

BASIC FINANCIAL STATEMENTS

Tourism and Sports Authority

Years ended June 30, 2003 and 2002

Tourism and Sports Authority

Financial Statements

Years ended June 30, 2003 and 2002

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Tourism and Sports Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2003

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

THE AUTHORITY'S FINANCIAL ACTIVITIES

The Authority accounts for its financial activities in conformity with accounting principles generally accepted in the United States as applicable to a government "enterprise fund." This accounting treatment applies because the Authority's activities are primarily business-like in nature. Under enterprise fund accounting, the Authority is a single accounting entity for financial reporting purposes. However, within this single accounting entity the Authority has identified a number of financial activities that it wishes to track separately, referred to as "accounts." These accounts are as follows: General Account, Tourism Account, Cactus League Account, Youth and Amateur Sports Account, Non-Pledged Facility Revenue Clearing Account, Subordinate Bond Proceeds Account, Construction Account, Debt Service Account, Tourism Revenue Clearing Account, and Pledged Facility Revenue Clearing Account. The use of the term "account" for these separate activities does not have any particular accounting significance. The Authority is not required to and does not publish separate financial statements for any of the individual accounts.

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

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

COMPARATIVE ANALYSIS – FINANCIAL STATEMENTS

Overview of the Financial Statements and Financial Analysis

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

Statements of Net Assets

The Authority's Statements of Net Assets presents the assets, liabilities, and the net assets for the years ended June 30, 2003 and 2002. The Statements of Net Assets are to provide the reader with a financial picture of the Authority's assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

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

Statements of Net Assets

	June 30	
	2003	2002
Assets		
Current assets	\$235,383,805	\$ 8,239,667
Net capital assets	31,289,353	20,739,061
Noncurrent assets	4,422,457	-
Total assets	<u>271,095,615</u>	<u>28,978,728</u>
Liabilities		
Current liabilities	10,420,085	38,254,697
Noncurrent liabilities	262,267,275	3,301,586
Total liabilities	<u>272,687,360</u>	<u>41,556,283</u>
Net assets		
Invested in capital assets, net of related debt	86,042	94,296
Restricted	-	-
Unrestricted deficit	(1,677,787)	(12,671,851)
Total net assets	<u>\$ (1,591,745)</u>	<u>\$(12,577,555)</u>

Total assets increased 835 percent, \$242,116,887, between the fiscal years ending June 30, 2003 and 2002. This change is primarily related to an increase in cash balances as a result of the February 2003 sale of \$221,950,000 in Senior Bonds – issued to finance the majority of the Authority’s MPF construction costs. Total assets increased as a result of several other factors. Net capital expenditures increased approximately \$10.6 million for Multipurpose Stadium Facility (“MPF”) design and pre-construction costs. Of this total the Cardinals’ organization contributed \$1,061,189. The Authority recorded \$4,422,457 in deferred bond financing costs, net of amortization of \$31,032 at June 30, 2003, related to the Senior and Subordinate bond issues.

Total liabilities for the same period increased by \$231,131,077 or 556 percent. Current liabilities decreased by \$27,834,612 as the Authority paid, in full, its obligations for the stadium term loan to Wells Fargo Bank and Bank One and to the City of Surprise. Accounts payable decreased by \$1,814,264 as the Authority paid, using its senior bond proceeds, the balance of its outstanding MPF payables. Noncurrent liabilities increased a total of \$258,965,689 in part as the Authority recorded liabilities for the senior bond sale, \$221,950,000, and \$32,400,000 for the Subordinate Bonds.

Overall, the Authority’s total net assets increased a total of \$10,985,810 from the prior fiscal year due primarily to the Authority’s nonoperating revenues exceeding its operating expenses.

Statements of Revenues, Expenses and Changes in Net Assets

The change to Net Assets as seen on the Statement of Net Assets is based on the activity that is presented on the Statement of Revenues, Expenses and Changes in Net Assets. The presentation of the Statement reflects the revenues and expenses for the Authority during the years ended June 30, 2003 and 2002. The reader will see the revenues and expenses broken down into operating and nonoperating categories.

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2003	2002
Operating revenues	\$ -	\$ 494
Operating expenses	6,136,171	8,138,586
Operating loss	(6,136,171)	(8,138,092)
Nonoperating revenues	16,060,792	13,937,010
Net income before contributions	9,924,621	5,798,918
Capital contributions	1,061,189	3,570,523
Increase in net assets	10,985,810	9,369,441
Net assets, beginning of year	(12,577,555)	(21,946,996)
Net assets, end of year	\$ (1,591,745)	\$ (12,577,555)

The Authority received no operating revenues during fiscal year 2003 compared to the minimal \$494 received in the prior year. The Authority is expected to receive minimal operating revenues until the MPF is open and operational at the start of fiscal year 2007.

The fiscal year ending June 30, 2003, was the Authority's second full year of operations. During fiscal year 2003 the Authority incurred \$6,136,171 in operating expenses – a decrease of \$2,002,415 from the prior year. This improved result is attributable to several factors of which the resolution of two significant events made the greatest impact. The first event was the Authority's selection, in August 2002, of Glendale, Arizona, as the site for the multipurpose facility stadium. The second event was the Arizona Supreme Court's refusal to hear the Long appeal in December 2002. The resolution of these events significantly reduced the related legal, consulting and professional expenses – a total reduction of \$2,110,438. In addition, two employees resigned during the year and were not replaced resulting in an estimated savings of \$134,684. Offsetting these reductions were increases of \$201,667 and \$183,368, respectively, for the Arizona tourism distribution, and investment management fees related to the investment of the surplus bond proceeds.

The Authority's non-operating revenues (expenses) are currently the organization's primary sources (uses) of funding. For fiscal year 2003 the Authority recorded \$16,060,792 in net non-operating revenues, an increase of \$2,123,782, 15.2 percent, over fiscal year 2002. Among the events accounting for this net improvement are the following:

- Cactus League facility expenses recorded a net increase of \$3,165,000. This resulted from a net reduction in expenses recorded for the City of Surprise spring training project of \$1,200,000 and the addition of new expenses of \$4,365,000 for a new renovation project between the Authority and the City of Phoenix. The Authority recorded a final \$2,400,000 for the Surprise project in fiscal year 2003 which was \$1,200,000 less than the prior year. The \$4,365,000 million in new expenses were provided to the City of Phoenix in May 2003 for their planned renovation of Phoenix Municipal Stadium – spring training home of the Oakland Athletics.
- \$3,431,640 fewer youth and amateur sports expenses were recorded in fiscal year 2003. as a result of the prior year's expensing of the project in Avondale, Arizona.
- In fiscal year 2003 there was an improvement in the hotel bed tax and car rental surcharge revenues of \$470,020, 4.8 percent, and \$722,125, 10.6 percent, respectively. These increases are attributable to the slow, but steadily improving tourism industry both in Arizona and nationwide.
- The Authority experienced a net decrease in the NFL income taxes of \$636,552, 14.4 percent, from the prior year. This revenue source is related to the state income tax liability of the Cardinals' organization and their personnel – both administrative and player. While the Authority receives limited information about this revenue source, it is assumed that the lagging economy and the stock market's poor performance has contributed to this decrease.
- Interest income increased by \$732,404 over the prior period due to large account balances associated with the February 2003 sale of \$221.95 million in Senior Bonds. Interest expense increased by \$558,387 related to the Subordinate Bond's accrued interest payable. The interest paid on the Senior Bonds is capitalized as part of the MPF stadium's cost.
- In fiscal year 2002 there was a one-time fixed asset write-off of \$1,114,316 for capital expenditures primarily related to the original multipurpose stadium facility site in Tempe, Arizona, and the Authority's decision to abandon it in November 2001. There were no gains or losses recorded in fiscal year 2003 with respect to the Authority's capital assets.

Fiscal year 2003 was a transition year for the MPF stadium project. Prior to the final quarter there had been minimal activity in part due to the Authority's inability to issue its bonds as a result of the Long lawsuit. Once the lawsuit was resolved, the Authority issued its Senior Bonds in February 2003. In addition, during this time, the Authority and the Cardinals entered into a Project Management Agreement whereby the pro rata contribution formula would be suspended until a certain spending limit had been reached. During this temporary suspension the Authority would provide 100 percent of the capital contributions. As a result of this agreement, the Cardinals provided \$1,061,189 in new capital contributions toward the construction of the MPF

stadium during fiscal year 2003 – a net decrease of \$2,509,334 from the previous year. The Cardinals’ current commitment to the multipurpose stadium facility project is \$104 million.

Statements of Cash Flow

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

Statements of Cash Flows

	Year Ended June 30	
	2003	2002
Cash (used in) provided by:		
Operating activities	\$ (11,704,739)	\$ (11,443,109)
Noncapital financing activities	(11,042,676)	18,478,813
Capital and related financing activities	249,204,387	(7,862,013)
Investing activities	698,291	136,887
Net increase (decrease) in cash and cash equivalents	<u>227,155,263</u>	<u>(689,422)</u>
Cash and cash equivalents, beginning of year	<u>5,574,877</u>	<u>6,264,299</u>
Cash and cash equivalents, end of year	<u>\$ 232,730,140</u>	<u>\$ 5,574,877</u>

Fiscal year 2003 represented the Authority’s second full year of operations which included the issuance of Senior and Subordinate Bonds. During the year the Authority employed five full-time employees for much of the year and was engaged in all activities under its charter.

For the fiscal year ended June 30, 2003, the Authority realized an overall net increase in cash and cash equivalents of \$227,155,263 compared to the prior period’s net decrease of \$689,422. The primary reason for this significant change is due to the Authority’s capital and related financing activities. In February 2003 the Authority issued its Senior and Subordinate Bonds for \$221.95 million and \$32.4 million, respectively. The Senior Bonds are the Authority’s primary source of funds for its portion of the multipurpose stadium facility project. The Subordinate Bonds were issued in order to fulfill the Authority’s obligation to the City of Surprise which was paid in full in February 2003. The result of bond sales resulted in additions to capital and financing activities of approximately \$256 million. The one significant event that decreased this amount was the final stadium term loan payment of \$5 million in December 2002.

The Authority used cash flows in its operating activities during fiscal year 2003 of \$11,704,739. This represented an increase of \$261,630 from the prior year. This increase resulted from an increase of \$307,183 in payments to suppliers which was offset by a decrease in payments to employees of \$46,047.

There was a net decrease in cash flow from non-capital financing activities of \$29,521,489 during fiscal 2003. The major contributing factor for this decrease was the Authority's fulfillment of its obligation to the City of Surprise. The Authority accrued an additional \$2.4 million related to its existing agreement and made a final payment of \$28,742,803 from the Subordinate Bond proceeds to the City of Surprise.

Capital Assets and Debt Administration

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

Report of Independent Auditors

The Board of Directors
Tourism and Sports Authority

We have audited the accompanying basic financial statements of the Tourism and Sports Authority (the "Authority") as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these 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.

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, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

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

Ernst & Young LLP

January 5, 2004

Tourism and Sports Authority

Statements of Net Assets

	June 30	
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents – restricted	\$ 232,730,140	\$ 5,574,877
Hotel bed tax and car rental surcharge receivables	2,587,894	2,656,544
Other assets	65,771	8,246
Total current assets	235,383,805	8,239,667
Noncurrent assets:		
Capital assets, net	31,289,353	20,739,061
Deferred bond issue costs, net	4,422,457	–
Total noncurrent assets	35,711,810	20,739,061
Total assets	\$ 271,095,615	\$ 28,978,728
Liabilities		
Current liabilities:		
Accounts payable	\$ 4,353,095	\$ 6,167,359
Accrued expenses	464,440	443,245
Stadium Term Loan	–	5,000,000
Payable to City of Surprise	–	26,342,803
Payable to South Mountain YMCA	–	150,000
Current portion of payable to City of Avondale	314,584	138,542
Bond interest payable	5,278,658	–
Current portion of obligation under capital lease	9,308	12,748
Total current liabilities	10,420,085	38,254,697
Noncurrent liabilities:		
Payable to City of Avondale	2,825,832	3,292,278
Long-term portion of obligation under capital lease	–	9,308
Bonds payable	259,441,443	–
Total noncurrent liabilities	262,267,275	3,301,586
Total liabilities	272,687,360	41,556,283
Net assets		
Invested in capital assets, net of related debt	86,042	94,296
Restricted	–	–
Unrestricted deficit	(1,677,787)	(12,671,851)
Total net assets	(1,591,745)	(12,577,555)
Total liabilities and net assets	\$ 271,095,615	\$ 28,978,728

See accompanying notes.

Tourism and Sports Authority

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2003	2002
Operating revenues		
Other operating revenues	\$ —	\$ 494
Total operating revenues	<u> —</u>	<u> 494</u>
Operating expenses		
Legal	215,666	1,390,313
Arizona tourism distribution	4,235,000	4,033,333
Consulting	127,450	763,492
Payroll	581,988	707,331
Professional fees	268,875	568,624
Marketing and promotion	106,626	118,767
Bank management and service fees	199,905	16,537
Insurance	102,164	138,584
Travel	11,192	3,006
Meetings	10,901	9,555
Office	30,272	56,432
Site selection	51,626	172,973
Communications	26,549	38,420
Rent	104,981	93,591
Depreciation	31,944	27,628
Amortization of deferred bond issue costs	31,032	—
Total operating expenses	<u>6,136,171</u>	<u>8,138,586</u>
Operating loss	(6,136,171)	(8,138,092)
Nonoperating revenues (expenses)		
Cactus League facility expense	(6,765,000)	(3,600,000)
City of Avondale facility income (expense)	820	(3,430,820)
Hotel bed tax	10,281,047	9,811,027
Rental car tax	7,547,102	6,824,977
NFL Income Tax	3,784,320	4,420,872
Sales tax recapture	959,610	946,394
Interest income	869,291	136,887
Interest expense	(616,398)	(58,011)
Loss on disposal of capital assets	—	(1,114,316)
Total nonoperating revenues	<u>16,060,792</u>	<u>13,937,010</u>
Net income before contributions	9,924,621	5,798,918
Capital contributions	1,061,189	3,570,523
Increase in net assets	10,985,810	9,369,441
Net assets, beginning of year	(12,577,555)	(21,946,996)
Net assets, end of year	<u><u>\$ (1,591,745)</u></u>	<u><u>\$ (12,577,555)</u></u>

See accompanying notes.

Tourism and Sports Authority

Statements of Cash Flows

	Year Ended June 30	
	2003	2002
Cash flows from operating activities		
Payments to suppliers	\$ (11,122,751)	\$ (10,815,568)
Payments to employees	(581,988)	(628,035)
Other receipts	-	494
Net cash used in operating activities	(11,704,739)	(11,443,109)
Cash flows from noncapital financing activities		
Payments for Cactus League facilities – City of Surprise	(28,742,803)	(3,257,197)
Payments for Cactus League – City of Phoenix	(4,365,000)	-
Payments for Youth and Amateur Sports – City of Avondale	(290,404)	-
Payments for Youth and Amateur Sports – South Mountain YMCA	(150,000)	-
Receipts from hotel bed tax	10,228,577	9,901,026
Receipts from rental car tax	7,668,222	6,505,525
Receipts from NFL Income tax	3,784,320	4,420,872
Receipts from sales tax recapture	959,610	948,394
Interest payments	(135,198)	(39,807)
Net cash (used in) provided by non-capital financing activities	(11,042,676)	18,478,813
Cash flows from capital and related financing activities		
Capital contributions	1,061,189	3,570,523
Proceeds from line of credit	-	2,000,000
Payments on line of credit	-	(3,000,000)
Proceeds from stadium term loan	-	8,087,500
Payments on stadium term loan	(5,000,000)	(7,000,000)
Proceeds from Senior and Subordinate Bonds	255,890,434	-
Payments for bond issue costs	(448,631)	-
Payments on capital leases	(12,748)	(11,426)
Acquisition and construction of capital assets	(2,285,857)	(11,508,610)
Net cash provided by (used in) capital and related financing activities	249,204,387	(7,862,013)
Cash flows from investing activities		
Interest received	698,291	136,887
Net cash provided by investing activities	698,291	136,887
Net increase (decrease) in cash and cash equivalents	227,155,263	(689,422)
Cash and cash equivalents at beginning of year	5,574,877	6,264,299
Cash and cash equivalents at end of year	\$ 232,730,140	\$ 5,574,877
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (6,136,171)	\$ (8,138,092)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	31,944	27,628
Amortization of deferred bond issue costs	31,032	-
Amortization of bond premium	(37,097)	-
Effects of changes in assets and liabilities:		
Other assets	(57,525)	4,392
Accounts payable	(5,558,117)	(2,668,801)
Accrued expenses	21,195	(668,236)
Net cash used in operating activities	\$ (11,704,739)	\$ (11,443,109)

Tourism and Sports Authority
 Statements of Cash Flows (continued)

	Year Ended June 30	
	2003	2002
Supplemental noncash investing activities		
Note payable issued to City of Surprise	\$ 2,400,000	\$ 3,600,000
Acquisition of capital assets with accounts payable	\$ 4,049,074	\$ 5,141,344
Accrued interest payable capitalized to capital assets	\$ 4,247,306	\$ -
<i>See accompanying notes.</i>		

Tourism and Sports Authority

Notes to Financial Statements

June 30, 2003

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 stadium 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*, not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. The Authority has elected to implement GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Government*; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The Authority's books and records include separate accounts: a general account, construction account, tourism revenue clearing account, non-pledged facility revenue clearing account, tourism account, youth and amateur sports account, debt service account, subordinate bond proceeds account, Cactus League account, and pledged facility revenue clearing account. These "accounts" have been combined in the accompanying financial statements. All material interaccount transactions have been eliminated.

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

Tourism and Sports Authority

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Cash Equivalents

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

Capital Assets

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

Costs of Borrowing

The Authority has deferred bond issue costs of \$4,422,457, net of accumulated amortization of \$31,032 at June 30, 2003, related to the issuance of the Senior and Subordinate Bonds (Note 9). The Authority amortizes deferred bond issue costs using the effective interest method over the term of the bonds. Interest cost incurred on borrowed funds during the period of construction of the Multipurpose Stadium Facility is capitalized as a component of capital assets as a cost of acquiring those assets.

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 bed tax is a one percent tax on lodging transactions in Maricopa County. The State of Arizona collects the car rental surcharge and hotel tax on behalf of the Authority and remits the funds to the Authority when collected. The income taxes related to a professional football franchise are a distribution of funds related to income taxes paid by the

Tourism and Sports Authority

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 stadium facility and sales taxes collected on construction activity for the multipurpose stadium facility. Event earnings are amounts collected as non-football events are held at the multipurpose stadium facility. Facility user rentals are amounts to be paid by the Cardinals and the Fiesta Bowl for use of the multipurpose stadium facility. Once the multipurpose stadium facility is operational, the Cardinals will pay \$250,000 per year growing at two percent per year thereafter. The Fiesta Bowl will have a ticket surcharge of \$2.50 per ticket with an annual escalation of \$0.20 per ticket. Revenue from each of the revenue sources is recognized as it is earned, except for income taxes related to a professional football franchise, sales tax recapture and the Fiesta Bowl ticket surcharge that are recognized when paid.

Legal Expense

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

	2003	2002
General:		
Multipurpose stadium facility project	\$ 35,014	\$ 79,061
Youth and amateur sports	8,125	20,751
Cactus league	11,013	42,814
John F. Long lawsuit	90,873	636,404
Other	70,641	508,015
Bond counsel	—	103,268
	<u>\$ 215,666</u>	<u>\$1,390,313</u>

Description of Accounts

Tourism Revenue Clearing Account

The Tourism Revenue Clearing Account (the “TRCA”) receives the tourism tax revenues from the hotel bed tax and the car rental surcharge. The taxes began in March 2001 and will be collected through February 2031. These revenues are then distributed the following month in the following order of priority. The first priority is to the actual debt service on bonds issued to finance the construction of the multipurpose stadium 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 account based on \$4.0 million in the first 12 months growing by five percent every 12-month period thereafter during the term of the tourism taxes. The third funding priority is to promote and market Cactus League baseball as well as to meet

Tourism and Sports Authority

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

the Subordinate Bond debt service requirements. This account will receive \$250,000 per month during the first 84 months and increases per the statute's requirements thereafter. The fourth funding priority is youth and amateur sports, which is to receive \$1.0 million in its first 12 months increasing by \$100,000 every 12-month period thereafter during the term of the tourism taxes. The next priority is the Authority's annual operating budget, which is reviewed and approved by the board of directors in June of each year. The distribution is based on the total fiscal year's operating budget divided into equal monthly installments. The final funding priorities are for three reserve accounts: the youth and amateur sports reserve, the operating reserve and a capital repair and replacement reserve.

In February 2003, as a result of the issuance of the Senior Bonds, all related Tourism Revenue Clearing Account revenues have been held in trust by the designated trustee, Bank One Global Trust Services, under the terms of the trust indenture. Effective October 31, 2003, J. P. Morgan purchased Bank One's corporate trust operations. At the present time, all existing terms and conditions under the original trust indenture remain in effect without change or modification except for the change in the name of the trustee.

Facility Revenue Clearing Accounts – Pledged and Non-Pledged

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

The Pledged Facility Revenue Clearing Account receives the following revenue sources: the professional football related portion of the NFL Franchise income tax for the Cardinals' organization and its employees, the state sales tax recapture revenues from ticket sales and hard and soft concession sales at Cardinals' home games played currently at ASU's Sun Devil

Tourism and Sports Authority

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Stadium (this will also apply once the multipurpose stadium facility is open and operating), a ticket surcharge on Fiesta Bowl tickets at the rate of \$2.50 per ticket increasing at \$0.20 per year thereafter over the term of the lease agreement, annual rent paid to the Authority by the Cardinals (\$250,000 in year one increasing by 2.0 percent per year over the term of the lease) and other events' revenues from the multipurpose stadium facility's operations. These revenues are used for one primary purpose – to fund the debt service for the multipurpose stadium facility bonds and the Cactus League bonds.

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

3. Deposits

At June 30, 2003, the Authority had total cash and cash equivalents on deposit of \$232,730,140 through its commercial bank and bond trustee accounts.

The Authority's commercial bank accounts accounted for a total of \$7,216,265 of all cash and cash equivalents. The Authority, at June 30, 2003, had cash and cash equivalents with a carrying value of \$7,178,651 invested in overnight repurchase agreements.

The carrying value of all other commercial bank deposits at June 30, 2003 was \$37,614. These deposit balances are covered by federal depository insurance.

The Authority had money market funds of \$225,513,875 at June 30, 2003 that are reflected on the balance sheet at cost of \$225,342,875 plus accrued interest of \$171,000 and are held by the bond trustee. Proceeds to purchase these marketable securities were derived from the Authority's senior bond issue, related debt service accounts for both the senior and subordinate bond issues, Cactus League, Tourism Revenue and Pledged Facility Revenue Clearing Accounts. The money market fund is the Bank One Institutional Prime Money Market Fund which is AAA-rated, NAIC approved and under the Authority's permitted investments.

4. Operations

In October 2000, the Authority entered into a binding Memorandum of Understanding with the Cardinals and the Arizona Sports Foundation (the "Foundation") working on behalf of the Fiesta Bowl. The Cardinals originally agreed and are statutorily obligated to contribute \$85 million toward the development and construction costs of the multipurpose stadium facility 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 stadium facility. The Cardinals will pay rent in the amount of \$250,000 with a two percent annual increase from base rent. The Cardinals will

Tourism and Sports Authority

Notes to Financial Statements

4. Operations (continued)

receive use of the multipurpose stadium facility for all home games, space for a team shop, office space, video production, locker room and training room space. The Cardinals will sell and receive the gross proceeds from all tickets for pre-season, regular season and post-season NFL games conducted at the facility in which the Cardinals are a participant. The Cardinals are responsible for marketing the luxury suites and club seats and will receive all revenues generated thereby. The Cardinals will also receive all net concession from home games and naming rights revenues from the facility. The Authority is responsible for all operating expenses of the facility.

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>2003</u>	<u>2002</u>
Cash and cash equivalents	\$232,730,140	\$ 5,574,877
Hotel tax receivable	1,395,471	1,343,001
Car rental surcharge receivable	1,192,423	1,313,543
Total	<u>\$235,318,034</u>	<u>\$ 8,231,421</u>

All cash and cash equivalents are restricted as to use by the State of Arizona. Restrictions on use are as follows: cash in the general account is used for the Authority's approved annual operating budget and/or for meeting the Authority's operating reserve and/or capital reserve requirements. Cash in the youth and amateur sports account is for those purposes as approved by the Board for various grants. Cash in the Cactus League account is restricted to the promotion of spring training baseball (e.g., renovations, marketing, etc.). Cash in the tourism account is used for tourism promotion purposes. Cash in the construction account is used for financing the

Tourism and Sports Authority

Notes to Financial Statements

5. Restricted Assets (continued)

multipurpose stadium facility project. Cash in the non-pledged facility revenue clearing account is a pass-through account that funds the operating budget. Cash in the pledged facility revenue clearing account is for meeting the debt service requirements. Cash in the tourism revenue clearing account is used for meeting the various waterfall requirements that include all of the above. Cash in the debt service accounts, including the subordinate reserve, are used for meeting our bondholder obligations.

6. Capital Assets

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

	<u>Balance at June 30, 2001</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2002</u>
Capital assets not being depreciated:				
Multipurpose stadium facility	\$ 5,131,993	\$16,603,805	\$(1,113,089)	\$20,622,709
Capital assets being depreciated:				
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
	<u>5,237,240</u>	<u>16,647,585</u>	<u>(1,114,316)</u>	<u>20,770,509</u>
Less accumulated depreciation:				
Computer equipment	(1,922)	(5,128)	2,368	(4,682)
Furniture and fixtures	(998)	(7,538)	-	(8,536)
Office equipment	(32)	(1,505)	-	(1,537)
Capitalized software	(123)	(1,004)	-	(1,127)
Assets under capital lease	(3,113)	(12,453)	-	(15,566)
	<u>(6,188)</u>	<u>(27,628)</u>	<u>2,368</u>	<u>(31,448)</u>
	<u>\$ 5,231,052</u>	<u>\$16,619,957</u>	<u>\$1,111,948</u>	<u>\$20,739,061</u>

Tourism and Sports Authority

Notes to Financial Statements

6. Capital Assets (continued)

	Balance at June 30, 2002	Additions	Disposals	Balance at June 30, 2003
Capital assets not being depreciated:				
Multipurpose stadium facility	\$20,622,709	\$10,580,602	\$ -	\$31,203,311
Capital assets being depreciated:				
Computer equipment	39,588	-	-	39,588
Furniture and fixtures	54,805	917	-	55,722
Office equipment	10,787	-	-	10,787
Capitalized software	5,260	717	-	5,977
Assets under capital lease	37,360	-	-	37,360
	<u>20,770,509</u>	<u>10,582,236</u>	<u>-</u>	<u>31,352,745</u>
Less accumulated depreciation:				
Computer equipment	(4,682)	(7,490)	-	(12,172)
Furniture and fixtures	(8,536)	(8,863)	-	(17,399)
Office equipment	(1,537)	(1,942)	-	(3,479)
Capitalized software	(1,127)	(1,196)	-	(2,323)
Assets under capital lease	(15,566)	(12,453)	-	(28,019)
	<u>(31,448)</u>	<u>(31,944)</u>	<u>-</u>	<u>(63,392)</u>
	<u>\$20,739,061</u>	<u>\$10,550,292</u>	<u>\$ -</u>	<u>\$31,289,353</u>

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

7. Credit Facility

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

The Authority incurred \$115,225 and \$573,090 of interest on the stadium term loan borrowing of which \$115,225 and \$515,079 were capitalized for the years ended June 30, 2003 and 2002, respectively.

Tourism and Sports Authority

Notes to Financial Statements

8. Payable to the City of Surprise

In May 2001, the Authority committed to contribute an amount not to exceed \$26 million to the City of Surprise Cactus League Project for the construction of a new Cactus League facility. Until the resolution of the Long lawsuit in December 2002 (Note 14), the Authority had been unable to issue the bonds related to the payment of the \$26 million to the City of Surprise. In order to provide additional financial assistance to allow the City of Surprise to continue forward with the project and not incur any delays or additional project construction costs, the Authority and the City of Surprise entered into two separate amendments to the original Intergovernmental Agreement. The first amendment was executed in December 2001 and provided to the City of Surprise, on a loan basis, the funds that were being deposited into the Authority's Cactus League Promotion Account at the rate of \$250,000 per month. The second amendment, executed in January 2002, agreed to provide the City of Surprise with up to an additional \$6.0 million in bond proceeds if the Authority was unable to issue bonds between January and October of 2002. The agreement stated that for every month the Authority was unable to issue bonds, an additional \$600,000 would be accrued as a liability by the Authority. The Authority paid out \$28,742,803 and \$3,257,197 to the City of Surprise during the years ended June 30, 2003 and 2002, respectively. In February 2003, the Authority issued \$32.4 million in Subordinate Bonds for the primary purpose of fulfilling its outstanding obligation to the City of Surprise at which time the Authority paid all remaining obligations to the City of Surprise (Note 9).

9. Bonds Payable

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

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

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

Tourism and Sports Authority

Notes to Financial Statements

9. Bonds Payable (continued)

A Subordinate Bond reserve requirement is required under the terms of the indenture governing the Subordinate Bonds. There are several options available to the Authority for fulfilling this requirement. The Authority has opted for the 10 percent of the original principal amount of all series of Subordinate Bonds any of which remain outstanding. This equates to a total reserve balance of \$3.2 million which must be fully funded by February 2008. The Authority is using Cactus League funds to meet this requirement.

At June 30, 2003, the Authority has the following bonds outstanding:

Tax Revenue Bonds, Series 2003A, interest from 3.00 percent to 5.375 percent, due through 2031 (“Senior Bonds”)	\$ 221,950,000
Subordinate Tax Revenue Bonds, Series 2003, interest from 2.25 percent to 5.00 percent, due through 2016 (“Subordinate Bonds”)	32,400,000
	254,350,000
Plus unamortized premium	5,091,443
Bonds payable	\$ 259,441,443

Debt service requirements subsequent to June 30, 2003 are as follows:

Year Ending June 30	Principal Maturities	Interest	Total
2004	\$ —	\$ 11,613,049	\$ 11,613,049
2005	795,000	12,659,838	13,454,838
2006	810,000	12,639,756	13,449,756
2007	830,000	12,616,169	13,446,169
2008	1,505,000	12,576,144	14,081,144
2009-2013	22,235,000	60,622,309	82,857,309
2014-2018	37,475,000	53,278,088	90,753,088
2019-2023	53,305,000	41,439,622	94,744,622
2024-2028	69,075,000	25,574,741	94,649,741
2029-2032	68,320,000	7,040,250	75,360,250
	\$ 254,350,000	\$ 250,059,966	\$ 504,409,966

Tourism and Sports Authority
Notes to Financial Statements

10. Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2003 was as follows:

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

11. Sources of Pledged Revenues

The following are the Revenue Sources Pledged related to the senior note, for the year ended June 30, 2003, as follows:

Hotel bed tax	\$ 10,281,047
Rental car tax	7,547,102
Sales tax recapture	959,610
NFL Income Tax	3,614,122
Total	<u>\$ 22,401,881</u>

12. Leases

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

Tourism and Sports Authority

Notes to Financial Statements

12. Leases (continued)

Future minimum payments under noncancelable operating leases with initial terms of one year or more and under capital leases at June 30, 2003, are summarized as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2004	\$ 9,697	\$109,701
2005	-	111,494
2006	-	93,210
	<u>9,697</u>	<u>\$314,405</u>
Less amount representing interest	<u>(389)</u>	
Present value of minimum lease payment	<u>\$ 9,308</u>	

Total rental expense for all operating leases was approximately \$104,981 and \$93,591 for the years ended June 30, 2003 and 2002, respectively.

13. Capital Contributions

The Authority has received commitments from the Cardinals for contributions toward the construction of the multipurpose stadium facility. The Cardinals have pledged up to \$104 million to the multipurpose stadium facility project. The Cardinals' contributions are for the construction of the multipurpose stadium facility. Under the terms of a Construction Trust Agreement executed on August 12, 2003, the Cardinals and the Authority will provide their pro rata amounts to be paid toward the project on a monthly basis. As certain terms and conditions regarding the Cardinals' portion of their financing had not been met as of June 30, 2003, their 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 \$4,228,017 through fiscal year 2002 and provided an additional \$1,061,189 during fiscal year 2003 for a total contribution of \$5,289,206 as of June 30, 2003.

14. Commitments and Contingencies

General

On August 12, 2003, the Authority and the Cardinals entered into a Design Build Agreement with the project's general contractor. This agreement defines the terms and conditions for the construction of the multipurpose stadium facility. The multipurpose stadium facility is scheduled for completion by August 2006 and is estimated to cost \$370.6 million of which approximately

Tourism and Sports Authority

Notes to Financial Statements

14. Commitments and Contingencies (continued)

\$357.8 million is associated with the Gross Maximum Price agreement with the General Contractor and \$12.8 million are project costs to be paid directly by the Authority and the Cardinals. The Authority's contribution to the project's cost will approximate \$266.6 million while the Cardinals will contribute approximately \$104.0 million. The Authority's contribution will come from \$222.0 million in tax-exempt bonds issued in February 2003, \$17.1 million in recaptured state sales taxes imposed on the multipurpose stadium facility project, approximately \$6.0 million in investment earnings on the bond proceeds, \$7.5 million in future equipment leaseback arrangements, \$1.5 million of other contributions and \$12.5 million in credit for prior project expenditures. Construction of the facility began on July 30, 2003, with the start of mass excavation. During the course of the multipurpose stadium's construction, the Authority will provide its portion of the construction funding from proceeds from the sale of bonds to be repaid from the hotel and car rental taxes as well as the NFL income tax (pledged portion only), state sales tax recapture and revenues from future events to be held at the multipurpose stadium facility discussed herein. Prior to the start of construction, certain pre-construction costs have been incurred related to this project which have been partially paid through a bridge loan and, more recently, with the available senior bond proceeds. The Authority, as of June 30, 2003, owes \$4,049,074 related to the multipurpose stadium facility construction costs primarily for architectural and engineering design work.

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

The legal action brought forward by Long during 2001, which challenged the constitutionality of the Authority, ended successfully on December 5, 2002. On that date, the Arizona Supreme Court issued its decision to refuse to hear Long's appeal. The court's refusal to hear Long's appeal removed the last impediment to the Authority's moving forward on the multipurpose stadium facility project as well as those projects related to Cactus League and youth and amateur sports.

Grants

The Authority, as part of its original charter, is to fund the youth and amateur sports account with \$1 million in year one growing at \$100,000 per year thereafter for 30 years. During this period, the Authority will have granted \$73.5 million to various projects and organizations. The Authority through its Youth and Amateur Sports Committee has implemented a formal grant process. As of June 30, 2003, the Authority's board of directors had approved three projects. The

Tourism and Sports Authority

Notes to Financial Statements

14. Commitments and Contingencies (continued)

first grant was approved on May 21, 2001, for \$150,000 for the South Mountain YMCA. This grant was paid in full on February 27, 2003.

The second grant was approved on September 28, 2001, for \$3.4 million for the City of Avondale. This grant will fund two-thirds of a regional multipurpose sport fields project that will be front-funded by the City of Avondale with the Authority's contributions being paid over time ending in 2013. During the term of the contributions, the Authority will provide an additional amount in financing costs equal to Avondale's financing costs related to their bond issue (2.98 percent). As of June 30, 2003, the Authority has accrued \$3,140,416 related to the Avondale grant.

The third project was approved as part of the Authority's September 3, 2002, Design and Development Agreement with the City of Glendale. In this agreement the Authority has agreed to provide \$1.0 million in funding to the City of Glendale for youth and amateur sports fields in proximity to the multipurpose stadium facility site. This funding is contingent upon the City of Glendale acquiring the necessary land for the fields. As of the end of December 2003 the City of Glendale had not met this requirement. Accordingly, no amount has been recorded for this pledge as of June 30, 2003.

15. Defined Benefit Plan

The Authority and its employees are members of the Arizona State Retirement System's Defined Benefit Plan ("Plan"), which is administered by the Arizona State Retirement System ("ASRS"). Under the plan, both the employee and the employer contribute an equal percentage based on the employees' gross wages. Employee contributions are calculated on a pre-tax basis. The current contribution percentage is 5.20 percent as determined by the ASRS. Retirement benefits are determined by ASRS based on the member's credited service along with the member's final average salary. For the years ended June 30, 2003 and 2002, the Authority made contributions of approximately \$10,384 and \$21,769, respectively, to the Plan.

Tourism and Sports Authority

Notes to Financial Statements

16. Subsequent Events

Youth and Amateur Sports

In July 2003, the Authority re-opened its youth and amateur sports grant process to qualified organizations within Maricopa County. Organizations requesting funds from the Authority's youth and amateur sports account were required to complete a grant request by September 19, 2003. The Authority received a total of 92 requests exceeding \$35.2 million. An estimated \$2.0 million in grants will be awarded. The Authority, through its staff and oversight committee, will evaluate all of the requests and provide recommendations to the Authority's board of directors. The Authority may fund up to two-thirds of a project's total cost.

Multipurpose Stadium Facility – Land Acquisition

On August 12, 2003, the Authority acquired through a Special Warranty Deed, 25.3 acres of land from the Cardinals. This requirement was part of the agreement between the Cardinals and the City of Glendale.

Philadelphia Insurance Company – Directors and Officers Claim

On July 9, 2003, the Authority filed a claim in the amount of \$694,540 with Philadelphia Insurance Company, ("PIC") who, at the time of the filing of the Long lawsuit, was the Authority's directors and officers' insurance provider. The claim amount was based on the total legal fees paid by the Authority in its defense of the Long lawsuit. PIC initially responded with a payment of \$318,630 in September 2003. The Authority accepted the payment as a partial reduction to the original claim and provided further evidence supporting the original claim amount. The Authority will continue to pursue its claim.