Financial Statements
June 30, 2014 and 2013

AZSTA

ARIZONA SPORTS & TOURISM AUTHORITY

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## Independent Auditor's Report

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

**Report on the Financial Statements**
We have audited the accompanying financial statements of the business-type activities of the Arizona Sports and Tourism Authority (the Authority) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Sports and Tourism Authority as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Adoption of New Accounting Standard

As described in Note 13 to the financial statements, the Authority adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. As discussed in Note 13 to the financial statements, the Authority has retroactively restated the previously reported net position to account for bond issuance costs in accordance with this statement. Our opinions are not modified with respect to this matter.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 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 inquires, 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.

Eide Bailly LLP

Phoenix, Arizona
October 31, 2014

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 position 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 position.

- The Authority's total net position as of June 30, 2014 decreased $4,057,692, or 12.96 percent, as compared to the fiscal year 2013 restated numbers. Current assets increased $8,975,025, or 21.35 percent, year-to-year. Capital assets decreased $14,635,873, or 3.86 percent, primarily attributable to the annual depreciation expenses of $14,652,256.

- The Authority's total net position as of the June 30, 2013 restated numbers; decreased $1,726,249 or a decrease of 5.48 percent as compared to the fiscal year 2012-restated numbers. Current assets increased $7,621,378 or 22.14 percent. Capital assets decreased $14,572,450 or a 3.76 percent decrease.

- Deferred outflows of resources decreased as of June 30, 2014 compared to the June 30, 2013 restated numbers by $570,517 or 6.40 percent.

- Deferred outflows of resources increased of the June 30, 2013 restated numbers vs. the June 30, 2012 restated numbers by $570,517 or 6.2 percent.

- Total liabilities as of June 30, 2014 decreased a total of $2,173,673, as compared to fiscal year 2013. Current liabilities increased $5,646,939, or 33.06 percent. Non-current liabilities decreased $7,820,612 or 1.75 percent.

- Total liabilities as of the June 30, 2013 restated numbers increased $550,074 or 0.12 percent as compared to fiscal year 2012-restated numbers. Current liabilities increased $2,314,626 or 15.67 percent. There was a decrease in non-current liabilities of $1,764,552 or 0.39 percent.

Statements of revenues, expenses and changes in net position 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 position.

- Overall, from fiscal year 2013 to 2014 the change in net position decreased by $4,057,692, or 12.97 percent, attributable to normal operating and non-operating conditions with the Authority. Operating revenues were higher in fiscal year 2014 by $4,504,966 or 43.11 percent vs. 2013. Operating expenses increased $3,725,421 or 10.90 percent. The operating loss decreased by $779,545 or 3.29 percent.

- From fiscal year 2012 (restated) to year-end 2013-restated the Authority's change in net position decreased by $1,726,249 or 5.84 percent. Operating revenues were higher in 2013 by $1,174,721 or 12.67 percent vs. 2012. Operating expenses decreased by $1,842,953 or 5.70 percent. Year-over-year, the operating loss decreased by $668,232 or 2.90 percent as compared to 2012-restated.

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 position, which are prepared on an accrual basis.

- For the fiscal year ended June 30, 2014, the Authority realized an overall net increase in cash and cash equivalents of $8,263,742 or 23.38 percent. Net cash used for operations decreased $5,522,231 or 56.05 percent. Cash outflows for non-capital activities decreased $6,432,867 in fiscal year 2014, or 27.80 percent. Cash outflows for capital and related financing activities decreased $1,906,866 or 31.61 percent in fiscal year 2014 vs. FY2013.

- For the fiscal year ended June 30, 2013, the Authority realized an overall net increase in cash and cash equivalents at year-end of $7,273,080 or 25.91 percent. Cash used in operating activities increased by $597,711 or 6.46 percent when compared to fiscal year 2012. Cash provided by non-capital financing activities was $23,142,829, or $13,692,868 better than fiscal year 2012. Cash outflows for capital and related financing activities increased $5,983,574 in fiscal year 2013 vs. FY2012.

## 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.

- The Tourism Revenue Clearing Account accumulates the tourism tax revenues received from the Arizona Department of Revenue (AZ-DOR), as generated by the Hotel Bed Tax and the Rental Car Surcharge Tax. AZ-DOR wires these funds to the Authority. The Authority disburses 100% of these revenue receipts, in order of priority, to the Senior Debt Service account, the Tourism Promotions account, the Cactus League Promotions account, Youth and Amateur Sports account, and to the Authority's General Operations account. This operations account is used to pay the stadium operating expenses (including the University of Phoenix Stadium) and also to fund three reserve accounts: Youth and Amateur Sports, Operations, and Capital Repair and Replacement.

- The Facility Revenue Clearing Account accumulates 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, tele-communications, and all other revenues generated by events held at the Stadium. These funds are then 100% disbursed for senior bond debt service requirements, for subordinate bonds, as needed; any remaining funds go into 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 Promotion Account represents the activities of assisting local municipalities with the costs of financing new construction and/or 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.

- 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 Position; Statements of Revenues, Expenses and Changes in Net Position; and, Statements of Cash Flows.

### Statements of Net Position

The Authority's Statements of Net Position presents the following condensed assets, liabilities, and net position as of June 30, 2014, 2013 and 2012. The Statements of Net Position are to provide the reader with a financial picture of the Authority's assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), and net position (assets plus deferred outflows of resources minus liabilities).

The purpose of the Statements of Net Position is to illustrate what is available for the 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, and also what cash and cash equivalents are available and amounts owed to and by the Authority.

**Condensed Statements of Net Position Fiscal Years 2014, 2013, and 2012**

| | June 30 | | |
|---|---|---|---|
| | 2014 | 2013 - Restated | 2012-Restated |
| Assets | | | |
| Current assets | $ 51,013,164 | $ 42,038,139 | $ 34,416,761 |
| Capital assets non-depreciable | 2,773,165 | 2,773,165 | 2,773,165 |
| Capital assets depreciable, net | 364,780,905 | 379,416,778 | 393,989,228 |
| Other non-current assets | - | - | 6,471,543 |
| Total assets | $ 418,567,234 | $ 424,228,082 | $ 437,650,697 |
| Deferred Outflows of Resources | | | |
| Deferred amount on refunding of debt | 8,342,960 | 8,913,477 | - |
| Total deferred outflows of resources | 8,342,960 | 8,913,477 | - |
| Liabilities | | | |
| Current liabilities | 22,727,984 | 17,081,045 | 14,766,419 |
| Noncurrent liabilities | 439,542,859 | 447,363,471 | 449,128,023 |
| Total liabilities | 462,270,843 | 464,444,516 | 463,894,442 |
| Net Position | | | |
| Net investment in capital assets | 76,264,260 | 85,769,905 | 96,949,579 |
| Unrestricted | (111,624,909) | (117,072,862) | (123,193,324) |
| Total net position | $ (35,360,649) | $ (31,302,957) | $ (26,243,745) |

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority adopted this standard effective June 30, 2014, and, therefore, must make the application of this standard retroactive by restating financial statements for all periods presented. As a result, the Authority applied an adjustment to total net position as of June 30, 2013 in the amount of $ 3,332,963. A similar adjustment is not reflected to the Authority's net position as of June 30, 2012 in the condensed statement of net position presented above.

The Authority's total net position as of June 30, 2014 decreased $4,057,692, or 12.96 percent, as compared to the fiscal year 2013 restated numbers.

The Authority's total assets as of June 30, 2014 decreased $5,660,848, or 1.33 percent, as compared to fiscal year 2013. This total asset change is the result of a current assets increase of $8,975,025, comprised of cash and cash equivalents – restricted and accounts receivable – restricted. The subordinate bond debt service reserve decreased by $2,102,252 as a result of the 2013A subordinate bonds refunding issue. The reduction in the required balance of the subordinate bond debt service reserve created an additional payment toward the outstanding balance of the IGA's with the cities of Scottsdale and Tempe. Capital Assets decreased by $14,635,873, or 3.86 percent, attributable to the annual depreciation expenses of $14,652,256.

In the fiscal year ending June 30, 2014, the Authority is recognizing deferred bond issuance costs on its Statements of Net Position. These costs are related to the issuance of the senior bond debt service refunding issue in 2012 and the subordinate bond debt service refunding issue in 2013. (Please refer to Note 9 of the financial statements for details).
Total deferred outflows of resources decreased in fiscal year 2014 by $570,517 or 6.40%. This decrease represents to annual amortization of the deferral of both senior bonds and subordinate bonds issue costs for the fiscal year.

Total liabilities as of June 30, 2014 decreased a total of $2,173,673, as compared to fiscal year 2013. Current liabilities increased $5,646,939, or 33.06 percent. Youth and Amateur Sports grants payable increased $1,400,060 with the fiscal year 2014 biennial grant cycle. Advanced Revenues increased $5,226,629 due to UPS/Global Spectrum holding advance ticket revenues of $5,320,147 for the One Direction concert to be held on September 16, 2014. Non-current liabilities decreased $7,820,612, or 1.75 percent. The Authority made principal and/or interest payments on the outstanding senior and subordinate bonds debt service and on the Cactus League IGA's with the cities of Tempe and Scottsdale.

The Authority's total net position as of June 30, 2013 (restated) decreased $570,517 as compared to the fiscal year 2012 restated numbers.

The Authority's total assets as of June 30, 2013 decreased $4,509,138 or 1.03 percent, as compared to fiscal year 2012. This total asset change is the result of a current assets increase of $7,621,378, comprised of cash and cash equivalents – restricted and accounts receivable – restricted. Capital Assets decreased by $14,572,450 or 3.70 percent, primarily attributable to the annual depreciation expenses of $14,643,989.

Total liabilities as of June 30, 2013 increased a total of $550,074 or 0.12 percent as compared to fiscal year 2012. Current liabilities increased $2,314,626, or 15.67 percent. Cactus League payables increased $2,792,716 for the Cactus League promotional dollars and the Maricopa County Stadium District distribution due to Scottsdale and Tempe for their existing intergovernmental agreements.

**Statements of Revenues, Expenses and Changes in Net Position**

The change to Net Position as seen on the Statement of Net Position is based on the activity that is presented on the Statements of Revenues, Expenses and Changes in Net Position. The presentation of the Statements reflects the revenues and expenses for the Authority during the years ended June 30, 2014, 2013 and 2012. The reader will see the revenues and expenses broken down into operating and non-operating categories.

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**
**Fiscal Years 2014, 2013, and 2012**

| | Year Ended June 30 | | |
|---|---|---|---|
| | 2014 | 2013-Restated | 2012-Restated |
| Operating revenues | $ 14,954,779 | $ 10,449,813 | $ 9,275,092 |
| Operating expenses | (37,903,146) | (34,177,725) | (32,334,772) |
| Operating loss | (22,948,367) | (23,727,912) | (23,059,680) |
| Net nonoperating revenues | 18,890,675 | 22,001,663 | 5,467,362 |
| Decrease in net position | (4,057,692) | (1,726,249) | (17,592,318) |
| Net position, beginning of year, as previously reported | (31,302,957) | (26,243,745) | (16,615,743) |
| Implementation of new accounting standard | - | (3,332,963) | - |
| Correction of an error | - | - | 7,964,316 |
| Net position, beginning of year, as restated | (31,302,957) | (29,576,708) | (8,651,427) |
| Decrease in net position | (4,057,692) | (1,726,249) | (17,592,318) |
| Net position, end of year | $ (35,360,649) | $ (31,302,957) | $ (26,243,745) |

Overall, from fiscal year 2013 to 2014 the decrease in the change in net position of $4,057,692 was attributable to normal operating and non-operating conditions with the Authority.

- The Authority's tourism-based tax revenues consist of two components: the hotel bed tax and the rental car surcharge tax. Hotel Bed Tax Revenues increased from fiscal year 2013 to fiscal year 2014 by $1,137,052 or 8.73 percent. Rental Car Surcharge Tax Revenues decreased by $1,606,265 or 10.71 percent. On a Total Tourism Revenue basis, tourism revenues decreased $469,213 of 1.68 percent year-to-year, when comparing fiscal year 2013 and fiscal year 2014. This may be an indicator that the tourism industry within Maricopa County is still in a very slow recovery from the economic recession. The tourism industry in Arizona continues the state's leading industry sector. We believe that we have not seen a bottoming-out of the Tourism-based tax collections and anticipate fiscal year 2015 will produce a modest growth when compared to fiscal year 2014. We continue to forecast that it may take another five to six years before we are back to the fiscal year 2007 level of tax collections, and the resulting tourism revenues for AZSTA. This is well below the original Prop 302 30-year tourism revenue forecast for the Authority.

- For FY2013 hotel bed tax and the rental car surcharge tax: hotel bed tax revenues increased from fiscal year 2012 by $141,203 or 1.10 percent. Rental Car Surcharge Tax Revenues increased by $5,104,018 or 51.53 percent; this included an estimated $2,600,000 adjustment/correction from prior periods dating back as far as four years prior (received in Sept 2012 distribution from the AZ Department of Revenue).

- In FY2014, the Authority experienced a decrease in the NFL Income Tax revenues of $181,338 or 3.4 percent when compared with fiscal year 2013. This decrease is attributable to the prior year's income taxes paid to the Arizona Department of Revenue by the AZ Cardinals' organization: their personnel:

including administrative, coaches, and players that file income taxes in the State of AZ. Since the start of fiscal year 2008, the Authority has not had the benefit of this revenue source having met the guaranteed minimum, as that was repealed by the Arizona State Legislature and Executive Branches. The elimination of this guarantee leaves only the actual income taxes paid for the Authority. NOTE: this revenue source has been under-performing since the Authority's second year of operations when compared to the original Prop 302 models and projections.

- In fiscal year 2013, the Authority experienced a decrease in the NFL Income Tax revenues of $141,203 or 1.10 percent when compared with fiscal year 2012.

- The Authority's sales tax recapture revenues decreased in fiscal year 2014 by $289,615 or 3.32 percent less than in the prior fiscal year. The primary reason for this decrease is related to the composition of the events held at the stadium in fiscal year 2014 as compared to fiscal year 2013. These events generate additional sales tax rebate / recapture revenues for the Authority; as the Authority receives both state and local sales tax recapture revenues from all related taxable transactions for events held at the University of Phoenix Stadium.

- In fiscal year 2013, the Authority experienced an increase in the sales tax recapture revenue receipts of $286,000 or 3.39 percent when compared with fiscal year 2012.

- The Authority recorded $1,712,504 in expenses related to its fiscal year 2014 Biennial Grant cycle, and $72,110 related to the Quick and Program Grants programs in fiscal year 2014. The Authority has chosen to use a biennial cycle in order to aggregate more funds in the Youth and Amateur sports fund, thusly allowing for support for larger projects; which equates to a greater positive impact in the community every 2 years. The Authority distributes money to support youth and amateur sports programs within Maricopa County. The grant applicants must meet the specific grant program requirements. These funds are distributed by the Authority on a reimbursement basis.

- The Authority recorded $43,435 expenses related to Youth and Amateur Quick and Program Grants programs in fiscal year 2013.

- The distributions for tourism promotions to the Arizona Office of Tourism increased by $715,303 or 11.36 percent as compared to fiscal year 2013. In fiscal year 2014, the Authority was less than 2.8% from making 100% of the statutory distribution dollars due to be distributed to the Arizona Office of Tourism. This year-over-year increase is driven by the Total Tourism revenue receipts received by the Authority. When Prop 302 created the Authority, there were provisions in the statutes that require the Authority to distribute tourism promotions dollars each month, when the dollars are available. The initial year (2001) had a statutory target distribution of $4,000,000; and that target distribution increases by 5% each year.

- For fiscal year 2013, the distributions for tourism promotions to the Arizona Office of Tourism decreased by $140,210 or 2.18 percent as compared to fiscal year 2012.

- Interest expense decreased by $239,007 during fiscal year 2014 as compared to fiscal year 2013. The Authority is experiencing the benefit of having refunded both the senior bond debt service in fiscal year 2012 and the subordinate bonds debt service in fiscal year 2013 at the unprecedented low municipal bond interest rates.

- Interest expense decreased by $7,574,651 or by 37.16 percent in fiscal year 2013 when compared to fiscal year 2012. In addition to the bond refunding issues to capitalize on the low market interest rates, the Authority also became compliant with a change in accounting estimate for the Authority's reporting/recording of IGA's; as GASB-33; specifically the eligibility requirements for a "non-exchange transaction". This requires that the Authority no longer accrue interest on the outstanding principal of the IGA; until such time as the payments begin to be made on the IGA. The result of this is a significant reduction in the interest expense recorded each year for accrued interest on the IGA's.

- In FY2014, stadium operating revenues increased by $3,840,654. Facilities and ticket use fees increased by $375,136. Concessions revenues increased $265,649. These are all associated with the mix of events that take place at the stadium throughout the fiscal year; over and above the annual NFL season and the annual Fiesta Bowl

- Total operating expenses increased $3,725,421 in FY2014 vs. FY2013; primarily as a result of the stadium management fees increase year-over-year by $3,865,680. Legal fees decreased year-over-year by $76,945. Payroll increased by $2,840 for the year. Professional fees were reduced by $49,404. Bank and service fees decreased $14,758 as the result of consolidating prior market and operational accounts to one financial institution in FY2014. Office operations expense decreased year-over-year by $16,668.

**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 Position.

**Condensed Statements of Cash Flows Fiscal Years 2014, 2013, and 2012**

| | Year Ended June 30 | | |
|---|---|---|---|
| | 2014 | 2013-Restated | 2012-Restated |
| Cash (Used In) Provided By: | | | |
| Operating activities | $ (4,330,142) | $ (9,852,373) | $ (9,254,662) |
| Noncapital financing activities | 16,709,962 | 23,142,829 | 9,449,961 |
| Capital and related financing activities | (4,126,403) | (6,033,289) | (4,971,904) |
| Investing activities | 10,325 | 15,913 | 12,443 |
| Net increase (decrease) in cash and cash equivalents | 8,263,742 | 7,273,080 | (4,764,162) |
| Cash and cash equivalents, beginning of year | 35,346,722 | 28,073,642 | 32,837,804 |
| Cash and cash equivalents, end of year | $ 43,610,464 | $ 35,346,722 | $ 28,073,642 |
| Cash and Cash Equivalents | | | |
| Cash and Cash Equivalents - restricted | $ 42,469,983 | $ 32,103,989 | $ 24,831,273 |
| Cash and Cash Equivalents - restricted for subordinate bond reserve | 1,140,481 | 3,242,733 | 3,242,369 |
| | $ 43,610,464 | $ 35,346,722 | $ 28,073,642 |

For fiscal year ended June 30, 2014, the Authority realized an increase in the June 30 ending balance of cash and cash equivalents. This increase year-over-year is $8,263,742 or 23.38 percent. The change is comprised of the following:

- Net cash used in operating activities decreased by $5,522,231 or 56.05 percent year-to-year.
  - Cash from events increased $8,845,901 or 87.77 percent for the year.
  - Cash paid for events increased $3,472,196 or 18.48 percent.
  - Cash paid to employees increased by only $2,840 or 0.587 percent year-to-year.
  - Cash paid for other operating expenses decreased $151,366 or 23.70 percent.
- Net cash provided by non-capital financing activities decreased by $6,432,867 or 27.80 percent year-to-year.
  - Cash payments to the AZ Office of Tourism increased year-over-year by $715,303 or 11.36 percent.
  - Cash payments for Youth and Amateur Sports programs decreased year-over-year by $563,789 or 59.45 percent. This due to FY2014 having been a biennial grant year and the actual cash payments made in the fiscal year are limited to a reimbursement basis for grant recipients. It is expected that the cash outlay for the majority of the FY2014 biennial grant recipients will be make in FY2015.
  - Cash payments made for Cactus League promotions increased year-over-year by $2,847,090. This presents the total of 'waterfall' cactus league promotions dollars and the MCSD excess revenues transfer to AZSTA in June 2014.
  - Cash receipts from tourism revenues (hotel bed tax and car rental surcharge tax) decreased $1,182,456 year-over-year or 4.18 percent.
  - Cash receipts from NFL Income Tax increased $975,590 or 21.48 percent.

  - Cash paid for interest decreased $2,947,541 or 28.01 percent.
- Cash used for capital and refinancing activities decreased $1,906,886 or 31.63 percent year-to-year.
  - Cash paid on bond principal decreased $1,905,000 year-over-year.

For the fiscal year ended June 30, 2013, the Authority realized an overall net increase in cash and cash equivalents at year-end of $7,273,080 or 25.91 percent.

- Cash used in operating activities increase by $597,711 or 6.46 percent.
- Cash provided by non-capital financing activities was $23,142,829, or $13,692,868 better than fiscal year 2012.
  - The two primary components of that change were an increase in tourism revenues of $5,701,415 and a reduction in cash paid for interest expense $6,212,878; as a result of the senior bond debt service refunding issue in 2012.
  - Cash paid for capital additions increased $68,529 for an investment in IT infrastructure.
- Cash paid on bond principal increased in 2013 by $575,000 vs. 2012. As noted above, the year included the refunding bond issue for subordinate bonds ($12,485,000 par value and the defeasement of $13,060,000 of the 2003 series subordinate bonds outstanding.

**Capital Assets and Debt Administration (Note 6)**

The Authority had no significant additions to capital assets during fiscal year 2014.

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 (Note 9)**

The Authority debt obligations changed in fiscal year 2014 due to the annual senior and subordinate bonds debt service schedules paid on-time in fiscal year 2014.

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.

**Economic Factors and Next Fiscal Year Budget**

There is forecasted improvement from fiscal year 2014 and into fiscal year 2015; although there is no precise way to determine whether or not this improvement will be permanent in nature. For fiscal year 2015, we continued to forecast a conservative and slight increase in our primary revenues – Tourism Revenues. There are projected increases in several of our facility-related revenues tied to having mega-events in fiscal year 2015 (Fiesta Bowl, Pro Bowl, and Super Bowl). 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 the previous downturn and now very slow recovery 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 to five years.

Tourism Revenue Distribution
In fiscal year 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 fiscal year 2014, the Authority's receipts of Tourism taxes did not meet the aggregate amounts necessary amount to distribute down the entire waterfall during every month for Tourism, Cactus League, YAS, and Operations. This resulted in each of these priorities receiving only a portion of the total projected for the fiscal year and/or mandated by the Prop 302 statutes.

Comparatively, in fiscal year 2007, the Authority collected $24.2 million in Tourism taxes. This was up 48 percent from fiscal year 2002, the first full year of collections under Prop 302. Since 2007, Tourism receipts to the Authority have fallen in fiscal years 2008, 2009, somewhat stabilized in fiscal year 2010, and begun a slight recovery in fiscal year 2011 that continued through fiscal year 2014. In fiscal year 2014, the Authority collected $28.045M; still less than the fiscal year 2007 level. The Authority distributed the following in each of these years:

| **$ Millions** | **2007** | **2014** |
|---|---|---|
| Senior Bonds | 7.6 | 13.3 |
| Tourism | 5.1 | 7.0 |
| Cactus League (Sub Bond DS included) | 3.0 | 3.2 |
| Youth & Amateur Sports | 1.5 | 1.7 |

While Tourism taxes continue to recover slowly in fiscal year 2014, the Authority projects that it will not receive enough Tourism receipts during every month to make the entire "waterfall" distributions in fiscal years 2015, 2016, 2017, 2018, 2019, and into 2020.

**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, under the Archives section.

| | 2014 | 2013 As Restated |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and equivalents - restricted | $ 42,469,983 | $ 32,103,989 |
| Cash and equivalents - restricted for subordinate bond reserve | 1,140,481 | 3,242,733 |
| Accounts receivable - restricted | 7,362,354 | 6,654,663 |
| Other assets | 40,346 | 36,754 |
| Total current assets | 51,013,164 | 42,038,139 |
| **Noncurrent Assets** | | |
| Capital assets, non-depreciable | 2,773,165 | 2,773,165 |
| Capital assets, depreciable, net | 364,780,905 | 379,416,778 |
| Total noncurrent assets | 367,554,070 | 382,189,943 |
| Total assets | $ 418,567,234 | $ 424,228,082 |
| **Deferred Outflows of Resources** | | |
| Deferred amount on refunding of debt | 8,342,960 | 8,913,477 |
| Total deferred outflows of resources | 8,342,960 | 8,913,477 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable | 708,665 | 867,822 |
| Accrued expenses | 999,636 | 1,592,719 |
| Youth and amateur sports grants payable | 1,426,968 | 26,908 |
| Cactus League payable | 2,762,665 | 3,140,760 |
| Bond principal payable | 4,325,000 | 4,220,000 |
| Bond interest payable | 6,744,731 | 6,699,146 |
| Advanced revenue | 5,760,319 | 533,690 |
| Total current liabilities | 22,727,984 | 17,081,045 |
| **Noncurrent Liabilities** | | |
| Advanced revenue | - | 250,000 |
| Cactus League Payable | 144,235,089 | 145,999,956 |
| Bonds principal and premiums payable | 295,307,770 | 301,113,515 |
| Total noncurrent liabilities | 439,542,859 | 447,363,471 |
| Total liabilities | 462,270,843 | 464,444,516 |
| **Net Position** | | |
| Net investment in capital assets | 76,264,260 | 85,769,905 |
| Unrestricted | (111,624,909) | (117,072,862) |
| Total net position | $ (35,360,649) | $ (31,302,957) |

| | 2014 | 2013 As Restated |
|---|---|---|
| **Operating Revenues** | | |
| Stadium operating revenues | $ 12,574,912 | $ 8,734,258 |
| Facility and ticket use fee | 1,287,150 | 912,014 |
| Concession revenues | 1,080,871 | 785,222 |
| Other operating income | 11,846 | 18,319 |
| Total operating revenues | 14,954,779 | 10,449,813 |
| **Operating Expenses** | | |
| Stadium management operations | 22,261,580 | 18,395,900 |
| Legal | 192,176 | 269,121 |
| Payroll | 501,798 | 498,958 |
| Professional fees | 155,796 | 205,200 |
| Marketing and promotion | 22,983 | 16,574 |
| Bank management and service fees | 9,239 | 23,997 |
| Insurance | 42,166 | 62,501 |
| Travel | 18,077 | 12,323 |
| Meetings | 6,112 | 5,160 |
| Office | 23,812 | 22,571 |
| Communications | 17,151 | 21,431 |
| Depreciation | 14,652,256 | 14,643,989 |
| Total operating expenses | 37,903,146 | 34,177,725 |
| **Operating Loss** | (22,948,367) | (23,727,912) |
| **Nonoperating Revenues (Expenses)** | | |
| Arizona tourism distribution | (7,015,053) | (6,299,750) |
| Youth and amateur sports grant awards | (1,784,614) | (43,435) |
| Cactus League obligations | (1,405,391) | (717,182) |
| Hotel bed tax | 14,172,163 | 13,035,111 |
| Rental car tax | 13,403,814 | 15,010,079 |
| NFL income tax | 5,519,253 | 5,337,915 |
| Sales tax recapture | 8,451,803 | 8,741,418 |
| Interest income | 10,325 | 15,913 |
| Interest expense | (12,571,152) | (12,810,159) |
| Bond issuance costs | - | (268,247) |
| Proceeds from insurance claims | 109,527 | - |
| Total nonoperating revenues | 18,890,675 | 22,001,663 |
| **Change in Net Position** | (4,057,692) | (1,726,249) |
| **Net Position, Beginning of Year (as previously reported)** | (31,302,957) | (26,243,745) |
| Implementation of new accounting standard (Note 13) | - | (3,332,963) |
| **Net Position, Beginning of Year (as restated)** | (31,302,957) | (29,576,708) |
| **Change in Net Position** | (4,057,692) | (1,726,249) |
| **Net Position, End of Year** | $ (35,360,649) | $ (31,302,957) |

| | 2014 | 2013 As Restated |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash received from events (stadium operations) | $ 18,924,340 | $ 10,078,439 |
| Cash paid for events (stadium operations) | (22,265,172) | (18,792,976) |
| Cash paid for employees | (501,798) | (498,958) |
| Cash paid for other operating expenses | (487,512) | (638,878) |
| Net Cash used for Operating Activities | (4,330,142) | (9,852,373) |
| **Cash Flows from Non-Capital Financing Activities** | | |
| Payments to the Arizona Office of Tourism | (7,015,053) | (6,299,750) |
| Payments for Youth and Amateur Sports | (384,554) | (948,343) |
| Payments for Cactus League | (3,513,161) | (666,071) |
| Receipts from hotel bed tax | 13,755,623 | 13,232,297 |
| Receipts from rental car tax | 13,357,732 | 15,063,514 |
| Receipts from NFL income tax | 5,519,253 | 4,543,663 |
| Receipts from sales tax recapture | 8,461,562 | 8,741,418 |
| Cash paid for interest | (13,471,440) | (10,523,899) |
| Net Cash from Non-Capital Financing Activities | 16,709,962 | 23,142,829 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Cash paid for defeased bonds | - | (13,060,000) |
| Cash paid for bond issuance costs | - | (268,247) |
| Proceeds from bond issuance | - | 13,491,497 |
| Cash paid for capital additions | (15,930) | (71,539) |
| Cash paid on bond principal | (4,220,000) | (6,125,000) |
| Cash from insurance proceeds | 109,527 | - |
| Net Cash used for Capital and Related Financing Activites | (4,126,403) | (6,033,289) |
| **Cash Flows from Investing Activities** | | |
| Cash from interest earned | 10,325 | 15,913 |
| Net Cash from Investing Activities | 10,325 | 15,913 |
| Net Change in Cash and Equivalents | 8,263,742 | 7,273,080 |
| Cash and Cash Equivalents, Beginning of Year | 35,346,722 | 28,073,642 |
| Cash and Cash Equivalents, End of Year | $ 43,610,464 | $ 35,346,722 |
| **Cash and Cash Equivalents** | | |
| Cash and equivalents - restricted | $ 42,469,983 | $ 32,103,989 |
| Cash and equivalents - restricted for subordinate bond reserve | 1,140,481 | 3,242,733 |
| Total | $ 43,610,464 | $ 35,346,722 |

| | 2014 | 2013 As Restated |
|---|---|---|
| Operating Activities | | |
| Operating loss | $ (22,948,367) | $ (23,727,912) |
| Adjustments to reconcile operating loss to net cash used for operating activities | | |
| Depreciation | 14,652,256 | 14,643,989 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (254,828) | 177,482 |
| Other assets | (3,592) | 17,850 |
| Accounts payable | (159,157) | (687,700) |
| Accrued expenses | (593,083) | 272,775 |
| Deferred revenue | 4,976,629 | (548,857) |
| | $ (4,330,142) | $ (9,852,373) |
| Supplemental Disclosures of Noncash Capital and Financing Activities | | |
| Accrual of interest on noncurrent liabilities | | |
| Cactus League | $ 1,378,243 | $ 661,544 |

## 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 to, among other things:

- construct, finance, furnish, maintain, improve, own, operate, market, and promote the use of the University of Phoenix Stadium (the 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;

- acquire land or construct, finance, furnish, improve, market or promote the use of existing or proposed major league baseball spring training facilities located in Maricopa County; and

- 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's Board of Directors is comprised of nine citizens of Maricopa County who volunteer their time and accept no compensation or per diem. The Board members are appointed to five-year terms by the Governor (five members), the President of the Senate (two members) and the Speaker of the House (two members) and are eligible to serve two terms. Board appointees are appointed to achieve a balanced representation of the Valley's regions as well as the Tourism Industry, Cactus League, Valley Hotel Industry and Youth Sports.

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 consolidated in the Authority's financial statements. The Authority's management agreement with Global expires on June 30, 2016.

Rojo Hospitality Group, LLC operates as an independent service provider to the Authority and provides catering and concession services throughout the Stadium. The Authority's agreement with Rojo Hospitality Group, LLC expires on June 30, 2016.

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 in August 2006. 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.

## 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 enterprise units adopted by the Governmental Accounting Standards Board (GASB). A summary of significant accounting policies follows.

The financial statements are reported 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 related cash flows.

Enterprise units 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 Stadium; revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Use of Estimates**

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

**Cash and Cash Equivalents**

Cash and cash equivalents consists of highly-liquid investments with an original maturity of three months or less. All cash is restricted for disbursement in accordance with the Arizona Revised Statutes Title 5 Chapter 8.

**Receivables and Credit Policy**

Trade receivables due from customers are uncollateralized customer obligations due under normal trade terms requiring payment upon receipts of the invoice. Trade receivables are stated at the amount billed to the customer. The Authority charges interest on overdue customer account balances at a rate of 18% per annum. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

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.

The Authority provides an allowance for doubtful accounts equal to estimated uncollectible amounts. The Authority's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Authority's estimate of the allowance for doubtful accounts will change. As of June 30, 2014 and 2013, the Authority determined an allowance for doubtful accounts was not necessary.

**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 recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in the statement of revenues, expenses, and changes in net position.

Depreciation is provided using the straight-line method, based on useful lives of the assets which range from three to forty years.

The Authority reviews its property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is materially less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairments occurred in fiscal years 2014 or 2013.

**Deferred Outflows of Resources**

For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. As of June 30, 2014 and 2013, deferred outflows of resources consisted of deferred amounts on refunding of debt, net of accumulated amortization, in the amount of $8,342,960 and $8,913,477, respectively.

**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, less $2.50 per rental agreement, surcharge on applicable rental car contracts in Maricopa County.

- The hotel bed tax is a one percent tax on lodging transactions in Maricopa County.

- The 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.

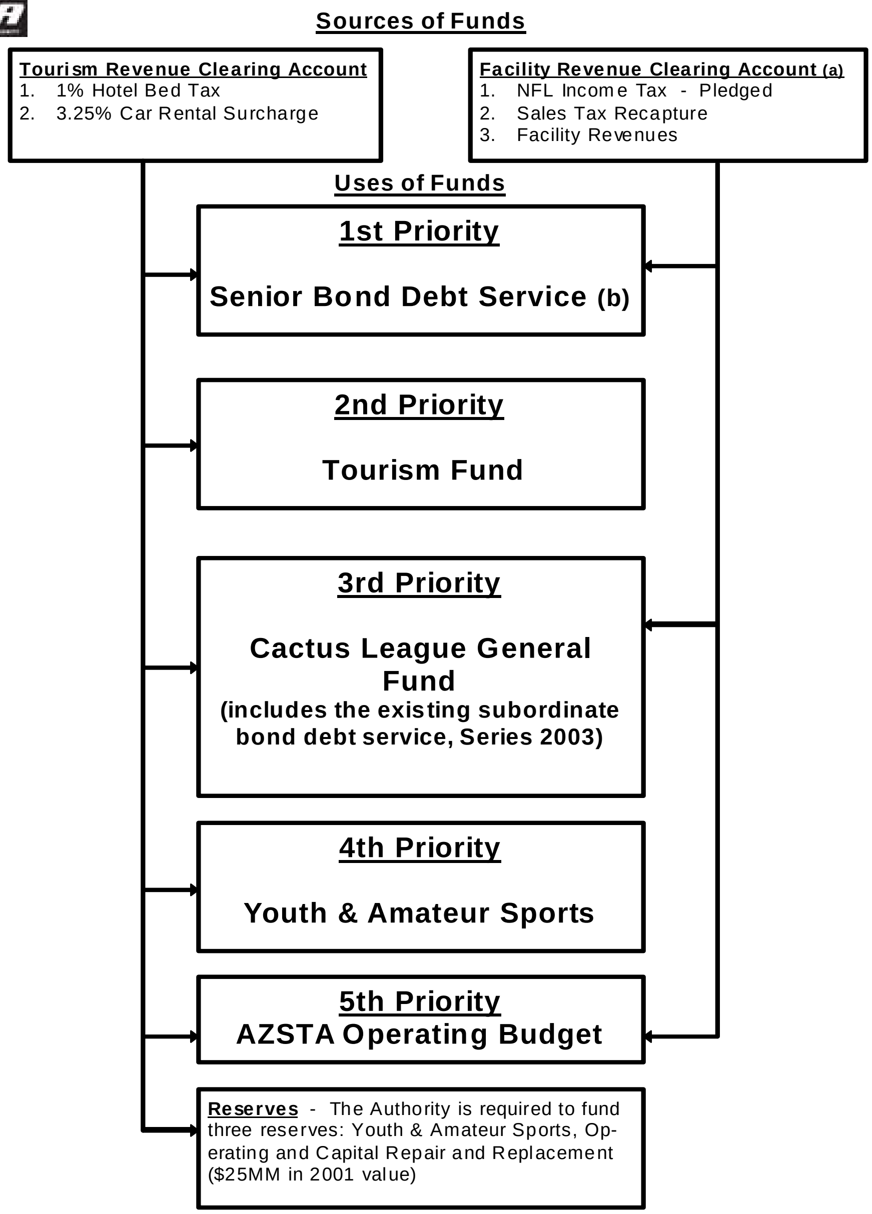
- Event revenues are deferred until completion of the event. Revenues come from a variety of activities including building rents, concessions and catering, novelties, exhibitor services and other miscellaneous revenues.

- Facility use rentals are amounts paid by the Arizona Cardinals and the Fiesta Bowl for their use of the Stadium. The Arizona Cardinals annual rent started at $250,000 per year in 2010 and grows by two percent per year thereafter. The Fiesta Bowl pays a ticket surcharge which started at $2.50 per ticket in 2010 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.

## Arizona Sports and Tourism Authority
## Statutory Flow of Funds




**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 in 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 received $1.0 million in its first 12 months increased 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 Global. 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

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, Arizona Cardinals annual rent and all other event 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 2013 have been reclassified to conform to current year presentation of the financial statements. The reclassifications had no effect on the results of operations for 2013.

## Note 3 - Cash and Cash Equivalents

Custodial credit risk is the risk that an entity will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party if the counterparty fails. The Authority maintains deposits with outside parties that are in excess of Federal Deposit Insurance Corporation (FDIC) coverage limits of $250,000.

At June 30, 2014 and 2013, the Authority's commercial money market accounts totaled $16,708,043 and $15,819,749, respectively, of all cash and cash equivalents. These accounts were not collateralized or insured.

## Note 4 - Accounts Receivable

Accounts receivable consisted of the following as of June 30:

| | 2014 | 2013 |
|---|---|---|
| Operating accounts receivable | $ 574,940 | $ 320,112 |
| Hotel Bed Tax | 1,996,316 | 1,579,777 |
| Car Rental Surcharge | 1,551,463 | 1,505,380 |
| Sales Tax Recapture | 3,239,635 | 3,249,394 |
| | $ 7,362,354 | $ 6,654,663 |

## Note 5 - Restricted Assets

Restricted assets consisted of the following at June 30:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | $ 43,610,464 | $ 35,346,722 |
| Receivables | 7,362,354 | 6,654,663 |
| | $ 50,972,818 | $ 42,001,385 |

## Note 6 - Capital Assets

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

| | July 1, 2013 | Additions | Impairment/ Disposals | June 30, 2014 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 2,773,165 | $ - | $ - | $ 2,773,165 |
| | 2,773,165 | - | - | 2,773,165 |
| 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 | 122,652 | 15,930 | - | 138,582 |
| Furniture and fixtures | 133,563 | - | - | 133,563 |
| Office equipment | 15,577 | - | - | 15,577 |
| Capitalized software | 10,168 | 453 | - | 10,621 |
| Assets under capital lease | 60,039 | - | - | 60,039 |
| | 486,339,632 | 16,383 | - | 486,356,015 |
| Less accumulated depreciation: | | | | |
| University of Phoenix Stadium | (99,280,901) | (14,348,762) | - | (113,629,663) |
| Stadium FF&E | (7,363,739) | (284,997) | - | (7,648,736) |
| Computer equipment | (58,868) | (18,497) | - | (77,365) |
| Furniture and fixtures | (133,563) | - | - | (133,563) |
| Office equipment | (15,577) | - | - | (15,577) |
| Capitalized software | (10,168) | - | - | (10,168) |
| Assets under capital lease | (60,038) | - | - | (60,038) |
| | (106,922,854) | (14,652,256) | - | (121,575,110) |
| | $ 382,189,943 | $ (14,635,873) | $ - | $ 367,554,070 |

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

| | July 1, 2012 | Additions | Impairment/ Disposals | June 30, 2013 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | 2,773,165 | $ - | $ - | $ 2,773,165 |
| | 2,773,165 | - | - | 2,773,165 |
| 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 | 51,113 | 71,539 | - | 122,652 |
| 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 |
| | 486,268,093 | 71,539 | - | 486,339,632 |
| Less accumulated depreciation: | | | | |
| University of Phoenix Stadium | (84,932,141) | (14,348,760) | - | (99,280,901) |
| Stadium FF&E | (7,078,742) | (284,997) | - | (7,363,739) |
| Computer equipment | (48,636) | (10,232) | - | (58,868) |
| Furniture and fixtures | (133,563) | - | - | (133,563) |
| Office equipment | (15,577) | - | - | (15,577) |
| Capitalized software | (10,168) | - | - | (10,168) |
| Assets under capital lease | (60,038) | - | - | (60,038) |
| | (92,278,865) | (14,643,989) | - | (106,922,854) |
| | $ 396,762,393 | $ (14,572,450) | $ - | $ 382,189,943 |

## Note 7 - Cactus League Payable

The Authority, through its Cactus League promotional account, provides financing assistance to cities in Maricopa County which host Major League Baseball spring training teams. The Authority has committed to funding certain project costs subject to fund availability under government mandate A.R.S. Section 5-808.

In accordance with GASB Statement Number 33 *Accounting and Financial Reporting for Nonexchange Transactions*, the Authority has determined these are voluntary, nonexchange transactions contingent upon eligibility criteria set forth in the agreements. Prior to fiscal year 2013, satisfaction of the eligibility criteria was estimated as the passage of time and obligations where therefore also recognized with the passage of time. During fiscal year 2013, management revised its estimate and determined that the eligibility criteria is met only when funds are readily available for payment and thus began recognizing the obligations only when those funds became readily available. Obligations recognized are classified as current when funds are available for immediate payment. Remaining obligations are classified as non-current.

### Tempe

The Authority committed a maximum of $12 million, not to exceed 60 percent of the total project costs, 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 Maricopa County Stadium (MCSD) funds related to its car rental surcharge revenues. As of June 30, 2014 and 2013, respectively, the Authority has a remaining commitment balance of $13,158,379 and $14,361,521. The commitment balance has been fully recognized on the statement of net position.

### Scottsdale

The Authority committed a maximum of $13,333,000, approximately 67 percent of the expected total project costs, 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 Maricopa County Stadium (MCSD) funds related to its car rental surcharge revenues. As of June 30, 2014 and 2013, respectively, the Authority has a remaining commitment balance of $19,292,713 and $20,224,488. The commitment balance has been fully recognized on the statement of net position.

### Goodyear

The Authority committed a maximum of $37,375,000, not to exceed 50 percent of the total project costs, to Goodyear in January 2007 for 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. The Authority began recognizing accrued interest in fiscal year 2009. In fiscal year 2013, due to the revised estimate described above, the Authority discontinued recognizing the accrued interest. As of June 30, 2014 and 2013, respectively, the Authority has a remaining commitment balance of $48,044,259 and $45,855,732. The commitment balance for which eligibility criteria has been met, $43,766,898 for the years ended June 30, 2014 and 2013, has been fully recognized on the statement of net position.

On April 7, 2008, the Authority's Board of Directors approved Resolution No. 2008-75 which provided an additional maximum of $20 million commitment to the City of Goodyear. In accordance with GASB Statement Number 33 *Accounting and Financial Reporting for Nonexchange Transactions,* the Authority has determined this resolution and resulting agreement is a voluntary, nonexchange transaction contingent upon eligibility criteria set forth in the agreement. The primary eligibility criteria requires a renewal or extension of the Authority's current revenues or creation of a new funding source available for the Cactus League promotional account. Therefore, this agreement will not be recognized in the financial statements until such time as the eligibility criteria is satisfied.

**Glendale**

The Authority committed a maximum of $60 million, not to exceed two-thirds of the total project costs, to Glendale in August 2007 for 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. The Authority began recognizing accrued interest in fiscal year 2009. In fiscal year 2013, due to the revised estimate described above, the Authority discontinued recognizing the accrued interest. As of June 30, 2014 and 2013, respectively, the Authority has a remaining commitment balance of $77,076,262 and $74,019,266. The commitment balance for which eligibility criteria has been met, $70,779,765, for the years ended June 30, 2014 and 2013, has been fully recognized on the statement of net position.

**Phoenix**

The Authority committed to a maximum of $1,042,000, not to exceed two-thirds of the total project costs, to the City of Phoenix in fiscal year 2013 for constructing a stadium and practice facility for the Milwaukee Brewers. The stadium and related practice facility are currently under construction. The Authority has not recognized the commitment or accrued interest as described above. As of June 30, 2014 and 2013, respectively, the Authority has a remaining commitment balance of $1,064,721 and $1,042,348. The eligibility criteria has not been met, and, therefore, the commitment has not been recognized on the statement of net position.

**Mesa**

Effective in fiscal year 2014, the Authority committed to a maximum of $8,200,000, not to exceed two-thirds of the total project costs, to the City of Mesa to partially fund the Hohokam Stadium Renovation Project. The total amount of the project is estimated at $12,300,000. The Authority has not recognized the commitment or accrued interest as described above. As of June 30, 2014, the Authority has a remaining commitment balance of $8,483,116. The eligibility criteria has not been met, and, therefore, the commitment has not been recognized on the statement of net position.

**Peoria**

The Authority committed to a maximum of $11,198,447, not to exceed two-thirds of the total project costs, to the City of Peoria in fiscal year 2014 to partially fund the renovation of a stadium and practice facility for the Seattle Mariners and San Diego Padres. The stadium and related practice facility are currently under construction. As of June 30, 2014, the Authority has a remaining commitment balance of $11,933,537. The eligibility criteria has not been met, and, therefore, the commitment has not been recognized on the statement of net position.

The following obligations were recognized as of June 30:

| | 2014 | 2013 |
|---|---|---|
| Payable to City of Avondale accruing interest at 2.98%, payment determined from available excess car rental surcharge revenues with final payment made in 2014. | $ - | $ 8,044 |
| Payable to City of Tempe, accruing interest at 4.397%, payment determined from available excess car rental surcharge revenues with final payment projected to be made in 2021. | 13,158,378 | 14,361,521 |
| Payable to City of Scottsdale, accruing interest at 4.454%, payment determined from available excess car rental surcharge revenues with final payment projected to be made in 2021. | 19,292,713 | 20,224,488 |
| Payable to City of Goodyear, accruing interest at 4.773%, payments projected to begin in 2021 after repayment of City of Tempe and City of Scottsdale liabilities. | 43,766,898 | 43,766,898 |
| Payable to City of Glendale, accruing interest at 4.130%, payments projected to begin in 2021 after repayment of City of Tempe and City of Scottsdale liabilities. | 70,779,765 | 70,779,765 |
| | 146,997,754 | 149,140,716 |
| Less current portion on cactus league payable | (2,762,665) | (3,140,760) |
| | $ 144,235,089 | $ 145,999,956 |

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## Note 8 - Bonds Payable

The Authority's bonds payable consisted of the following as of June 30:

| | 2014 | 2013 |
|---|---|---|
| Subordinate Tax Revenue Bonds, Series 2003, interest from 2.25 percent to 5.00 percent, which were partially defeased as of April 3, 2013, through advance refunding and paid fully in July 2013. | $ - | $ 3,880,000 |
| Senior Revenue Refunding Bonds (Multipurpose Stadium Facility Project) Series 2007A, interest from 4.00 percent to 5.00 percent, payable semi-annually through July 2024. | 88,775,000 | 89,115,000 |
| Senior Revenue Advance Refunding Bonds (Multipurpose Stadium Facility Project) Series 2012A, interest from 4.00 percent to 5.00 percent, payable semi-annually through July 2036. | 176,740,000 | 176,740,000 |
| Subordinate Tax Revenue Refunding Bonds Refunding Series 2013, interest from 4.00 percent to 5.00 percent, payable semi-annually through July 2016. | 12,485,000 | 12,485,000 |
| Total bonds payable | 278,000,000 | 282,220,000 |
| Less current portion of bonds payable | (4,325,000) | (4,220,000) |
| Total non-current portion of bonds payable | 273,675,000 | 278,000,000 |
| Plus unamortized premium | 21,632,770 | 23,113,515 |
| Total bonds payable plus unamortized premium | $ 295,307,770 | $ 301,113,515 |

Debt service requirements subsequent to June 30, 2014 are as follows:

| Year Ending June 30, | Principal Maturities | Interest | Total |
|---|---|---|---|
| 2015 | $ 4,325,000 | $ 16,521,263 | $ 20,846,263 |
| 2016 | 7,270,000 | 13,150,338 | 20,420,338 |
| 2017 | 7,905,000 | 12,804,263 | 20,709,263 |
| 2018 | 9,415,000 | 12,427,244 | 21,842,244 |
| 2019 | 10,560,000 | 11,970,000 | 22,530,000 |
| 2020-2024 | 66,015,000 | 50,907,525 | 116,922,525 |
| 2025-2029 | 85,310,000 | 32,878,738 | 118,188,738 |
| 2030-2034 | 72,480,000 | 10,373,000 | 82,853,000 |
| 2035-2037 | 14,720,000 | 1,118,250 | 15,838,250 |
| | $ 278,000,000 | $ 162,150,621 | $ 440,150,621 |

Per the existing bond covenants, the Authority is to maintain a minimum bond coverage ratio of 1.30 and 1.15, respectively, for the 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.

**Senior Bonds - Stadium Construction Related Bonds**

Series 2007A

In January 2007, the Authority issued $90,000,000 in senior revenue refunding bonds Series 2007A for the purpose of the 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 amount defeased and outstanding of the 2003A Series bonds as of June 30, 2014 and 2013, respectively, is $88,775,000 and $89,115,000.

Series 2012A

In June 2012, the Authority issued $176,740,000 in Series 2012A senior revenue refunding bonds for the purpose of advance refunding of Series 2008 and remaining series 2003A bonds. The Series 2012A bonds mature between 2016 and 2037 and carry a coupon rate of 4.95 percent. The amount defeased and outstanding of the refunded bonds as of June 30, 2014 and 2013 is $176,740,000.

**Subordinate Bonds – Cactus League Related Bonds**

Series 2003

In February 2003, the Authority issued $32,400,000 in subordinate tax revenue bonds, Series 2003, to fund the Authority's obligation under an intergovernmental agreement with the City of Surprise to partially fund a new training facility. The bonds carried interest from 2.25 percent to 5.00 percent and were partially refunded in advance through the issuance of Series 2013 subordinate tax revenue refunding bonds in fiscal year 2013. As of June 30, 2013, $3,880,000 remained outstanding. This amount was paid in full in July 2014.

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 $3,240,000 was fully funded in February 2008. As of June 30, 2014 and 2013, respectively, balances in the reserve account are $1,140,481 and $3,242,733.

Series 2013

On April 3, 2013, the Series 2013 refunding bonds were issued in advance refunding of the Series 2003 subordinate tax revenue bonds. The bonds carry interest between 4 and 5 percent through 2016. This resulted in an economic gain which is being amortized over the life of the bonds and presented as a deferred outflow of resources in the statement of net position. A bond reserve in the amount of $12,485,000 was established with the Bank of New York Mellon using bond proceeds at the time of issuance. This amount has been reduced through debt payments as required per the bond indenture. The amounts defeased and outstanding of the refunded bonds as of June 30, 2014 and 2013 is $12,485,000.

## Note 9 - Noncurrent Liabilities

Liability activity was as follows for the years ended:

| | July 01, 2013 | Additions | Reductions | June 30, 2014 | Amounts Due within One Year |
|---|---|---|---|---|---|
| Advanced revenue | $ 250,000 | $ - | $ (250,000) | $ - | $ - |
| Cactus league payable | 149,140,716 | 1,378,243 | (3,521,205) | $ 146,997,754 | 2,762,665 |
| Bonds principal and premiums | 305,333,515 | - | (5,700,745) | $ 299,632,770 | 4,325,000 |
| Total | $ 454,724,231 | $ 1,378,243 | $ (9,471,950) | $ 446,630,524 | $ 7,087,665 |

| | July 01, 2012 | Additions | Reductions | June 30, 2013 | Amounts Due within One Year |
|---|---|---|---|---|---|
| Advanced revenue | $ 500,000 | $ - | $ (250,000) | $ 250,000 | $ 250,000 |
| Cactus league payable | 149,137,199 | 661,544 | (658,027) | 149,140,716 | 3,140,760 |
| Bonds principal and premiums | 306,284,357 | 13,491,497 | (14,442,339) | 305,333,515 | 4,220,000 |
| Total | $ 455,921,556 | $ 14,153,041 | $ (15,350,366) | $ 454,724,231 | $ 7,610,760 |

## Note 10 - Sources of Pledged Revenues

The following are the revenue sources pledged relating to the senior bonds for the years ended June 30:

| | 2014 | 2013 |
|---|---|---|
| Hotel bed tax | $ 14,172,163 | $ 13,035,111 |
| Rental car tax | 13,403,814 | 15,010,079 |
| NFL income tax | 5,519,253 | 5,337,915 |
| Sales tax recapture | 8,451,803 | 8,741,418 |
| Fiesta Bowl Ticket Surcharge | - | - |
| Other stadium revenue | 2,379,867 | 1,715,555 |
| | $ 43,926,900 | $ 43,840,078 |

Several of the pledged revenues presented above vary from the amounts presented in the statement of revenues, expenses, and changes in net position 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 Maricopa County Stadium District's annual excess car rental surcharge revenues exclusively for the Authority's Cactus League promotional purposes. These funds, in turn, are used by the Authority in payment of the commitments to the cities as described in Note 7.

## Note 11 - Commitments and Contingencies

### 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. Initially, this obligation was $4.0 million annually beginning in June 2001. This annual amount is increased by five percent per year thereafter. Expense related to the distribution to AZOT was $7,015,053 and $6,299,750, respectively, for the fiscal years 2014 and 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. Per this agreement, Rojo collects all gross concession revenues on behalf of and for the Authority and, out of such gross revenues, remits 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.

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.

**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 $4,191,477 and $3,080,875 as of June 30,2014 and 2013, respectively, in cash balances allocated to youth and amateur sports.

## Note 12 - 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 employee’s gross wages. Employee contributions are calculated on a pre-tax basis. Contribution percentages are determined by 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, 2014, and 2013, the Authority made contributions of $48,928 and $47,093, respectively to the Plan.

As of June 30, 2015, the Authority will implement Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GADB Statement No. 27,* which will require the Authority to present a net pension liability measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position.

## Note 13 - New Accounting Pronouncement

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

This standard is effective for the Authority for the year ended June 30, 2014, and must be applied retroactively by restating financial statements for all periods presented.

The provisions of GASB 65 require that debt issuance costs (deferred financing costs) be recognized as an expense in the period incurred. The implementation resulted in the following restatements:

| | 2013 as previously reported | Restatement | 2013 as restated |
|---|---|---|---|
| Noncurrent Assets | | | |
| Deferred bond issuance costs, net | $ 3,029,225 | $ (3,029,225) | $ - |
| Total non-current assets | 385,219,168 | (3,029,225) | 382,189,943 |
| Total assets | 427,257,307 | (3,029,225) | 424,228,082 |
| Total net position | $ (28,273,732) | $ (3,029,225) | $ (31,302,957) |
| Nonoperating Revenues (Expenses) | | | |
| Amortization of deferred bond issuance costs | $ (571,985) | $ 571,985 | $ - |
| Bond issuance costs | - | (268,247) | 268,247 |
| Total nonoperating revenues | $ 22,269,910 | $ 303,738 | $ 22,573,648 |
| Net Position | | | |
| Net position, beginning | $ (26,243,745) | $ (3,332,963) | $ (29,576,708) |
| Change in net position | (2,029,987) | 303,738 | (1,726,249) |
| Net position, ending | $ (28,273,732) | $ (3,029,225) | $ (31,302,957) |

## Note 14 - Subsequent Event

On March 31, 2014, the Authority entered an agreement with the Cardinals to fund the installation of a new scoreboard at the stadium during fiscal year 2015. The cost of the installation and amount payable to the Cardinals is projected to be $8,152,500. Payments are scheduled to be made annually beginning in 2015. In fiscal years in which revenues are at least 103.5% of the prior year revenues payments of $1,164,643 will be made to the Cardinals. In years in which less than 103.5% of the prior year revenues are recognized, concession revenues in excess of targeted qualified amounts defined under the concession agreement described in Note 11 will be made in payment.

The Authority also entered into an agreement to purchase and install energy efficient venue lighting in fiscal year 2015 at a cost of $610,000. The Authority is expecting to apply rebates estimated at $300,000 to the cost of the lighting resulting in a net cost of $310,000.