,231,052
Total assets	$ 13,935,081
Liabilities	
Current liabilities:	
Accounts payable	$ 3,674,614
Accrued payroll, payroll taxes and other accrued expenses	1,111,481
Line of credit	1,000,000
Current portion of Stadium Term Loan	3,912,500
Current portion capital lease	11,426
Total current liabilities	9,710,021
Noncurrent liabilities:	
Payable to City of Surprise	26,000,000
Payable to South Mountain YMCA	150,000
Obligation under capital lease long-term	22,056
Total noncurrent liabilities	26,172,056
Total liabilities	35,882,077
Net liabilities	
Investment in capital assets, less related debt	5,197,570
Restricted	8,691,391
Unrestricted (deficit)	(35,835,957)
Total net liabilities	(21,946,996)
Total liabilities and net liabilities	$ 13,935,081

See accompanying notes.

Tourism and Sports Authority

Statement of Revenues, Expenses and Changes in Net Liabilities

Period from August 9, 2000 (Inception) through June 30, 2001

Operating revenues	
User fees	$ 25,000
Other operating revenues	647
Total operating revenues	25,647
Operating expenses	
Legal	938,584
Arizona tourism distribution	666,666
Consulting	585,040
Payroll	201,838
Professional fees	424,431
Marketing and promotion	190,728
Bank service charge	38,839
Insurance	30,956
Travel	25,678
Office	21,805
Site selection	19,810
Communications	13,518
Rent	17,011
Depreciation	6,188
Total operating expenses	3,181,092
Operating loss	(3,155,445)
Nonoperating revenues (expenses)	
Cactus League facility expense	(26,000,000)
South Mountain YMCA facility expense	(150,000)
Hotel bed tax	4,183,977
Rental car tax	2,528,507
Interest income	2,851
Interest expense	(14,470)
Total nonoperating expenses	(19,449,135)
Loss before contributions	(22,604,580)
Capital to authority	657,584
Change in net liabilities	(21,946,996)
Net assets, beginning of period	–
Net liabilities, end of period	$(21,946,996)

See accompanying notes.

Tourism and Sports Authority

Statement of Cash Flows

Period from August 9, 2000 (Inception) through June 30, 2001

Cash flows from operating activities	
Receipts from customers	$ 25,000
Payments to suppliers	(1,165,414)
Payments to employees	(145,772)
Other receipts	3,955,567
Net cash provided by operating activities	2,669,381
Cash flows from capital and related financing activities	
Capital contribution	657,584
Proceeds from line of credit	1,000,000
Payments on capital leases	(3,878)
Proceeds from term loan	3,912,500
Net cash provided by capital and related financing activities	5,566,206
Cash flows from investing activities	
Acquisition and construction of capital assets	(1,971,288)
Net cash used in investing activities	(1,971,288)
Net increase used in cash	6,264,299
Cash at beginning of period	–
Cash at end of period	$ 6,264,299
Reconciliation of net loss to net cash provided in operating activities	
Net operating loss	$(22,604,580)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	6,188
Cactus League Facility expense	26,000,000
South Mountain YMCA facility expense	150,000
Changes in operating assets and liabilities:	
Receivables	(2,427,092)
Prepaid and other assets	(3,638)
Deposits	(9,000)
Accounts payable	446,022
Accrued payroll, payroll taxes and other accrued expenses	1,111,481
Net cash provided by operating activities	$ 2,669,381
Supplemental Noncash Investing Activities	
Note payable issued to City of Surprise	$ 26,000,000
Acquisition of capital assets with accounts payable	$ 3,228,593

See accompanying notes.

Tourism and Sports Authority

Notes to Financial Statements

June 30, 2001

1. Organization and Reporting Entity

Tourism and Sports Authority (the "Authority" or "TSA"), was formed in 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 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.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Cash Equivalents

The 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.

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, 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 Arizona Cardinals and the Fiesta Bowl for use of the multipurpose

2. Summary of Significant Accounting Policies (continued)

facility. The Arizona Cardinals will pay $250,000 per year and the Fiesta Bowl will have a ticket surcharge of $2.50 per ticket with an annual escalation clause. 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.

Legal Expense

Legal expenses for the period August 9, 2000 (inception) through June 30, 2001 were comprised of the following:

General representation	$ 804,705
Bond counsel	133,879
	$ 938,584

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 to fund the TSA'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.

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 Arizona Cardinals’ organization and its employees, the state sales tax recapture revenues from ticket sales and hard and soft concession sales at Arizona 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 TSA by the Arizona 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.

3. Deposits

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as cash and restricted assets.

Insured (FDIC Insured)	$ 500,000
Uninsured (Category 3)	5,764,299
	$6,264,299

4. Operations

In October 2000, the Authority entered into a binding Memorandum of Understanding with the Arizona Cardinals and the Arizona Sports Foundation (the “Foundation”) working on behalf of the Fiesta Bowl.

The Arizona Cardinals agreed to contribute $85 million toward the development and construction costs of the multipurpose facility (as further discussed in contributed capital footnote 10) and entered into a 30-year use agreement with the Authority with the term commencing with the first home game after the completion of the multipurpose facility. The Arizona Cardinals will pay rent in the amount of $250,000 with a two percent annual increase from base rent. The Arizona Cardinals will receive use of the multipurpose facility for all home games, space in the team shop, typical office space, video production, locker room and training room space. The Arizona 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

4. Operations (continued)

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 and parking revenues from home games and naming rights revenues from the facility. The Authority is responsible for all operating expenses of the facility.

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. 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, 2001:

Cash	$6,264,299
Hotel tax and car rental surcharge receivable	2,427,092
Total	$8,691,391

6. Property and Equipment

Property and equipment activity consisted of the following for 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

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 (6.75 percent at June 30, 2001).

The balances outstanding as of June 30, 2001 on the operating (line of credit) and construction stadium term loan components of the credit facility are $1,000,000 and $3,912,500, respectively. The repayment schedule is as follows and represents the maximum amount due at each date:

	Operating	Construction
October 31, 2001	$ 1,500,000	$ –
December 31, 2001	1,500,000	2,000,000
June 30, 2002	–	5,000,000
December 31, 2002	–	5,000,000
	$ 3,000,000	$12,000,000

7. Credit Facility (continued)

During the period August 9, 2000 (inception) through June 30, 2001, the Authority incurred $79,904 of interest on borrowings of which $65,434 was capitalized and $14,470 was expensed.

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. The Authority has recorded the amount committed as a note payable. As of June 30, 2001, no amounts had been paid to the City of Surprise. See footnote 12 for additional discussion of payment timing.

9. Leases

The Authority leases certain office facilities under noncancelable operating leases that expire in various years through 2004.

Future minimum payments under noncancelable operating leases with initial terms of one year or more at June 30, 2001, under capital leases at June 30, 2001 are summarized as follows:

	Capital Leases	Operating Leases
2002	$14,544	$9,171
2003	14,544	
2004 and thereafter	9,697	
	38,785	$9,171
Less amount representing interest	(5,303)	
Present value of minimum lease payment	$33,482	

Total rental expense for all operating leases was approximately $17,010 for the period August 9, 2000 (inception) through June 30, 2001.

10. Contributed Capital

The Authority has received commitments from the Arizona Cardinals and City of Tempe for contributions toward the construction of the multipurpose facility. The Arizona Cardinals have pledged $85,000,000 for the construction of the multipurpose facility to be paid to the Authority

10. Contributed Capital (continued)

over the period that the multipurpose facility is to be constructed contingent upon the completion of the design, site selection and bond financing related to the facility. As the TSA has not met each of these conditions, the $85,000,000 pledge has not been reflected in the accompanying financial statements. During the initial phases of the TSA formation and preliminary site construction work, the Arizona Cardinals contributed $657,584 to the Authority which has been included as contributed capital. The City of Tempe initially pledged an aggregate of $6 million for use by the Authority on the stadium project. As further discussed in the subsequent events footnote 12, the Authority formally abandoned the Tempe site for the location of the multi-purpose facility. Accordingly, the $6 million pledge from the City of Tempe has terminated. No amounts related to this pledge have been recorded in the accompanying financial statements.

11. Commitments and Contingencies

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 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 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.

On May 21, 2001, the Authority's board of directors has approved a grant for $150,000 for the South Mountain YMCA facility.

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.

12. Subsequent Events

John F. Long Legal Issues

John F. Long, a private citizen and former site proposer for the multipurpose facility, has pursued legal action that brings into question the constitutional nature of the Tourism and Sports Authority (the "Authority"). In August 2001, Long requested that the State's 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 6, 2001, the Court ruled in favor of the Authority on

12. Subsequent Events (continued)

all constitutional challenges brought by Long. Long filed a motion for a new trial claiming the Court's ruling in favor of the Authority on its defense of laches was incorrect. On December 13, 2001, the Court denied his motion and provided that Long had 30 days within which to file an appeal. In January 2002, the Authority filed a motion with Arizona Supreme Court seeking an expedited review of the case. The Arizona Supreme Court denied the Authority's motion and the case currently resides at the Appellate Court level. Long continues to appeal the court's decision and it is expected that he will exhaust all legal avenues available to him. It is estimated that a final resolution could take until the fall of 2002. The result of Long's filing has caused the Authority to spend significant monies on defending itself in the litigation and has impeded the Authority's efforts to issue bonds both for the multipurpose facility project and for the Cactus League baseball facility under construction in the City of Surprise, Arizona.

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.

12. Subsequent Events (continued)

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 $1,500,000 for reimbursement of expenses incurred by the Authority for the original Tempe site.

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.

12. Subsequent Events (continued)

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.

Grants

The Tourism and Sports Authority, as part of its original charter, is to provide $1 million in grants in year one growing at $100,000 per year thereafter for 30 years for youth and amateur sports in Maricopa County. During this period, the Authority will have granted $73.5 million to various projects and organizations. The Authority through its Youth and Amateur Sports Committee has implemented a formal grant process. Currently, the Authority's board of directors has approved two projects. The first grant was for $150,000 for the South Mountain YMCA—approval was given on May 21, 2001 which has been included in the June 30, 2001 financial statements. The second grant was for $3.4 million for the City of Avondale for 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. During the term of the contributions, the Authority will provide 5 percent in financing costs in addition to the $3.4 million. The Authority's board of directors gave approval for this project on September 28, 2001. Additional requests for grants have been received by the Authority and are under consideration.

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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, 2001 and for the period August 9, 2000 (inception) through June 30, 2001 taken as a whole. The following financial information on pages 17 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

June 5, 2002

Tourism and Sports Authority

Statement of Net Liabilities - by Fund

June 30, 2001

	Total	General Fund	Construction Account	Tourism Revenue Clearing Account	Facility Revenue Clearing Account
Assets					
Current assets:					
Cash	$ 6,264,299	$ 1,394,844	$ 2,466,701	$ 2,402,735	$ 19
Hotel tax and car rental surcharge receivable	2,427,092	–	–	2,427,092	–
Prepaid and other assets	12,638	12,638	–	–	–
Total current assets:	8,704,029	1,407,482	2,466,701	4,829,827	19
Noncurrent assets:					
Property and equipment, net of accumulated depreciation	5,196,805	64,812	5,131,993	–	–
Capital lease equipment, net of accumulated depreciation	34,247	34,247	–	–	–
Total noncurrent assets:	5,231,052	99,059	5,131,993	–	–
Total assets	$ 13,935,081	$ 1,506,541	$ 7,598,694	$ 4,829,827	$ 19
Liabilities and fund equity (deficit)					
Current liabilities:					
Accounts payable	$ 3,674,614	$ 1,020,701	$ 2,653,913	$ –	$ –
Accrued payroll, payroll taxes and other accrued expenses	1,111,481	240,096	538,052	333,333	–
Line of credit	1,000,000	1,000,000	–	–	–
Current portion of note payables	3,912,500	–	3,912,500	–	–
Current portion of capital lease	11,426	11,426	–	–	–
Total current liabilities	9,710,021	2,272,223	7,104,465	333,333	–
Noncurrent liabilities:					
Payable to City of Surprise	26,000,000	–	–	26,000,000	–
Payable to South Mountain YMCA	150,000	–	–	150,000	–
Notes payable, less current	22,056	22,056	–	–	–
Total noncurrent liabilities	26,172,056	22,056	–	26,150,000	–
Total liabilities	35,882,077	2,294,279	7,104,465	26,483,333	–
Net liabilities					
Investment in capital assets, less related debt	5,197,570	65,577	5,131,993	–	–
Restricted	8,691,391	1,394,844	2,466,701	4,829,827	19
Unrestricted	(35,835,957)	(2,248,159)	(7,104,465)	(26,483,333)	–
Total net assets (liabilities)	(21,946,996)	(787,738)	494,229	(21,653,506)	19
Total assets (liabilities)	$ 13,935,081	$1,506,541	$ 7,598,694	$ 4,829,827	$ 19

Tourism and Sports Authority

Schedule of Revenues, Expenses and Changes in Net Liabilities – By Fund

Period August 9, 2000 (Inception) through June 30, 2001

	Total	General Fund	Construction Account	Tourism Revenue Clearing Account	Facility Revenue Clearing Account
Operating revenues					
User fees	$ 25,000	$ –	$ –	$ –	$ 25,000
Other operating revenues	647	647	–	–	–
Total operating revenues	25,647	647	–	–	25,000
Operating expenses					
Legal	938,584	938,584	–	–	–
Arizona tourism distribution	666,666	–	–	666,666	–
Consulting	585,040	585,040	–	–	–
Payroll	201,838	201,838	–	–	–
Professional fees	424,431	424,431	–	–	–
Marketing and promotion	190,728	190,728	–	–	–
Bank service charge	38,839	38,839	–	–	–
Insurance	30,956	30,956	–	–	–
Travel	25,678	25,678	–	–	–
Office	21,805	21,805	–	–	–
Site selection	19,810	–	19,810	–	–
Communications	13,518	13,518	–	–	–
Rent	17,011	17,011	–	–	–
Depreciation	6,188	6,188	–	–	–
Total operating expenses	3,181,092	2,494,616	19,810	666,666	–
Operating loss	(3,155,445)	(2,493,969)	(19,810)	(666,666)	25,000
Nonoperating revenues (expenses)					
Cactus League Facility expense	(26,000,000)	–	–	(26,000,000)	–
South Moutain YMCA facility expense	(150,000)	–	–	(150,000)	–
Hotel bed tax	4,183,977	–	–	4,183,977	–
Rental car tax	2,528,507	–	–	2,528,507	–
Interest income	2,851	2,851	–	–	–
Interest expense	(14,470)	(14,470)	–	–	–
Total nonoperating expenses	(19,449,135)	(11,619)	–	(19,437,516)	–
Loss before contributions (transfers)	(22,604,580)	(2,505,588)	(19,810)	(20,104,182)	25,000
Interfund transfers	–	1,717,850	(143,545)	(1,549,324)	(24,981)
Capital contributed	657,584	–	657,584	–	–
Change in net liabilities	(21,946,996)	(787,738)	494,229	(21,653,506)	19
Net assets, beginning of period	–	–	–	–	–
Net liabilities, end of period	$(21,946,996)	$ (787,738)	$ 494,229	$(21,653,506)	$ 19

Tourism and Sports Authority

Schedule of Cash Flows – By Fund

Period August 9, 2000 (Inception) through June 30, 2001

	Total	General Fund	Construction Account	Tourism Revenue Clearing Account	Facility Revenue Clearing Account
Cash flows from operating activities					
Receipts from customers	$ 25,000	$ –	$ –	$ –	$ 25,000
Payments to suppliers	(1,165,414)	(1,165,414)	–	–	–
Payments to employees	(145,772)	(145,772)	–	–	–
Other receipts (payments)	3,955,567	1,577,795	18	2,402,735	(24,981)
Net cash provided by operating activities	2,669,381	266,609	18	2,402,735	19
Cash flows from capital and related financing activities					
Capital contribution	657,584	200,000	457,584	–	–
Note payable	–	–	–	–	–
Proceeds from line of credit	1,000,000	1,000,000	–	–	–
Payments on capital leases	(3,878)	(3,878)	–	–	–
Proceeds from term loan	3,912,500	–	3,912,500	–	–
Net cash provided by capital and related financing activities	5,566,206	1,196,122	4,370,084	–	–
Cash flows from investing activities					
Acquisition and construction of capital assets	(1,971,288)	(67,887)	(1,903,401)	–	–
Net cash used in investing activities	(1,971,288)	(67,887)	(1,903,401)	–	–
Net increase used in cash	6,264,299	1,394,845	2,466,701	2,402,735	19
Cash at beginning of period	–	–	–	–	–
Cash at end of period	$ 6,264,299	$ 1,394,844	$ 2,466,701	$ 2,402,735	$ 19
Reconciliation of net loss to net cash provided in operating activities					
Net operating loss	$(22,604,580)	$(2,505,588)	$ (19,810)	$(20,104,182)	$ 25,000
Adjustments to reconcile net loss to net cash provided by operating activities:					
Depreciation	6,188	6,188	–	–	–
Cactus League Facility expenses	26,000,000	–	–	26,000,000	–
South Mountain YMCA facility expense	150,000	–	–	150,000	–
Changes in operating assets and liabilities:					
Receivables	(2,427,092)	–	–	(2,427,092)	–
Prepaid and other assets	(3,638)	(3,638)	–	–	–
Deposits	(9,000)	(9,000)	–	–	–
Accounts payable	446,022	446,022	–	–	–
Accrued payroll, payroll taxes and other accrued expenses	1,111,481	614,775	163,373	333,333	–
Interfund transfers	–	1,717,850	(143,545)	(1,549,324)	(24,981)
Net cash provided by operating activities	$ 2,669,381	$ 266,609	$ 18	$ 2,402,735	$ 19