



Basic Financial Statements  
June 30, 2011 and 2010

**AZSTA**  
ARIZONA SPORTS & TOURISM AUTHORITY

Arizona Sports and Tourism Authority

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June 30, 2011 and 2010

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the Arizona Sports and Tourism Authority (the Authority), as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Phoenix, Arizona  
October 28, 2011

# ARIZONA SPORTS AND TOURISM AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### YEAR ENDED JUNE 30, 2011 AND 2010

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The following is management's discussion and analysis of the financial performance of Arizona Sports and Tourism Authority (the Authority). It provides an overview of the Authority's financial activities and financial condition for the year and should be read in conjunction with the Authority's financial statements and accompanying notes.

#### FINANCIAL HIGHLIGHTS

##### Using the Financial Statements

As a business-type activity, the Authority's annual financial reporting includes the basic financial statements and accompanying notes for enterprise funds. The Authority reports on a fiscal year basis.

- 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 Authority's total net assets as of June 30, 2011 decreased a total of \$18,195,944 over the prior fiscal year. Current Assets increased \$613,430 or 1.67 percent. Capital Assets decreased by \$16,741,586, or 3.95 percent, from the annual depreciation expense of \$15,127,604, the recording of an impairment expense to the stadium due to storm damage sustained in 2010 in the amount of \$2,973,989, and from recording of repairs related to the damage in the amount of \$1,360,007.
- Total liabilities as of June 30, 2011 increased a total of \$1,719,515 over 2010. Current liabilities experienced an increase of \$2,887,935, or 18.35 percent. This is primarily a payable due to the Fiesta Bowl Foundation for \$1,493,711. This represents dollars received by the Authority for hosting the BCS National Championship Game at the Stadium in January 2011. The decrease to the non-current liabilities was offset by increases in current payables to the Authority's outstanding Cactus League project commitments. The projects for the cities of Glendale and Goodyear were completed during 2009. In accordance to our existing agreements, the Authority accrues interest each year on the outstanding principal amounts, thereby increasing the current liabilities for these commitments.
- 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.
- Overall, from 2010 to 2011 the decrease in net assets of \$18,195,944 was attributable to normal operating and non-operating conditions with the Authority. Incrementally, there was an increase in expenses from impairment to the stadium of \$2,973,989 for storm damage in 2010. Operating Revenues were lower in 2011 by \$15,795,572 as compared to 2010. The operating revenues reduction is attributable to not having mega-type events generating revenues at the University of Phoenix Stadium during 2011; as there was in 2010. Note that 2010 was the highest ever revenue production from events. Also of note is the fact that Operating Expenses were lowered during 2011 by \$12,817,624; again associated with not having mega-type events to generate higher operating expenses. Year-to-year, the net operating loss increased by \$2,977,948 or 13.23 percent over 2010; driven by the reduction of operating revenues.
- Statements of cash flows summarize the Authority's uses of cash during the year and the sources of cash available to finance those uses. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- For the fiscal year ended June 30, 2011, the Authority realized an overall net increase in cash and cash equivalents at the end of the year of \$1,579,705. This change is attributed to the Authority's operating activities and its focus on cost-cutting of the stadium's operations while revenues are declining. The non-capital financing activities experienced a net increase of \$499,364, or 3.65 percent, versus 2010. This was attributable to the decline in the Authority's primary revenues, the Tourism revenues, in addition to higher payments due to the Cactus League in 2011 vs. 2010.

### 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 tracks separately as is required by Arizona Revised Statute or existing bond indenture documents. These financial activities are referred to as "accounts." These accounts are as follows: Tourism Revenue Clearing Account, Facility Revenue Clearing Account, Senior and Subordinate Bond Debt Service Accounts, Tourism Promotion Account, Cactus League Account, Youth and Amateur Sports Account, and Operating General 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.

- Tourism Revenue Clearing Account collects the tourism tax revenues for the hotel bed tax and the car rental surcharge and then disburses those funds, in order of priority, to the debt service account, the Tourism account, the Cactus League account, Youth and Amateur Sports account, Authority general account to cover the stadium operating budget (including the University of Phoenix Stadium) and the reserve accounts for Youth and Amateur Sports, Operations, and Capital Repair and Replacement.
- Facility Revenue Clearing Account collects the revenues related to the NFL franchise income tax revenues and those revenues directly related to the operation of the Stadium: state and local sales tax recapture, rent from the Arizona Cardinals (the Cardinals), facility use fees, food and beverage commissions, ticket surcharges for the Fiesta Bowl and all other event revenues held at the Stadium. These funds are then disbursed for debt service requirements on senior and subordinate bonds. Any remaining funds go to the operations account.
- Senior and Subordinate Bond Debt Service Accounts represent 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.
- Tourism Promotion Account represents the activities related to providing funding for tourism promotion within Maricopa County.
- Cactus League Account represents the activities of financing new construction and renovations for spring training baseball facilities within Maricopa County.
- Youth and Amateur Sports Account represent those activities related to the promotion and financing of amateur sports projects and programs within Maricopa County.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- Operating General Account represents the Authority's primary aggregating and disbursement account for its operations, which includes the operating expenses of the University of Phoenix Stadium.

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: Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; and, Statements of Cash Flows.

#### Statements of Net Assets

The Authority's Statements of Net Assets presents the following condensed assets, liabilities, and net assets as of June 30, 2011, 2010 and 2009. The Statements of Net Assets are to provide the reader with a financial picture of the Authority's assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

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

	June 30		
	2011	2010	As Restated 2009
<b>Assets</b>			
Current assets	\$ 38,305,883	\$ 37,692,453	\$ 35,534,573
Capital assets non-depreciable	2,773,165	2,773,165	2,773,165
Capital assets depreciable, net	407,201,141	423,942,727	439,470,342
Other noncurrent assets	7,505,166	7,853,439	8,363,215
<b>Total assets</b>	<b>\$ 455,785,355</b>	<b>\$ 472,261,784</b>	<b>\$ 486,141,295</b>
<b>Liabilities</b>			
Current liabilities	18,627,364	15,739,429	17,410,391
Noncurrent liabilities	453,773,734	454,942,154	450,506,534
<b>Total liabilities</b>	<b>472,401,098</b>	<b>470,681,583</b>	<b>467,916,925</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	133,678,223	145,895,828	158,969,640
Unrestricted	(150,293,966)	(144,315,627)	(140,745,270)
<b>Total net assets</b>	<b>(16,615,743)</b>	<b>1,580,201</b>	<b>18,224,370</b>
<b>Total liabilities and net assets</b>	<b>\$ 455,785,355</b>	<b>\$ 472,261,784</b>	<b>\$ 486,141,295</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Total Assets decreased by \$16,476,429 or 3.50 percent between fiscal years ended June 30, 2011 and 2010. This change is primarily related to a net decrease of \$16,741,141 in the value of Capital Assets, Depreciable; which includes the annual depreciation expense of \$15,127,604. Additionally, there was, net of repairs made, a \$1,613,982 impairment reduction to the Stadium for damages sustained by the Stadium in a storm in August 2010.

Total Liabilities for the same period increased by \$1,719,515 or 0.365 percent. Current liabilities experienced an increase of \$2,887,935, or 18.35 percent increase between 2010 and 2011. This is primarily from a payable due to the Fiesta Bowl Foundation of \$1,493,711 for dollars received by the Authority for hosting the BCS National Championship Game at the Stadium in January 2011. The non-current liability section reduced by \$1,168,420 or 0.257 percent year-to-year. The decrease to the non-current liabilities was offset by increases in payables to three of the Authority's four outstanding Cactus league project commitments. The projects for the cities of Glendale and Goodyear were completed during 2009 and in accordance to our existing agreements the Authority began to accrue interest on the outstanding principal amounts thereby increasing our noncurrent liabilities for them.

Overall, the Authority's total net assets as of June 30, 2011 decreased a total of \$18,195,944 over the prior fiscal year.

Between fiscal years ended June 30, 2009 and 2010, total assets decreased by \$13,879,511, or 2.90 percent. This change is primarily related to a decrease of \$15,527,615 in the value of all non-current assets; including the annual depreciation expense of \$15,527,615 and a \$509,766 reduction in deferred bond issue costs. Current assets experienced a net increase of \$2,157,878, or 6.07 percent, between 2009 and 2010 related to the increase in receivables for tourism and sales tax recapture.

Total liabilities for the fiscal years ending June 30, 2009 and 2010, increased by \$2,764,658, or 0.6 percent. Current liabilities had a net decrease of \$1,670,962 while total non-current liabilities increased by \$4,435,620. Current liabilities decreased due to the reversal of the recording of an event liability in relation to the pre-sale of U2 concert tickets as well as a reclassification of \$3,770,000 of non-current bond principle payables to current payables. Non-current liabilities include a negative fair-value on the interest swap agreement of \$6,848,774, increased from 2009 by \$2,975,268. The non-current liability section increased due to the addition of a liability for ROJO Event Management for the \$1,000,000 tied to the concessions agreement signed in 2010.

Overall, the Authority's total net assets as of June 30, 2011 decreased a total of \$16,644,169 or 91.3 percent over the prior fiscal year-ending balance.

### **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, 2011, 2010 and 2009. The reader will see the revenues and expenses broken down into operating and non-operating categories.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Year Ended June 30		
	2011	2010	As Restated 2009
Operating revenues	\$ 7,442,158	\$ 23,237,730	\$ 10,334,245
Operating expenses	(32,924,597)	(45,742,221)	(37,442,327)
Operating loss	(25,482,439)	(22,504,491)	(27,108,082)
Nonoperating revenues	7,286,495	5,860,322	6,304,906
Decrease in net assets	(18,195,944)	(16,644,169)	(20,803,176)
Net assets, beginning of year as previously reported	1,580,201	18,224,370	39,027,546
Net assets, end of year as restated	\$ (16,615,743)	\$ 1,580,201	\$ 18,224,370

Overall, from 2010 to 2011 the decrease in net assets of \$18,195,944 was attributable to normal operating and non-operating conditions with the Authority. Incrementally, there was an increase in expenses from impairment to the stadium of \$2,973,989 for storm damage in 2010. Operating Revenues were lower in 2011 by \$15,795,572 as compared to 2010. The operating revenues reduction is attributable to not having mega-type events generating revenues at the University of Phoenix Stadium during 2011; as there was in 2010. Note that 2010 was the highest ever revenue production from events. Also of note is the fact that Operating Expenses were lowered during 2011 by \$12,817,624; again associated with not having mega-type events to generate higher operating expenses. Year-to-year, the net operating loss increased by \$2,977,948 or 13.233 percent over 2010; driven by the reduction of operating revenues combined with the storm damage expenses.

For fiscal year 2011, the Authority recorded \$7,286,495 in net non-operating revenues; an increase of \$1,426,173 or 24.336 percent over 2010.

The events accounting for this net year-to-year results are as follows:

- The Authority's tourism-based tax revenues consist of two components: the hotel bed tax and the rental car tax surcharge. Hotel bed taxes increased from 2010 to 2011 by \$ 698,630 or 6.047 percent. Rental car tax surcharge decreased \$121,307 or 1.308 percent. On a total tourism-based revenue basis, tourism revenues increased year-to-year, when comparing 2010 and 2011. The increase is \$577,223 or 2.775 percent. This may be an indicator that the tourism industry within Maricopa County is starting to recover; albeit slowly, from the economic recession. The tourism industry in Arizona continues is the state's leading industry sector. We believe that we have seen a bottoming-out of the Tourism-based tax collections and anticipate 2012 will be flat to slightly up when compared to 2011. We continue to forecast that it may take another four to five years before we are back to 2007 level of tax collections in tourism revenues. This is well below the original 30-year tourism revenue forecast for the Authority.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- The Authority experienced a decrease in the NFL income taxes of \$609,075 or 9.487 percent, from the prior year. This decrease is attributed to a one-time correction of prior year taxes received in the prior year, 2010. These 2010 monies were not distributed to the Authority during prior years. Since the start of fiscal year 2008 the Authority's has not had the benefit of this revenue source's guaranteed minimum; as that was repealed by the state legislative and executive branches. The elimination of this guarantee leaves only the actual income taxes for the Authority. Note: this source has been under-performing since the Authority's second year of operations when compared to the original Proposition 302 projections. This revenue source is related to the state income tax liability of the Cardinals' organization: their personnel – both administrative and players.
- The Authority's sales tax recapture revenues were lower by \$450,398 or 6.2 percent less than the prior fiscal year. The primary reason for this decrease is related to mega-event which generated additional sales tax recapture revenues in 2010. Additionally, the Authority requested that the City of Glendale perform in internal review of their historical sales tax recapture distributions. This resulted in a one-time increase to the Authority of \$446,480. The Authority receives both state and local sales tax recapture from all related taxable transactions held at the University of Phoenix Stadium.
- The Authority recorded \$43,566 in expenses related to its 2010 Biennial and Quick grant processes completed in 2011. The Authority recorded \$ 1,585,212 expenses related to Youth and Amateur sports projects in the prior year, 2010. The Authority has chosen to use a biennial cycle in order to accumulate more funds in the Youth and Amateur sports fund, thusly allowing for a bigger, positive impact in the community every 2 years.
- Interest income decreased by \$15,374. This was due to the daily "sweep" functionality of the various Money Market accounts.
- The distribution to the Arizona Office of Tourism increased by \$362,931 or 6.9 percent, over fiscal year 2010. This is the second year the Authority was unable to make the statutory distribution due to the Arizona Office of Tourism due to the continued less-than- originally forecast Tourism tax collections. This sub-statutory distribution is expected to continue throughout the near term as shown in the Authority's annual budgeting process.
- Interest expense increased by \$3,076,342, or 16.32 percent. During 2011 the Authority experienced a significant decrease in the weighted average interest rates paid on its variable rate bonds. However, this decrease was partially offset by the additional interest expense accruing for the Cactus League projects in Goodyear and Glendale.

Overall, from 2009 to 2010 the decrease in net assets of \$ 16,664,169 is attributable to relatively normal operating and non-operating conditions with the Authority for the fiscal year. Operating revenues were higher in 2010 by \$12,903,486 as compared to 2009. Likewise, operating expenses were also higher in 2010 by \$8,229,895. This can be tracked to the impact of more mega-type events generating revenues at the University of Phoenix Stadium and the Authority's focus on reducing operational expenses. The net operating loss was improved by \$4,603,591, or 17.0 percent over 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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For fiscal year 2010, the Authority recorded \$5,860,322 in net non-operating revenues; a decrease of \$444,584 or 7.1 percent over 2009. The vents accounting for this net year-to-year negative result are as follows:

- The Authority recorded \$1,585,212 in expenses related to its 2010 Biennial and Quick grant processes completed in 2010. The Authority recorded \$0 expenses related to Youth and Amateur sports projects in the prior year, 2009.
- The Authority's tourism-based tax revenues, the hotel bed tax and the rental car tax surcharge, decreased for the third year, as the economy as a whole continues to languish in the current recession. The tourism industry in Arizona continues to be adversely impacted as the state's leading industry sector. On a combined basis, our Tourism Revenues were down \$340,990, or 1.2 percent; when compared to 2009. We believe that we have seen a bottoming-out of the Tourism-based tax collections and anticipate future years to be flat to slightly up when compared to 2010. We continue to forecast that it may take another four to five years before we are back to 2007 levels of tax collections in tourism. This is well below the original 30-year tourism revenue forecast for the Authority.
- The Authority experienced an increase in the NFL income taxes of \$2,219,263, or 52.8 percent, in 2010 vs. 2009. This increase is attributed to a one-time correction of prior year taxes which were not distributed to the Authority during those years. Since the start of fiscal year 2008 the Authority's has not had the benefit of this revenue source's guaranteed minimum; as that was repealed by the state legislative and executive branches. The elimination of this guarantee left only the actual income taxes for the Authority. Note: this source has been under-performing since the Authority's second year of operations when compared to the original Proposition 302 projections. This revenue source is related to the state income tax liability of the Cardinals' organization: their personnel – both administrative and players.
- The Authority's sales tax recapture revenues were higher by \$83,884, or 1.2 percent, more than the prior fiscal year. The primary reason for this increase is related to the number of mega-events held at the stadium which generated additional sales tax recapture revenues for the Authority. The Authority receives both state and local sales tax recapture from all related taxable transactions held at the University of Phoenix Stadium. Sales tax recapture revenues were less year-to-year, and included a refund back to the City of Glendale in the amount of \$608,000 for funds that had been previously distributed to the Authority in error across prior years.
- Interest income decreased by \$260,755, or 89.7 percent. This was due to the significant decrease in average investment interest rates.
- The distribution to the Arizona Office of Tourism decreased \$416,003 or 7.3 percent, over fiscal year 2009. This is the first year the Authority was unable to make the statutory distribution due to the Arizona Office of Tourism due to the decrease in Tourism tax collections. This sub-statutory distribution is expected to continue throughout the near-term.
- Interest expense increased by \$2,481,380, or 15.2 percent. During 2010 the Authority experienced a significant decrease (64.1 percent) in the weighted average interest rates paid on its variable rate bonds. However, this decrease was partially offset by the additional interest expense accruing for the Cactus League projects in Goodyear and Glendale. The Authority received \$1,604,000 from the termination of the CMS SWAP which offset some of the increase in interest expense.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Statements of Cash Flow

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

	June 30		
	2011	2010	2009
Cash (used in) Provided by			
Operating activities	\$ (7,273,075)	\$ (9,394,127)	\$ (9,382,934)
Noncapital financing activities	14,189,792	13,690,428	11,994,281
Capital and related financing activities	(5,351,608)	(3,770,000)	(1,012,187)
Investing activities	14,596	29,968	290,725
Net increase in cash and cash equivalents	1,579,705	556,269	1,889,885
Cash and cash equivalents, beginning of year	31,258,099	30,701,830	28,811,945
Cash and cash equivalents, end of year	<u>\$ 32,837,804</u>	<u>\$ 31,258,099</u>	<u>\$ 30,701,830</u>

For the fiscal year ended June 30, 2011, the Authority realized an overall net increase in cash and cash equivalents at the end of the year of \$1,579,705. This change is attributed to the Authority's operating activities and its focus on cost-cutting of the stadium's operations while revenues are declining.

The non-capital financing activities experienced a net increase of \$499,364, or 3.648 percent, versus 2010. This was attributable to the decline in the Authority's primary revenues, the Tourism revenues, in addition to higher payments to the Cactus League in 2011 vs. 2010.

The Authority's investing activities are comprised of overnight investments through fund balance sweeps. Decreased revenues have meant lower, investable balances and this combined with the significant decrease to investment interest rates during 2011 has resulted in an decrease of \$15,372 or 51.295 percent, over 2010.

For the fiscal year ended June 30, 2010, the Authority realized an overall net decrease in cash and cash equivalents at the end of the year of \$556,269, or 1.8 percent. This change is attributed to the Authority's operating activities and its focus on cost cutting to the stadium's operations while revenues are currently declining.

The noncapital financing activities experienced a net increase of \$1,696,147, or 14.1 percent, versus 2009. This was attributable to the decline in the Authority's primary revenues, the tourism revenues, in addition to higher payments to the Cactus league and youth and amateur sports.

The Authority's investing activities are comprised of overnight investments through fund balance sweeps. Decreased revenues have meant lower, investable balances and this combined with the significant decrease to investment interest rates during 2010 has resulted in an increase of \$739,243 or 254.3 percent, over 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Capital Assets and Debt Administration (Note 5)

The Authority had no additions to capital assets during fiscal year 2011.

The Authority had minimal additions to capital assets during fiscal year 2010.

In 2009, the Authority made minimal additions to the capital assets. The Authority, through the City of Glendale, was awarded a \$191,787 Homeland Security grant for security improvements at the University of Phoenix Stadium. Improvements to the security camera system and the addition of bollards at the top of the south end access ramp to the Stadium were made under the grant. The work was completed prior to the end of the fiscal year with the final cash reimbursement being received from the City of Glendale in July 2009.

The cost for the entire stadium project plus the additional improvements was approximately \$464.7 million, including land and on-site improvements, of which the Authority provided an estimated \$303.5 million.

### Debt Obligations

The Authority debt obligations remain relatively unchanged from previous years. The Authority has \$276 million in outstanding senior debt issuance for University of Phoenix Stadium, including \$223 million in fixed rate and \$53 million in variable rate debt. Fixed rate debt service for 2011 included \$1.5 million in principal reduction and \$10.7 million in interest expense. Variable rate debt service for 2011 included \$2.2 million in principal reduction and \$1.2 million in interest expense.

The Authority holds a SWAP in place to manage interest rate expense on the variable rate debt. During 2011, payments and receipts on this resulted in a net payment of \$0.16 million. Due to the bond market dynamics, including the steep yield curve, the Fair Market Value of the Authority's SWAP has increase from 2010. The increase in Fair Market Value of the SWAP (is disclosed in liability on the financial statements. As of the end of 2011, this value of that liability is \$6.002 million.

In 2010, the Authority maintained a Letter of Credit with Allied Irish Bank for credit support of the variable rate debt obligation. Normally this would have resulted in the Authority seeing its interest rate near the SIFMA Index. However, due to the worldwide financial crisis, and specifically the Euro Debt crisis, Allied Irish Bank's credit rating became questionable. The result in the rate that the Authority had been paying became substantially higher than the market index (on June 30, 2010, the market index was 0.31 percent, while the Authority's rate was 2.50 percent). Therefore, in May 2011, the Authority replaced the Allied Irish Bank letter of credit with a direct pay letter of credit from BBVA Compass Bank to lower the rate that the Authority is paying closer to the market index.

The change to BBVA Compass provided the assurances needed by the prospective bondholders to once again purchase the Authority's bonds at market rates. Following the change, the weekly rate went from 4.1 percent to 1.0 percent. As of June 30, 2011, the weekly market rate was 0.75 percent.

The Authority remains in compliance with all of its debt covenants throughout the fiscal year and anticipates no problems for covenants in the upcoming fiscal year.

## MANAGEMENT’S DISCUSSION AND ANALYSIS

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### Economic Factors and Next Fiscal Year Budget

There is forecasted improvement from 2011 and into 2012, although it is not expected to be permanent in nature. For 2011 we continue to experience a flattening-out in our primary revenues – Tourism Revenues. There are projected decreases in several of our facility related revenues tied to having fewer mega-events in 2012. We continue to forecast a series of operating deficits both in the near-term and the long-term. Economic conditions, both nationally and locally, have continued to contribute to a downturn in the Authority’s primary source of revenues – Tourism Revenues. The Authority anticipates that its current operating cash reserves will continue to be adequate to fund operation throughout the ensuing two years.

#### Tourism Revenue Distribution

In 2000, the Arizona Legislators passed Arizona Revised Statutes Title 5 – Chapter 8. This legislation provides the authority to the Arizona Sports & Tourism Authority to distribute funds collected through hotel bed tax and car rental surcharges to pay for the priorities outlined in the statute. Those priorities are:

- 1) Senior bonds held by the Authority for the purpose of funding the multi-purpose stadium (University of Phoenix Stadium)
- 2) Tourism promotion for Maricopa County
- 3) Cactus League Stadium renovations and new facilities
- 4) Youth and Amateur Sports (YAS) Grants
- 5) Operations at the University of Phoenix Stadium
- 6) Reserves for YAS, Operations, Capital and Repair

The legislation also provided limits on the distribution to Tourism, Cactus League and YAS on a monthly basis. The Authority follows a “waterfall” approach to distributing to each priority during each month of a fiscal year as defined within the statute. During 2011, the Authority’s receipts of Tourism taxes did not meet the necessary amount to distribute down the entire waterfall during every month for Tourism, Cactus League and YAS. This resulted in each of those priorities receiving only a portion of the total projected for the fiscal year.

Comparatively, in 2007, the Authority collected \$24.2 million in Tourism taxes. This was up 48 percent from 2002, the first full year of collections under Prop 302. Since 2007, Tourism receipts to the Authority have fallen in 2008, 2009, somewhat stabilized in 2010, and begun a slight recovery in 2011. In 2011, the Authority collected \$21.1million, down 13.13 percent from the 2007 level. The Authority distributed the following in each of these years:

<u>\$ Million</u>	<u>2007</u>	<u>2011</u>
Senior Bonds	7.6	9.7
Tourism	5.1	5.6
Cactus League	3.0	4.8
Youth & Amateur Sports	1.5	1.1

While Tourism taxes began to recover in 2011, the Authority projects that it will not receive enough Tourism receipts during every month to make the entire “waterfall” distribution in 2012, 2013, 2014 and into 2015.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Requests for Information**

This financial report is designed to provide a general overview of the Arizona Sports and Tourism Authority's finances for all interested parties. Requests for additional information may be made by contacting us at Arizona Sports and Tourism Authority, 1 Cardinals Drive, Glendale, Arizona 85305 Attn: Finance Department. Additional information on the Authority's finances may be found on our website, [www.az-sta.com](http://www.az-sta.com), under the Archives section.

Arizona Sports and Tourism Authority  
Statements of Net Assets  
June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents - restricted	\$ 29,595,792	\$ 28,016,475
Cash and cash equivalents - restricted for subordinate bond reserve	3,242,012	3,241,624
Accounts receivable	214,777	714,475
Accounts receivable due from insurance recoveries	1,613,982	-
Hotel bed tax and car rental surcharge receivables	3,130,204	2,856,985
Sales tax recapture receivables	437,358	2,790,587
Other assets	71,758	72,307
Total current assets	38,305,883	37,692,453
Noncurrent Assets		
Capital assets non-depreciable	2,773,165	2,773,165
Capital assets depreciable, net	407,201,141	423,942,727
Deferred bond issue costs, net	7,505,166	7,853,439
Total noncurrent assets	417,479,472	434,569,331
Total assets	\$ 455,785,355	\$ 472,261,784
Liabilities		
Current Liabilities		
Accounts payable	\$ 2,055,189	\$ 416,643
Accrued expenses	2,077,241	1,383,106
Payable to City of Avondale	700,673	682,787
Payable to Arizona Cardinals	538,738	-
YAS grant award payable	748,153	1,290,406
Bond principal payable	5,550,000	5,170,000
Bond interest payable	6,014,536	6,098,458
Deferred revenue	942,834	698,029
Total current liabilities	18,627,364	15,739,429
Noncurrent Liabilities		
Deferred revenue	500,000	1,000,000
Interest rate swap agreement at fair value	6,002,528	6,848,775
Payable to City of Avondale	69,601	542,201
Payable to Arizona Cardinals	7,425,578	7,585,063
Cactus League Payable	143,326,913	136,722,798
Bonds principal payable	296,449,114	302,243,317
Total noncurrent liabilities	453,773,734	454,942,154
Total liabilities	472,401,098	470,681,583
Net Assets (Deficit)		
Invested in capital assets, net of related debt	133,678,223	145,895,828
Unrestricted	(150,293,966)	(144,315,627)
Total net assets (deficit)	(16,615,743)	1,580,201
Total liabilities and net assets	\$ 455,785,355	\$ 472,261,784

Arizona Sports and Tourism Authority  
Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Stadium operating revenues	\$ 7,442,158	\$ 23,237,730
Total operating revenues	7,442,158	23,237,730
Operating Expenses		
Stadium management operations	14,201,121	28,208,117
Fiesta Bowl Foundation contribution	1,510,808	-
Legal	533,767	255,048
Payroll	276,886	431,883
Professional fees	302,285	259,306
Marketing and promotion	6,683	3,311
Bank management and service fees	17,441	20,752
Insurance	58,653	80,025
Travel	26,818	10,155
Meetings	884	1,228
Office	22,555	10,626
Communications	16,501	15,692
Depreciation	15,127,604	15,527,615
Amortization of deferred bond issue costs	529,881	509,776
Remarketing and liquidity fees	292,710	408,687
Total operating expenses	32,924,597	45,742,221
Operating Loss	(25,482,439)	(22,504,491)
Nonoperating Revenues (Expenses)		
Arizona tourism distribution	(5,622,235)	(5,259,304)
Youth and amateur sports grant awards	(43,657)	(1,585,212)
Hotel bed tax	12,220,659	11,522,029
Rental car tax	9,153,216	9,274,623
NFL income tax	5,810,440	6,419,515
Sales tax recapture	6,832,319	7,282,717
Interest income	14,596	29,970
Interest expense	(21,925,090)	(18,848,748)
Proceeds from insurance claims	2,973,989	-
Impairment of long-lived asset	(2,973,989)	-
Change in fair value of interest swap agreement	846,247	(2,975,268)
Total nonoperating revenues	7,286,495	5,860,322
Decrease in Net Assets	(18,195,944)	(16,644,169)
Net Assets, Beginning of Year	1,580,201	18,224,370
Net Assets, End of Year	\$ (16,615,743)	\$ 1,580,201

Arizona Sports and Tourism Authority  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Cash received from events (Stadium Operations)	\$ 7,186,661	\$ 22,700,890
Cash received from concessionaire	500,000	1,500,000
Cash paid for events (Stadium Operations)	(13,404,553)	(31,852,768)
Cash paid to employees	(276,886)	(431,883)
Cash paid for other operating expenses	<u>(1,278,297)</u>	<u>(1,310,366)</u>
Net Cash used in Operating Activities	<u>(7,273,075)</u>	<u>(9,394,127)</u>
Cash Flows from Noncapital Financing Activities		
Payments for Arizona Office of Tourism	(5,596,379)	(5,234,680)
Payments for Youth and Amateur Sports	(585,911)	(1,238,079)
Payments to Cactus League	-	(185,769)
Payment to the City of Avondale	(454,714)	-
Receipts from hotel bed tax	12,189,156	11,691,356
Receipts from rental car tax	8,911,500	9,035,885
Receipts from NFL Income tax	5,810,439	6,419,515
Receipts from sales tax recapture	9,185,548	5,808,100
Cash paid for interest	<u>(15,269,847)</u>	<u>(12,605,900)</u>
Net Cash Provided by Noncapital Financing Activities	<u>14,189,792</u>	<u>13,690,428</u>
Cash Flows from Capital and Related Financing Activities		
Payments for senior and subordinate bond principal	(5,170,000)	(3,770,000)
Insurance proceeds for impaired capital assets	1,360,007	-
Capital Additions	(1,360,007)	-
Cash paid for letter of credit	<u>(181,608)</u>	<u>-</u>
Net Cash used in Capital and Related Financing Activities	<u>(5,351,608)</u>	<u>(3,770,000)</u>
Cash Flows from Investing Activities		
Interest received	<u>14,596</u>	<u>29,968</u>
Net Cash Provided by Investing Activities	<u>14,596</u>	<u>29,968</u>
Net Increase in Cash and Cash Equivalents	1,579,705	556,269
Cash and Cash Equivalents, Beginning of Year	<u>31,258,099</u>	<u>30,701,830</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 32,837,804</u></u>	<u><u>\$ 31,258,099</u></u>

Arizona Sports and Tourism Authority  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Loss to Net Cash used in Operating Activities		
Operating loss	\$ (25,482,439)	\$ (22,504,491)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	15,127,604	15,527,615
Amortization of deferred bond issue costs	529,881	509,776
(Increase) decrease in		
Accounts receivable, net	499,698	(17,373)
Other assets	551	(40,208)
Increase (decrease) in		
Accounts payable	1,638,226	(202,971)
Accrued expenses	668,599	(3,647,007)
Deferred revenue	(255,195)	980,532
	\$ (7,273,075)	\$ (9,394,127)
Supplemental Disclosures of Noncash Capital and Financing Activities		
Accrual of interest on noncurrent liabilities		
Cactus League	\$ 6,604,115	\$ 6,270,267
The Arizona Cardinals	379,253	361,196
	\$ 6,983,368	\$ 6,631,463

## **Note 1 - Organization and Reporting Entity**

The Arizona Sports and Tourism Authority (the “Authority”), was formed on August 9, 2000, as a political subdivision of the State of Arizona empowered, among other things:

- to construct, finance, furnish, maintain, improve, own, operate, market, and promote the use of the University of Phoenix Stadium suitable to be used to accommodate sporting events and entertainment, cultural, civic, meeting, trade show or convention events or activities, including a stadium, on-site infrastructure, parking garages and lots and related commercial uses within the facility in Maricopa County,
- 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,
- 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.

The Authority opened the University of Phoenix Stadium in August 2006 under its stadium management operating agreement with Global Spectrum, L.P. (“Global”).

Global acts as the fiscal agent of the Authority and receives all of its working capital requirements from the Authority on the basis of an annual budget and operating plan approved by the Authority’s board of directors. The annual financial results for Global are reported separately as a division of the Authority and are rolled into and consolidated with the Authority’s annual financial results. The Authority’s management agreement with Global included a thirty-six month term from opening date through August 2009. Under the original agreement with Global there were two one-year extension options available for consideration. On July 1, 2009, however, the Authority and Global entered into a modified, operating agreement extension with the first portion encompassing a nine-month period ending on March 31, 2010 followed by a second renewal term of thirty-nine months which would end on June 30, 2013. The second renewal term was executed in 2010.

Rojo Hospitality Group, LLC operates as an independent service provider to the Authority and is solely responsible for all its financial activities at the Stadium. The Authority’s agreement with Rojo Hospitality Group, LLC was for an initial term of two years that commenced in August 2010.

The Authority has two, long-term Stadium tenants. The Arizona Cardinals of the National Football League and the Arizona Sports Foundation doing business as the Fiesta Bowl (“Fiesta Bowl”). The Arizona Cardinals and the Fiesta Bowl began their respective thirty year use agreements at the time the Stadium opened in August 2006.

## **Note 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. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows. 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. Proprietary funds distinguish operating revenues and expenses from non-operating items.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the Authority are those generally related to the on-going operations at the University of Phoenix Stadium. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 inter-account transactions have been eliminated.

### **Use of Estimates**

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

### **Cash and Equivalents**

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

### **Accounts Receivable and Other Receivables**

Accounts receivable represents amounts due to the Authority from stadium operations, requiring payment upon receipt of the invoice. Unpaid accounts receivable may bear, at the Authority's discretion, interest at a rate of 1.5% per month (18% per annum) or the maximum as permitted by law, whichever is less. Accounts receivable also includes uncollected Fiesta Bowl game day expenses.

The carrying amount of accounts receivable may be reduced by a valuation allowance that reflects management's best estimate of uncollectible amounts. Management reviews all accounts receivable balances monthly and based on an assessment of creditworthiness estimates the portion, if any, of the balances that will not be collected. No valuation allowance for uncollectible amounts was recorded as of June 30, 2011 and 2010 as management estimates all receivables to be collectible.

Hotel bed tax, car rental surcharge, and sales tax recapture receivables are due from the Arizona State Treasurer's office and are paid approximately two months in arrears.

### **Use of Restricted Assets**

The Authority's assets are restricted based on existing statutory language. As such, the Authority employs these resources first when expenses of the Authority are incurred. All cash and cash equivalents are restricted as to use by the State of Arizona. Restrictions on use are as follows:

- The Tourism Revenue Clearing Account is fully allocated on a monthly basis for those requirements as outlined in the Flow of Funds.
- The Debt Service Accounts, including the subordinate reserve, are used for meeting bondholder obligations.
- The Tourism Account is used for tourism promotion purposes.

- The Cactus League account is restricted to the promotion of spring training baseball.
- The Youth and Amateur Sports account is for the awarding of matching grants for those express purposes.
- The operating general account is used for the Authority's approved annual operating budget expenses as well as for fulfilling the Authority's statutory youth and amateur sports, operating and capital reserve requirements.

### Capital Assets

Capital assets are stated at cost. Assets are depreciated on the straight-line method over the estimated useful lives of the assets ranging from three to forty years. Amortization of capital assets acquired through a capital lease is included in depreciation expense. Capital assets are defined by the Authority as an asset reported on the balance sheet with an initial cost of \$5,000 or greater and an estimated useful life in excess of one year.

The Authority utilizes the following useful lives for determining depreciation:

Asset Type	Useful Life (in months)
Constructed buildings	480
Stadium equipment	180
Stadium furnishings and fixtures	60
Computer hardware	60
Office equipment	60
Spare parts inventory	36
Capital leases	*

(\*) Determined by governing agreement

The Authority reviews its property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is materially less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. During August of 2010, a storm damaged the roof of the stadium. The impairment of the building was measured using the restoration method and amounted to \$2,973,989 for the year ended June 30, 2011. No impairment loss is recorded for the year ended at June 30, 2010.

### Costs of Borrowing

The Authority amortizes deferred bond issue costs using the effective interest method for the 2003 and 2007 bonds and the straight-line method for the 2008 bonds over the term of the bonds.

### Derivative Policy

The Authority implemented GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. The standard requires the Authority to evaluate contractual arrangements that meet the standard's definition of a derivative instrument for effectiveness and to report such instruments as either hedges or investments, depending upon hedge effectiveness. Refer to footnote 14 on Interest Rate Swap.

### **Tax Status**

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

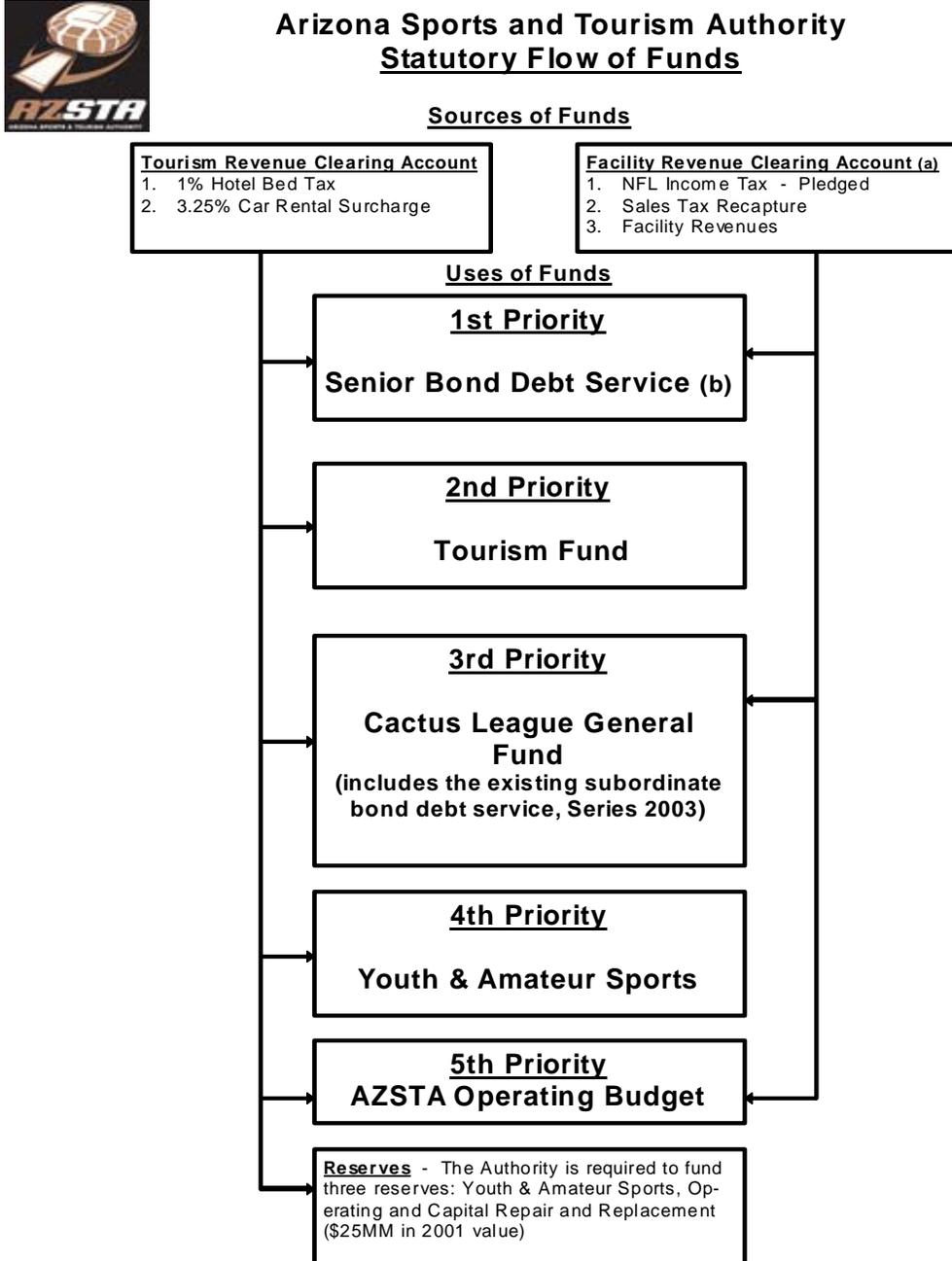
### **Revenue Recognition**

The Authority recognizes revenue from car rental surcharges, hotel bed tax, income taxes related to a professional football franchise, sales tax recapture, event earnings and facility user rentals on the accrual basis as earned.

- The car rental surcharge is a 3.25 percent surcharge on applicable rental car contracts in Maricopa County (less \$2.50 which goes to the Maricopa County Stadium District (“MCS D”)).
- The hotel bed tax is a one percent tax on lodging transactions in Maricopa County.
- The income taxes are associated with the state income tax liability of the Arizona Cardinals organization, its employees and their spouses.
- Sales tax recapture revenues are generated by all taxable transactions at the Stadium which are remitted to the State of Arizona and the City of Glendale.
- Event revenues are deferred until completion of the event, at which time a financial settlement is made with the promoter. Revenues come from a variety of activities including building rents, concessions and catering, novelties, exhibitor services and other miscellaneous revenues.
- Facility user rentals are amounts paid by the Cardinals and the Fiesta Bowl for their use of the Stadium. The Cardinals annual rent started at \$250,000 per year and grows by two percent per year thereafter. The Fiesta Bowl pays a ticket surcharge which started at \$2.50 per ticket and increases by \$0.20 per ticket per year.

The Authority’s revenues are defined by Arizona Revised Statute as to the priority of their use.

The following Flow of Funds diagram outlines the priority in which the Authority's revenues are allocated.



**Footnotes**

(a) The Facility RCA is used for debt service requirements on senior and subordinate bonds. Any remaining funds go to the operations account.  
 (b) All sources of revenue of the Authority (except for the non-pledged portion of the NFL Income Tax) are pledged to the Authority's senior and subordinate bond debt service above all other distribution priorities.

## Description of Accounts

### Tourism Revenue Clearing Account

The Tourism Revenue Clearing Account (“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 on the second Tuesday of the following month in the following order of priority:

- The first priority is to the actual debt service on bonds issued to finance the construction of the University of Phoenix Stadium. The debt service amount to be distributed from the TRCA is limited to \$165.5 million of the total bond principal amount.
- The second funding priority is to the tourism account based on \$4.0 million in the first 12 months growing by five percent every 12-month period thereafter during the term of the tourism taxes.
- The third funding priority is to promote and market Cactus League baseball as well as to meet the Subordinate Bond debt service requirements. This account will receive \$250,000 per month during the first 84 months and increases per the statute’s requirements thereafter.
- The fourth funding priority is youth and amateur sports, which is to receive \$1.0 million in its first 12 months increasing by \$100,000 every 12-month period thereafter during the term of the tourism taxes.
- The next priority is the Authority’s annual operating budget which also includes the Stadium operating budget as managed by the stadium management company, Global Spectrum, L. P. The distribution is based on the total fiscal year’s operating budget divided into equal monthly installments.
- The final funding priority is for three reserve accounts: the youth and amateur sports reserve, the operating reserve and a capital repair and replacement reserve.

### Facility Revenue Clearing Accounts – Pledged and Non-Pledged

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

The Pledged Facility Revenue Clearing Account receives the following revenue sources: the professional football franchise income tax, the state and local sales tax recapture revenues, Fiesta Bowl ticket surcharge, Cardinals annual rent and all other events revenues from Stadium operations. These revenues are used for one primary purpose – to fund a portion of the debt service for the Authority’s outstanding senior and subordinate bond issues.

The Non-Pledged Facility Revenue Clearing Account receives that portion of the professional football franchise income tax which is determined as being non-football related. This account is designated strictly for meeting the Authority's operating expenses.

**Comparative Data and Reclassifications**

Certain balances from 2010 have been reclassified to conform to current year presentation of the financial statements. The reclassifications had no affect on the results of operations for 2010.

**Note 3 - Cash and Cash Equivalents**

At June 30, 2011 and 2010, the Authority had total cash and cash equivalents on deposit of \$32,837,804 and \$31,258,099, respectively, through its commercial bank and bond trustee accounts. The Authority maintains its commercial accounts with BBVA Compass Bank, N. A. and its trust accounts with The Bank of New York Mellon Trust Company, N. A.

The Authority, throughout the year, maintains cash at these financial institutions in excess of the \$250,000 per bank limit insured by the Federal Deposit Insurance Corporation (FDIC). The cash balances on deposit with these financial institutions exceed the balance insured by the FDIC by \$32,087,804 and \$30,758,099 at June 30, 2011 and 2010, respectively.

At June 30, 2011 and 2010, the Authority's commercial bank accounts at BBVA Compass Bank, N. A. accounted for a total of \$13,760,203 and \$13,369,378, respectively, of all cash and cash equivalents which are invested in overnight money markets.

The Authority had a total of \$19,077,601 and \$17,888,721, respectively for 2011 and 2010, in its trust accounts. Proceeds to purchase these marketable securities, which consist of overnight money markets, were derived from the Authority's senior bond issue, construction sales tax recapture, contributed capital, related debt service accounts for both the senior and subordinate bond issues, Cactus League, Tourism Revenue, Pledged Facility Revenue Clearing Account and the Construction Trust Account.

**Note 4 - Restricted Assets**

Restricted assets consisted of the following at June 30:

	2011	2010
Cash and cash equivalents	\$ 32,837,804	\$ 31,258,099
Accounts receivable	214,777	714,475
Hotel tax receivable and car rental surcharge receivables	3,130,204	2,856,985
Sales tax recapture receivable	437,358	2,790,587
	\$ 36,620,143	\$ 37,620,146

**Note 5 - Capital Assets**

Capital asset activity consisted of the following for the year ended:

	July 1, 2010	Additions	Impairment/ Disposals	June 30, 2011
Capital assets not being depreciated:				
Land	\$ 2,773,165	\$ -	\$ -	\$ 2,773,165
	<u>2,773,165</u>	<u>-</u>	<u>-</u>	<u>2,773,165</u>
Capital assets being depreciated:				
University of Phoenix Stadium	476,353,920	1,360,007	(2,973,989)	474,739,938
Stadium FF&E	9,643,713	-	-	9,643,713
Computer equipment	48,103	-	-	48,103
Furniture and fixtures	133,563	-	-	133,563
Office equipment	15,577	-	-	15,577
Capitalized software	10,168	-	-	10,168
Assets under capital lease	60,039	-	-	60,039
	<u>486,265,083</u>	<u>1,360,007</u>	<u>(2,973,989)</u>	<u>484,651,101</u>
Less accumulated depreciation:				
University of Phoenix Stadium	(56,234,621)	(14,348,760)	-	(70,583,381)
Stadium FF&E	(5,837,459)	(763,263)	-	(6,600,722)
Computer equipment	(48,103)	-	-	(48,103)
Furniture and fixtures	(118,745)	(13,356)	-	(132,101)
Office equipment	(13,222)	(2,225)	-	(15,447)
Capitalized software	(10,168)	-	-	(10,168)
Assets under capital lease	(60,038)	-	-	(60,038)
	<u>(62,322,356)</u>	<u>(15,127,604)</u>	<u>-</u>	<u>(77,449,960)</u>
	<u>\$ 426,715,892</u>	<u>\$ (13,767,597)</u>	<u>\$ (2,973,989)</u>	<u>\$ 409,974,306</u>

Capital asset activity consisted of the following for the year ended:

	July 1, 2009	Additions	Disposals	June 30, 2010
Capital assets not being depreciated:				
Land	\$ 2,773,165	\$ -	\$ -	\$ 2,773,165
	<u>2,773,165</u>	<u>-</u>	<u>-</u>	<u>2,773,165</u>
Capital assets being depreciated:				
University of Phoenix Stadium	476,353,920	-	-	476,353,920
Stadium FF&E	9,643,713	-	-	9,643,713
Computer equipment	48,103	-	-	48,103
Furniture and fixtures	133,563	-	-	133,563
Office equipment	15,577	-	-	15,577
Capitalized software	10,168	-	-	10,168
Assets under capital lease	60,039	-	-	60,039
	<u>486,265,083</u>	<u>-</u>	<u>-</u>	<u>486,265,083</u>
Less accumulated depreciation:				
University of Phoenix Stadium	(42,174,467)	(14,060,154)	-	(56,234,621)
Stadium FF&E	(4,387,976)	(1,449,483)	-	(5,837,459)
Computer equipment	(48,103)	-	-	(48,103)
Furniture and fixtures	(103,177)	(15,568)	-	(118,745)
Office equipment	(10,812)	(2,410)	-	(13,222)
Capitalized software	(10,168)	-	-	(10,168)
Assets under capital lease	(60,038)	-	-	(60,038)
	<u>(46,794,741)</u>	<u>(15,527,615)</u>	<u>-</u>	<u>(62,322,356)</u>
	<u>\$ 442,243,507</u>	<u>\$ (15,527,615)</u>	<u>\$ -</u>	<u>\$ 426,715,892</u>

**Note 6 - Noncurrent Liabilities – City of Avondale**

The Authority entered into an intergovernmental agreement with the City of Avondale, Arizona in September 2001 to help finance the construction of a youth sports field. The Authority’s board of directors committed \$3,430,000 million plus associated financing costs to the repayment of approximately 67% of the total project value. The commitment accrues interest, in accordance with the intergovernmental agreement; at 2.98% per year on the unpaid balance. The Authority pledged a total of 25% of its annual youth and amateur sports statutory funding to the repayment of this obligation which will mature in fiscal year 2012.

Balances due to the City of Avondale were as follows as of June 30:

	2011	2010
Payable to the City of Avondale	\$ 770,274	\$ 1,224,988
Less: Current portion	(700,673)	(542,201)
Long-term portion	\$ 69,601	\$ 682,787

**Note 7 - Noncurrent Liabilities – Arizona Cardinals**

**Arizona Cardinals**

The Authority recorded \$6,239,434 in fiscal year 2006 as a noncurrent liability to B&B Holdings, Inc. (dba The Arizona Cardinals) per the August 15, 2005 Facility Use Agreement. The nature of this liability is the repayment of a portion of the costs incurred by the Arizona Cardinals for on-site improvements and for the purchase of the 165 acres of land on which the stadium and its adjacent parking reside. Repayment of this liability is projected to begin in 2012 and is to be funded from waterfall of available funds under Arizona State Statute.

Balances due to The Arizona Cardinals were as follows as of June 30:

	2011	2010
Payable to The Arizona Cardinals, accruing interest at 5% annually. Payments of principal and accrued interest to begin June 30, 2012 through June 30, 2019	\$ 7,964,316	\$ 7,585,063
Less: Current portion	(538,738)	-
	\$ 7,425,578	\$ 7,585,063

Future minimum principle payments on this liability are as follows:

2012	\$ 538,738
2013	691,326
2014	1,052,931
2015	1,291,171
2016	1,436,851
2017-2019	2,953,299
	\$ 7,964,316

**Note 8 - Noncurrent Liabilities – Cactus League Payable**

The Authority, through its Cactus league promotion account, provides financing assistance to cities in Maricopa County which host Major League Baseball spring training teams. As of the end of fiscal year 2011 the Authority has provided financing or funding commitments for three new stadiums and the renovation of three existing stadiums.

The following is a listing of the cities, the teams, and the projects which are being funded under government mandate A.R.S. Section 5-808:

City	Team(s)	Agreement Year	Project Completed	Principal Amount	Interest Rate
Tempe, Arizona	Los Angeles Angels of Anaheim	2004	2006	\$ 12,000,000	4.3974%
Scottsdale, Arizona	San Francisco Giants	2005	2007	\$ 20,000,000	4.4540%
Goodyear, Arizona	Cleveland Indians	2007	2009	\$ 37,375,000	4.7726%
Glendale, Arizona	Chicago White Sox and Los Angeles Dodgers	2007	2009	\$ 60,000,000	5.0000%

The Authority recorded these payables as a noncurrent liability because it does not have the funding resources to pay for these projects on an upfront basis. Over the life of the tourism tax revenues (i.e. the hotel bed tax and the car rental surcharge) the funding for Cactus League is projected to be \$205,000,000 plus the amount that the Authority will receive through its agreement with the Maricopa County Stadium District. Through the Authority's IGA with each of the cities, each city is responsible for funding 100% of the project at the time of construction. The Authority accrues interest on the outstanding balance at the lesser of the actual rate each city secured through their project financing program or 5.0% per year. The Authority makes payments to the cities in accordance to the existing IGA's and as funding becomes available through the Cactus league promotion account in accordance with A.R.S. Section 5-808.

The following balances are due for Cactus League as of June 30:

	<u>2011</u>	<u>2010</u>
Payable to City of Tempe, accruing interest at 4.40%, payment determined from available excess car rental surcharge revenues with final payment due in 2017.	\$ 14,550,162	\$ 13,891,478
Payable to City of Scottsdale, accruing interest at 4.45%, payment determined from available excess car rental surcharge revenues with final payment due in 2017.	19,608,242	18,770,988
Payable to City of Goodyear, accruing interest at 4.77%, payments projected to begin in 2017 after repayment of City of Tempe and City of Scottsdale payables.	41,768,002	39,869,373
Payable to City of Glendale, accruing interest at 5%, payments projected to begin in 2017 after repayment of City of Tempe and City of Scottsdale payables.	<u>67,400,507</u>	<u>64,190,959</u>
	<u>\$ 143,326,913</u>	<u>\$ 136,722,798</u>

### **Tempe**

The Authority committed a maximum of \$12 million to the City of Tempe in November 2004. The City of Tempe project was completed in February 2006. The Authority began to repay its commitment to Tempe in fiscal year 2005 from available Cactus League and Maricopa County Stadium District funds related to its excess car rental surcharge revenues. For the second consecutive fiscal year, the Authority continues to receive Tourism Revenues below the original 30-year tourism revenue forecasts. Additionally, no dollars have been contributed from the Maricopa County Stadium District excess car rental surcharge revenues; due to overall Tourism Revenues being down. As such, the Authority reduced the distributions made to the city. The distributions are lower-than-original distribution forecast and are expected to continue throughout the near term; until such time as Tourism Revenues return to their original 30-year tourism revenue forecasts.

### **Scottsdale**

The Authority committed a maximum of \$20 million to Scottsdale in March 2005. The City of Scottsdale project was a two-phase project with the first phase being completed in February 2006 and the second phase completed in February 2007. The Authority began to repay its commitment to Scottsdale in fiscal year 2005 from available Cactus League and Maricopa County Stadium District funds related to its excess car rental surcharge revenues. For the second consecutive fiscal year, the Authority continues to receive Tourism Revenues below the original 30-year tourism revenue forecasts. Additionally, no dollars have been contributed from the Maricopa County Stadium District excess car rental surcharge revenues; due to overall Tourism Revenues being down. As such, the Authority reduced the distributions made to the city. The distributions are lower-than-original distribution forecast and are expected to continue throughout the near term; until such time as Tourism Revenues return to their original 30-year tourism revenue forecasts.

### **Goodyear**

The Authority committed a maximum of \$37.375 million to Goodyear in January 2007 for up to 50% of the projected cost of constructing a one-team stadium and practice facility for the Cleveland Indians. The stadium and related practice facility were completed in the fall of 2008 and were in operation for the 2009 spring training baseball season. Based on Goodyear opening the stadium the Authority started to accrue interest in fiscal year 2009. Based on the existing IGA's with the cities of Tempe and Scottsdale, it is projected that the Authority will begin to make payments to Goodyear in fiscal year 2017.

On April 7, 2008 the Authority's board of directors approved Resolution No. 2008-75 which revised the existing funding plan related to present and future Cactus League projects. A primary provision of this resolution granted up to an additional maximum of twenty million dollars to the City of Goodyear for developing a practice facility for a second team. The funding source(s) that would pay for the additional commitment to the City of Goodyear, however, does not currently exist. This commitment will become a recorded liability if there is a renewal or extension of the Authority's current revenues or the creation of a new funding source for Cactus League purposes after fiscal year 2031. Based on this understanding and acknowledgement by the City of Goodyear, the Authority, under GASB 33 – Accounting and Financial Reporting for Non-exchange Transactions, will not record this additional liability to its financial statements until such time that these currently non-existent funding sources become reality.

## Glendale

The Authority committed a maximum of \$60 million to Glendale in August 2007 for up to two-thirds of the projected cost of constructing a two-team stadium and practice facility for the Chicago White Sox and the Los Angeles Dodgers. The stadium and related practice facility were finished in the fall of 2008 and were in operation for the 2009 spring training baseball season. With the opening of the stadium the Authority started to accrue interest on the outstanding amount in fiscal year 2009.

## Note 9 - Bonds Payable

### Senior Bonds - Stadium Construction Related Bonds

#### Series 2003A Senior Bonds

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

#### Series 2005 Senior Bonds

On September 29, 2005 the Authority issued additional senior lien debt of \$53,050,000 in tax exempt, variable rate revenue bonds. These bonds were issued in order to secure the necessary final funding for the stadium project, site improvements, extravaganza seating and related storage space build-out. These bonds are on par with the Authority’s 2003A senior bonds and share the same pledged revenues. The rate for these bonds is reset on a weekly basis.

#### Series 2007A Senior Bonds – Advanced Refunding

In January 2007, the Authority issued \$90,000,000 in Senior Revenue Refunding Bonds (Multipurpose Stadium Facility Project) Series 2007A as part of an advance refunding of \$87,420,000 in Tax Revenue Bonds, Series 2003A. The Series 2007A bonds mature between 2010 and 2024 and carry coupon rates from 4.00 percent to 5.00 percent. The Authority issued the Refunding Bonds in order to replace higher interest debt instruments with those with lower interest carrying costs. The Authority realized an estimated \$2.8 million in net present value savings through the advance refunding. The net proceeds from the sale of the 2007A Refunding bonds, \$92,270,533, were put into an escrow account with the Authority’s trustee, The Bank of New York, and invested in State and Local Government Series. The escrow account will be used to pay the debt service on the old debt during the period between the refunding date and the call date. The Authority considers the amount of the Series 2003A senior bond debt, \$87,420,000, to be defeased which was reflected in its financial statements as of June 30, 2007. The refunding bonds are insured by MBIA Insurance.

#### Series 2008 Senior Bonds – Revenue Refunding

The Series 2008 Variable Rate Demand Revenue Refunding Bonds replaced the entire Series 2005A bonds with exactly the same maturity schedule as the original Series 2005A bonds. The Authority issued this refunding in response to the sub-prime mortgage issue in January 2008 which directly impacted the credit rating of the bonds’ insurer, Ambac Assurance, which in turn, created a lack of demand in the marketplace for the Authority’s 2005A bonds. In order to remarket the Authority’s bonds on a weekly basis, the remarketing agent for the Authority, was required to offer higher rates of interest rate yield to prospective bondholders in order to sell the Authority’s bonds.

Under the refunding the Authority issued the new series 2008 variable rate revenue refunding bonds with the liquidity support of a direct pay letter of credit issued by Allied Irish Bank (AIB). This new liquidity structure provided the assurances needed by prospective bondholders to once again purchase the Authority's bonds at market rates. Following the refunding, the weekly rate went from 5.00 percent to 1.67 percent. In 2010, the authority saw interest rates drop to as low as 0.32, but in May was faced with the rates increasing dramatically, reaching a peak in June of 2.5%. This increase was caused by the deterioration of AIB's credit. In 2011, the Authority replaced the AIB direct pay letter of credit with Compass Bank.

As of June 30, 2011 the variable rate for the final week of the fiscal year was set at 2.5 percent for the Series 2008 senior variable rate demand revenue refunding bonds as compared to 1.00 percent for the same week the prior year. The basis upon which the rate is set is the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index. The index is a 7-day high-grade market index comprised of tax-exempt variable rate demand bonds from the Municipal Market Data's extensive database. The index typically includes 650 variable rate bond issues in any given week from a database of more than 15,000 active variable rate bond issues. The variable rate is reset on a weekly basis by the Authority's remarketing agent – RBC Capital Markets.

### Series 2003 Subordinate Bonds – Cactus League Related Bonds

In February 2003, the Authority issued \$32.4 million in Subordinate Tax Revenue Bonds, Series 2003, interest from 2.25 percent to 5.00 percent, due through 2016 ("Subordinate Bonds"). The Subordinate Bonds are tax-exempt revenue bonds with a final maturity in 2016. The proceeds from these bonds were used to pay the balance of the \$32 million committed to the City of Surprise for the Authority's share of funding for the brand new Surprise spring training facility, which is home to the Texas Rangers and the Kansas City Royals. Funds for repayment of Cactus League Related Bonds are from Tourism and Facility revenues and is in the 3<sup>rd</sup> priority under the Statutory Flow of Funds

A subordinate bond reserve is required under the terms of the indenture governing the subordinate bonds. There were several options available to the Authority for fulfilling this requirement. The Authority opted for creating a 10 percent reserve of the original principal amount of all series of Subordinate Bonds any of which remain outstanding. This reserve amount of \$3.24 million was fully funded in February 2008 and continues to be maintained at the required amount.

At June 30, 2011 and 2010, the Authority had the following bonds outstanding:

	2011	2010
Tax Revenue Bonds, Series 2003A, interest from 3.00 percent to 5.00 percent, due through 3031 (Senior Bonds)	\$ 130,430,000	\$ 133,000,000
Subordinate Tax Revenue Bonds, Series 2003, interest from 2.25 percent to 5.00 percent, due through 2016 (Subordinate Bonds)	23,550,000	25,590,000
Senior Variable Rate Demand Revenue Refunding Bonds, Series 2008, variable rate interest, due through 2036 (Senior Bonds)	53,050,000	53,050,000
Senior Revenue Refunding Bonds (Multipurpose Stadium Facility Project) Series 2007A (Senior Bonds)	89,440,000	90,000,000
Total bonds payable	<u>296,470,000</u>	<u>301,640,000</u>
Less current portion of bonds payable	(5,550,000)	(5,170,000)
Total non-current portion of bonds payable	<u>290,920,000</u>	<u>296,470,000</u>
Plus unamortized premium	5,529,114	5,773,317
Total bonds payable plus unamortized premium	<u>\$ 296,449,114</u>	<u>\$ 302,243,317</u>

Arizona Sports and Tourism Authority

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Debt service requirements subsequent to June 30, 2011 are as follows:

Year Ending June 30	Principal Maturities	Interest	Total
2012	\$ 5,550,000	\$ 13,367,750	\$ 18,917,750
2013	6,125,000	13,095,509	19,220,509
2014	6,900,000	12,786,612	19,686,612
2015	7,290,000	12,438,525	19,728,525
2016	7,670,000	12,060,918	19,730,918
2017 - 2021	51,955,000	53,899,803	105,854,803
2022 - 2026	71,805,000	40,412,640	112,217,640
2027 - 2031	93,930,000	23,606,375	117,536,375
2032 - 2036	40,245,000	7,518,750	47,763,750
2037	5,000,000	-	5,000,000
	<u>\$ 296,470,000</u>	<u>\$ 189,186,882</u>	<u>\$ 485,656,882</u>

Per the existing bond covenants the Authority is to maintain a minimum bond coverage ratio of 1.30 and 1.15 respectively for the 2003 series senior and subordinate bonds. Since the issuance of the first bonds in 2003, the Authority's revenues have exceeded these minimum coverage ratios in each and every succeeding fiscal year.

	2011	2010
2003A Senior Bonds	2.15	2.65
2003 Subordinate Bonds	1.37	1.61

**Cost of Borrowing**

The Authority's interest expense for 2011 and 2010 was \$21,925,090 and \$18,848,748, respectively. Of these totals, \$14,856,769 and \$12,161,056, respectively for 2011 and 2010, are directly related to the Authority's bond issues. The balances, \$7,068,321 and \$6,687,692, respectively, for 2011 and 2010, are related to interest expense for Authority projects related to youth and amateur sports, Cactus League and the Arizona Cardinals.

**Bond Issuance Costs**

The Authority has recognized and recorded on its Statement of Net Assets as deferred bond issue costs the amounts related to issuing its various senior and subordinate bonds and associated refundings. The Authority has deferred bond issue costs consisting of the following at June 30:

	2011	2010
Deferred bond issuance costs:	\$ 11,217,549	\$ 11,035,941
Less: Accumulated amortization	(3,712,383)	(3,182,502)
	<u>\$ 7,505,166</u>	<u>\$ 7,853,439</u>

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**Note 10 - Liabilities**

Liability activity was as follows for the years ended:

	July 01, 2010	Additions	Reductions	June 30, 2011	Amounts Due within One Year
Payable to City of Avondale	\$ 1,196,889	\$ -	\$ (426,615)	\$ 770,274	\$ 700,673
YAS grant award payable	1,290,406	748,153	(1,290,406)	748,153	748,153
Deferred revenue	1,698,029	244,806	(500,000)	1,442,835	942,834
Fair value of interest rate swap	6,848,775	-	(846,247)	6,002,528	-
Cactus league payable	136,722,798	6,604,115	-	143,326,913	-
Bonds principle payable	307,413,317	-	(5,414,204)	301,999,113	5,550,000
Bonds interest payable	6,098,458	6,014,536	(6,098,458)	6,014,536	6,014,536
Payable to Arizona Cardinals	7,585,063	379,253	-	7,964,316	538,738
<b>Total</b>	<b>\$ 468,853,735</b>	<b>\$ 13,990,863</b>	<b>\$ (14,575,930)</b>	<b>\$ 468,268,668</b>	<b>\$ 14,494,934</b>

	July 01, 2009	Additions	Reductions	June 30, 2010	Amounts Due within One Year
Payable to City of Avondale	\$ 1,605,272	\$ -	\$ (408,383)	\$ 1,196,889	\$ 682,787
YAS grant award payable	534,890	1,290,406	(534,890)	1,290,406	1,290,406
Deferred revenue	717,497	1,698,029	(717,497)	1,698,029	698,029
Fair value of interest rate swap	3,873,507	2,975,268	-	6,848,775	-
Cactus league payable	130,638,300	6,084,498	-	136,722,798	-
Bonds principle payable	307,413,317	-	-	307,413,317	5,170,000
Bonds interest payable	6,114,780	6,098,458	(6,114,780)	6,098,458	6,098,458
Payable to Arizona Cardinals	7,223,867	361,196	-	7,585,063	-
<b>Total</b>	<b>\$ 458,121,430</b>	<b>\$ 18,507,855</b>	<b>\$ (7,775,550)</b>	<b>\$ 468,853,735</b>	<b>\$ 13,939,680</b>

**Note 11 - Sources of Pledged Revenues**

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

	2011	2010
Hotel bed tax	\$ 12,220,659	\$ 11,522,029
Rental car tax	9,153,216	9,274,623
NFL income tax	5,810,440	6,419,515
Sales tax recapture	6,832,319	7,282,717
Fiesta Bowl Ticket Surcharge	376,341	216,972
Cardinals annual rent payment	248,057	265,300
Interest income	14,596	29,970
Other stadium events	1,237,070	1,891,827
	<b>\$ 35,892,698</b>	<b>\$ 36,902,953</b>

Several of the pledged revenues presented above vary from the amounts presented in the Statement of Revenues, Expenses and Changes in Net Assets due to various statutory or contractual agreements which amend the amount the Authority may claim as a pledge to its senior bond debt repayment. This agreement provides the District's annual excess funds exclusively for the Authority's Cactus League purposes. These funds, in turn, are used by the Authority to defease the amount due and owing to the City of Scottsdale under our intergovernmental agreement for their Cactus League stadium and practice field renovation project.

## **Note 12 - Commitments and Contingencies**

### **Arizona Cardinals**

The Authority and the Arizona Cardinals are contractually bound by several agreements related to the University of Phoenix Stadium. The Use Agreement provides for the Cardinals use of the Stadium for a period of 30 years in order to play their NFL home game schedule. The Authority receives an annual rent payment from the Cardinals and also pays for their game-related expenses. The Authority, under the Facility Use Agreement, is obligated to reimburse the Cardinals for certain expenses related to the construction of the Stadium (see footnote 7). The parking agreement provides for the Cardinals control over the operation of the Stadium's parking lots and the Authority's reimbursement to the Cardinals for use of the lots for Authority events.

### **Arizona Office of Tourism**

The Authority has a statutory obligation to provide to the Arizona Office of Tourism (AZOT) an annual amount for marketing and tourism promotion within Maricopa County. The initial annual amount was \$4.0 million beginning in June 2001. This annual amount is increased by five percent per year thereafter. Expense related to the distribution to AZOT was \$5,622,235 and \$5,259,304, respectively, for the fiscal years 2011 and 2010.

### **Fiesta Bowl**

The Authority and the Fiesta Bowl are governed by a Use Agreement which provides for the Fiesta Bowl's use of the Stadium for their annual event for an initial period of 30 years. The Authority has further agreed to subsidize the Fiesta Bowl's annual event by providing for a fixed amount of the actual game day expenses. Under the agreement the Fiesta Bowl is required to collect and remit to the Authority several revenues including a ticket surcharge and a facility use fee.

### **Global Spectrum**

Global Spectrum was selected by the Authority in 2004 to be its stadium management operator. This contractual arrangement started in 2004 – two years prior to the opening of the Stadium. Under the agreement the Authority is responsible for funding Global Spectrum's operating costs of the Stadium under a budget and annual plan approved by the Authority's board of directors. In 2010 the Authority and Global Spectrum entered into an extension of the original operating agreement which will run for thirty-nine months expiring in June 2013.

### **Concessions Agreement**

On February 9, 2010, the Authority and the Arizona Cardinals entered into a Concession Services Agreement with Rojo Hospitality Group, LLC (Rojo) which commenced August 1, 2010 to manage and operate Concession Services at the Stadium. The term of this agreement shall be two years from the commencement date unless extended or terminated (the term). The agreement has an option to extend the term for an additional one year period after the term if Rojo gives the Authority, the Arizona Cardinals, and the Manager a written request to extend the term no later than 120 days prior to the expiration of the term and the Authority, in its sole and absolute discretion, does not provide Rojo notice of its intent to renew within 30 days thereafter. If any such extension is granted a similar option to extend shall exist with respect to the then current term.

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Rojo will collect all gross revenues on behalf of and for the Authority and, out of such gross revenues, remit the agreed upon gross revenue percentage to the Authority for events (other than Arizona Cardinals home games and the Fiesta Bowl). Within 30 days after execution of this agreement Rojo provided, under the terms of the agreement, a loan of \$1,000,000 (non-interest bearing) and an advance on “Year One Remittances” of \$500,000. In the event the agreement is terminated by the Authority prior to July 31, 2011, the Authority shall be obligated immediately pay back the \$500,000 advance, less the amount of Year One Remittances retained by Rojo as of the date of such termination. On January 1, 2011, Rojo shall pay the Authority \$500,000 as an advance on “Year Two Remittances” with respect to the period commencing August 1, 2011. In the event the agreement is terminated by the Authority prior to July 31, 2012, the Authority shall be obligated immediately pay back the \$500,000 advance, less the amount of “Year Two Remittances” retained by Rojo as of the date of such termination. Similar terms exist if the term is extended.

Payments of \$250,000 on the loan of \$1,000,000 will be due to Rojo on an annual basis commencing August 1, 2011 through August 1, 2014. In addition, Rojo will transfer and remit to the Authority \$250,000 on each August 1 commencing August 1, 2011 unless the Concession Services Agreement is terminated or has expired. Due to the terms of this arrangement, the loan from Rojo has been classified as long-term deferred revenue.

A summary of the activity related to the concessions agreement and other stadium event related deferred revenues are as follows for the years ended:

	July 1, 2010	Additions	Revenue Recognition	June 30, 2011
Advance commissions (Rojo)	\$ 500,000	\$ 500,000	\$ (361,966)	\$ 638,034
Note payable (Rojo)	1,000,000	-	(250,000)	750,000
Stadium deferred revenue	198,029	54,800	(198,029)	54,800
	\$ 1,698,029	\$ 554,800	\$ (809,995)	\$ 1,442,834
	July 1, 2009	Additions	Revenue Recognition	June 30, 2010
Advance commissions (Rojo)	\$ -	\$ 500,000	\$ -	\$ 500,000
Note payable (Rojo)	-	1,000,000	-	1,000,000
Note payable (Centerplate)	590,277	-	(590,277)	-
Stadium deferred revenue	127,220	198,029	(127,220)	198,029
	\$ 717,497	\$ 1,698,029	\$ (717,497)	\$ 1,698,029

### City of Goodyear

On April 7, 2008 the Authority’s board of directors approved Resolution No. 2008-75 which approved a revised funding plan related to present and future Cactus League projects. A primary provision of this resolution granted an additional maximum of twenty million dollars to the City of Goodyear for its Cactus League spring training baseball facility project for a second team’s practice facilities. However, the funding that would pay for this additional commitment does not currently exist. Under the resolution the funding would potentially come from the renewal or extension, post-2031, of the Authority’s current revenues or a new, yet-to-be identified funding source. Based on this understanding and acknowledgement by the City of Goodyear, the Authority, under GASB 33 – Accounting and Financial Reporting for Nonexchange Transactions, will not record this additional liability to its financial statements until the new funding revenues have been implemented and are available to the Authority.

### Youth and Amateur Sports

The Authority has a statutory obligation to set aside and use funds designated for youth and amateur sports promotion and projects within Maricopa County as are available from the Tourism Revenue Clearing Account. The Authority has established a biennial grant process as well as a year-round quick grant process in order to award these monies to qualifying organizations and projects. Based on Arizona Revised Statute the annual amount to be allocated to youth and amateur sports was \$1.0 million increasing by \$100,000 annually thereafter. The Authority has \$3,605,227 in cash balances allocated to youth and amateur sports and is in compliance with the statute as of June 30, 2011.

### Note 13 - Defined Benefit Plan

The Authority and its employees are members of the Arizona State Retirement System's Defined Benefit Plan ("Plan"), which is administered by the Arizona State Retirement System ("ASRS"). Under the Plan, both the employee and the employer contribute an equal percentage based on the employees' gross wages. Employee contributions are calculated on a pre-tax basis. The contribution percentage during 2010 was 9.45 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, 2011, 2010, and 2009 the Authority made contributions of \$29,395, \$42,776 and \$46,185, respectively to the Plan. The ASRS has increased the contribution percentage to 9.85 percent for fiscal year 2011.

### Note 14 - Interest Rate Swap

The Authority, as of June 1, 2008, commenced with a supplemental swap arrangement with the Royal Bank of Canada. This Constant Maturity Swap (the "CMS") is based on the ten-year bond yield which, historically, is higher than shorter-term rates which is the basis for the Authority's original, fixed payer swap. The 72% of LIBOR payment under the fixed payer swap is basically cancelled under the CMS and replaced the Authority receiving a payment of 64.6% of the 10-year bond rate. On a historical basis, over a 20-year period, 64.6% of the ten-year bond rate outperforms the 72% of one-month LIBOR by an average of 0.79% annually. This positive margin would produce an estimated additional benefit to the Authority of \$400,000 annually in lowered interest costs over the ten-year term of the CMS under historical conditions.

The credit ratings of the counterparty, terms and fair value of the outstanding fixed payer swap as of June 30, 2011 are as follows:

	Royal Bank of Canada
Credit ratings <sup>(1)</sup>	Aaa/AA/AA-
Notional amount	\$53,050,000
Effective date	June 1, 2008
Fixed-rate paid	3.516%
Variable rate received	64.6% of the ten year bond rate <sup>(2)</sup>
Termination date	July 1, 2020
Fair value	(\$6,002,528)

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

(2) One-month LIBOR reset monthly

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

### **Fair Value**

Interest rates have fallen significantly in the past year resulting in a fair value of (\$6,002,528) and (\$6,848,775) as of June 30, 2011 and 2010, respectively, for the fixed payer swap. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap agreement, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. The Authority considers its hedge swap agreement as ineffective, and as such has recorded the hedge at fair value as of June 30, 2011 and 2010 and recognizes the change in fair value in the statement of revenues, expenses, and changes in net assets.

### **Credit Risk**

If the swap was terminated on June 30, 2011, the fair value of the swap would represent the Authority's credit exposure to the counterparty if the Authority were owed a payment and the counterparty could not make the termination payment. However, since the fair value of the fixed payer swap was (\$6,002,528), the Authority would have owed the Royal Bank of Canada that amount if the swap was terminated on that date, and therefore the Authority had no counterparty exposure as of June 30, 2011.

### **Basis Risk**

The Authority is exposed to basis risk on the fixed payer swap when the relationship between 64.6 percent of the ten year bond rate and the actual rates on the associated variable rate bonds diverge where 64.6 percent of the ten year bond rate is less than the actual rates paid to the bondholders.

### **Termination Risk**

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