



2006

Pima County, Arizona Stadium District

(A Component Unit of Pima County, Arizona)

PIMA COUNTY ARIZONA

For the Fiscal Year Ended June 30, 2006

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Year Ended June 30, 2006

CONTENTS

	<u>Page</u>
Independent auditors' report	1
Management's discussion and analysis (required supplementary information)	2-6
Basic financial statements:	
Government-wide and fund financial statements:	
Governmental fund balance sheet and statement of net assets	7
Reconciliation of the balance sheet of governmental fund to the statement of net assets	8
Governmental fund revenues, expenditures and changes in fund balance and statement of activities	9
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental fund to the statement of activities	10
Notes to financial statements	11-18
Required supplemental information other than MD&A:	
Schedule of revenues, expenditures and changes in fund balance - budget to actual – special revenue fund	19
Independent auditors' report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	20



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Independent Auditors' Report

The Board of Supervisors of Pima County, Arizona
Pima County, Arizona Stadium District
Tucson, Arizona

We have audited the accompanying basic financial statements of Pima County, Arizona Stadium District, a Component Unit of Pima County, Arizona, as of June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 District's internal control over financial reporting. Accordingly, we express no such 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.

As discussed in Note 1, the financial statements present only the Pima County, Arizona Stadium District and do not purport to, and do not, present fairly the financial position of the Pima County, Arizona, as of June 30, 2006, or the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pima County, Arizona Stadium District as of June 30, 2006, and changes in financial position for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2006 on our consideration of Pima County, Arizona Stadium District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Accordingly, we express no such opinion. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 2 through 6 and budgetary comparison information on page 19 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Beach, Fleischman & Co., P.C.

September 26, 2006

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Management's Discussion and Analysis

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Management's Discussion and Analysis

Year Ended June 30, 2006

This section of the Pima County, Arizona Stadium District (“the District”) financial statements presents a discussion and analysis of the District’s financial performance during the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED JUNE 30, 2006

- The District’s total net assets increased from \$8,240,054 to \$9,551,138 an increase of \$1,310,884.
- The Pima County Board of Supervisors doubled the District’s operating transfers in for hotel/motel tax revenues from 1% of total collections to 2.04% of total collections as of January 1, 2006.
- The District’s total long-term debt decreased by \$1,800,782 from the prior year-end.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements.

Government-Wide Financial Statements are designed to provide readers with a broad overview of the District’s finances in a manner similar to a private-sector business.

The statement of net assets presents information on all District assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event that gives rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected surcharges and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the District that are principally supported by taxes and Stadium operations.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District’s current financing requirements.

Because the focus of a governmental fund is narrower than the government-wide financial statements, it is useful to compare the information presented for the *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the *governmental funds balance sheet* and *statement of revenues, expenditures and changes in fund balance* provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Management's Discussion and Analysis

Year Ended June 30, 2006

The District uses a *special revenue fund*, which is a type of governmental fund, to account for its financial activity. A special revenue fund may be used to account for certain revenue sources set aside for a specific purpose. The District's revenues are primarily derived from a car-rental surcharge tax and its Stadium operations.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements can be found beginning on page 11 of the accompanying statements.

Required Supplementary Information is presented for the District's Special Revenue Fund budgetary schedule. The District adopts an annual appropriated budget for its Special Revenue Fund. A budgetary comparison schedule has been provided to demonstrate compliance with this budget, which can be found on page 19 of the accompanying statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As previously noted, net assets may serve over time as a useful indicator of the District's financial position. The District's condensed statement of net assets for the years that ended June 30, 2006 and June 30, 2005 follows:

Table I. Comparative Statement of Net Assets (Condensed)

	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>Variance</u>
Current and other assets	\$ 3,284,078	\$ 2,912,520	\$ 371,558
Capital assets	<u>35,580,288</u>	<u>36,424,888</u>	<u>(844,600)</u>
Total assets	<u>38,864,366</u>	<u>39,337,408</u>	<u>(473,042)</u>
Current and other liabilities	351,908	335,052	16,856
Long-term liabilities	<u>28,961,320</u>	<u>30,762,102</u>	<u>(1,800,782)</u>
Total liabilities	<u>29,313,228</u>	<u>31,097,154</u>	<u>(1,783,926)</u>
Invested in capital assets, net of related debt	6,618,968	5,662,786	956,182
Restricted for capital repairs	75,000	75,000	
Unrestricted	<u>2,857,170</u>	<u>2,502,468</u>	<u>354,702</u>
Total net assets	\$ <u>9,551,138</u>	\$ <u>8,240,254</u>	\$ <u>1,310,884</u>

As of June 30, 2006, net assets invested in capital assets, net of related debt, were \$6,618,968. The District uses these capital assets for operations and to provide ancillary services. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it is worth noting that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Management's Discussion and Analysis

Year Ended June 30, 2006

The District's unrestricted net assets have a balance of \$2,857,170. Remaining net assets of \$75,000 represent resources that are restricted for capital repairs.

Governmental Activities –The District's comparative statement of activities for the years ended June 30, 2006 and June 30, 2005 follows:

Table II. Comparative Statement of Activities

	Fiscal Year		
	<u>2005-06</u>	<u>2004-05</u>	<u>Variance</u>
Revenues:			
Car rental surcharge	\$ 1,584,195	\$ 1,616,648	\$ (32,453)
RV space rental surcharge	223,719	201,244	22,475
Stadium operations	1,170,642	1,083,731	86,911
Interest	9,622	31,663	(22,041)
Miscellaneous	5,431	33,485	(28,054)
Total revenues	<u>2,993,609</u>	<u>2,966,771</u>	<u>26,838</u>
Expenses:			
Cultural & recreational expenses	<u>4,220,525</u>	<u>4,178,295</u>	<u>(42,230)</u>
Excess of revenues over/(under) expenses	(1,226,916)	(1,211,524)	(15,392)
Other financing sources (uses):			
Operating transfers in	<u>2,537,800</u>	<u>4,842,798</u>	<u>(2,304,998)</u>
Change in net assets:	1,310,884	3,631,274	(2,320,390)
Net assets, beginning of year	<u>8,240,254</u>	<u>4,608,980</u>	<u>3,631,274</u>
Net assets, ending of year	<u><u>\$ 9,551,138</u></u>	<u><u>\$ 8,240,254</u></u>	<u><u>\$ 1,310,884</u></u>

During the year, total revenues increased by \$26,838. The increase resulted primarily from an increase in rents and royalties revenues. Expenses increased \$42,230, an increase of only 1.01% over the prior year. As a result, the excess of expenses over revenues rose from \$1,211,524 to \$1,226,916. Operating transfers in for hotel/motel tax revenues decreased from \$4,842,798 to \$2,537,800 in the current year. A transfer in of \$3,430,884 in the prior year was from the County's General Fund, for the purpose of eliminating the deficit fund balance.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Management's Discussion and Analysis

Year Ended June 30, 2006

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

As noted earlier, the District uses fund accounting, which measures current inflows and outflows of spendable resources, to ensure and demonstrate compliance with finance-related legal requirements.

Governmental fund - The governmental functions are recorded within a special revenue fund type. Included in this fund is the special district governed by the Board of Supervisors. The focus of the District's *governmental fund* is to provide information on current financial resources (i.e., near-term inflows, outflows, and balances of *spendable* resources). Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure for the District's net resources available for spending at the end of the fiscal year.

At June 30, 2006, the District's governmental fund reported a fund balance of \$907,699, an increase of \$424,296. The fund balance amount of \$75,000 reserved for capital repairs is unavailable for operating expenses.

BUDGETARY HIGHLIGHTS

For the year ended June 30, 2006, actual total revenues exceeded budgeted revenues by \$167,044, with revenues from stadium operations exceeding the budgeted amounts by \$129,379. Actual total expenditures were above budgeted expenditures by \$316,600. As a result, the actual excess of revenues over expenditures was \$149,556 less than the budgeted amount. Due to the Pima County Board of Supervisors' increase of transfers in for hotel/motel tax revenues effective January 1, 2006, that increased the District's share of revenues from 50% of the 2% tax rate to 34% of the 6% tax rate, the actual amount exceeded the budgeted amount by \$1,104,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets as of June 30, 2006 totaled \$35,580,288. Investments include land, the District's baseball stadium complex and equipment.

Table III. Comparative Governmental Activities - Capital Assets

	<u>06/30/06</u>	<u>06/30/05</u>	<u>Variance</u>
Land	\$ 2,127,611	\$ 2,127,611	
Baseball stadium complex	39,638,291	39,638,291	
Equipment	680,475	675,237	\$ 5,238
Less: Accumulated depreciation	<u>(6,866,089)</u>	<u>(6,016,251)</u>	<u>(849,838)</u>
Total	\$ <u>35,580,288</u>	\$ <u>36,424,888</u>	\$ <u>(844,600)</u>

The District records the value of its capital assets at historical cost in the government-wide financial statements and depreciates all capital assets with the exception of land.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Management's Discussion and Analysis

Year Ended June 30, 2006

Long-term debt

At June 30, 2006, the District had total long-term debt outstanding, excluding amounts due within one year, of \$27,176,320, down from \$29,012,102 in the prior year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for those interested in its financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Paul Guerrero, Manager
Department of Finance and Risk Management
130 W. Congress
Tucson, AZ 85701



Basic Financial Statements

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Governmental Fund Balance Sheet and Statement of Net Assets

June 30, 2006

	Special Revenue Fund	Adjustments (see reconciliation)	Statement of Net Assets
Assets			
Cash	\$ 59,104		\$ 59,104
Other receivables	469,377		469,377
Due from Pima County, General Fund	456,257	\$ 1,971,430	2,427,687
Due from other governments	327,910		327,910
Land		2,127,611	2,127,611
Buildings - net		33,292,048	33,292,048
Equipment - net		160,629	160,629
Total assets	\$ 1,312,648	37,551,718	38,864,366
Liabilities			
Accounts payable	249,770		249,770
Accrued payables	4,953	20,801	25,754
Due to Pima County, General Fund		76,376	76,376
Due to other governments	8		8
Deferred revenues	150,218	(150,218)	
Long-term liabilities:			
Due within one year		1,785,000	1,785,000
Due after one year		26,550,000	26,550,000
Premium on certificates of participation		626,320	626,320
Total liabilities	404,949	28,908,279	29,313,228
Fund balance/net assets			
Fund balance:			
Reserved for capital repairs & refurbishments	75,000	(75,000)	
Unreserved	832,699	(832,699)	
	907,699	(907,699)	
Total liabilities and fund balance	\$ 1,312,648		
Net assets:			
Invested in capital assets, net of related debt		6,618,968	6,618,968
Restricted for capital repairs & refurbishments		75,000	75,000
Unrestricted		2,857,170	2,857,170
Total net assets		\$ 9,551,138	\$ 9,551,138

See notes to financial statements

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
June 30, 2006

Fund Balances Reported in the Balance Sheet		\$ 907,699
Capital Assets:		
When assets are acquired in a governmental entity, they are expensed in the year in which the expenditure occurs. The Statement of Net Assets requires the recording of these assets on the balance sheet.		
Capital assets:		
Land	\$ 2,127,611	
Buildings (net of depreciation)	33,292,048	
Equipment (net of depreciation)	<u>160,629</u>	
		35,580,288
Accrued Payables :		
Long term compensated absences accrual		(20,801)
Deferred Revenue:		
Revenue applicable to Car and RV space rental surcharges has been deferred in the governmental fund if it has not been received within one month following the fiscal year. However, this revenue is recognized in the government-wide financial statements if it has been earned under U.S. generally accepted accounting principles.		
		150,218
Long-Term Liabilities:		
Under governmental accounting, only expenditures that are to be paid with current financial resources are recorded on the balance sheet. All long-term liabilities are reported on the Statement of the Net Assets.		
Long-term liabilities:		
Due within one year	(1,785,000)	
Due after one year	(26,550,000)	
Unamortized 2003 Series COP premium	<u>(626,320)</u>	
		(28,961,320)
Due from Pima County general fund resulting from the loss on the refinancing of the capital lease.		1,971,430
Due to Pima County General Fund:		
Due to general fund for shortage absorbed in prior years for payment on the capital lease.	(278,258)	
Less amount transferred to repay general fund for shortage absorbed in prior year for payment on the capital lease.	<u>201,882</u>	
		<u>(76,376)</u>
Net Assets Reported in the Statement of Net Assets		<u><u>\$ 9,551,138</u></u>

See notes to financial statements

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Governmental Fund Revenues, Expenditures and Changes
in Fund Balances and Statement of Activities
Year Ended June 30, 2006

	Special Revenue Fund	Adjustments (see reconciliation)	Statement of Activities
Revenues:			
Car rental surcharge	\$ 1,589,013	\$ (4,818)	\$ 1,584,195
RV space rental surcharge	213,599	10,120	223,719
Stadium operations	1,170,642		1,170,642
Miscellaneous	5,431		5,431
Interest	9,622		9,622
Total revenues	<u>2,988,307</u>	<u>5,302</u>	<u>2,993,609</u>
Expenditures/expenses:			
Culture and recreation	<u>1,857,769</u>	<u>2,362,756</u>	<u>4,220,525</u>
Excess of revenues over (under) expenditures/expenses	<u>1,130,538</u>	<u>(2,357,454)</u>	<u>(1,226,916)</u>
Other financing sources (uses):			
Operating transfers in	2,537,800		2,537,800
Operating transfers out	(3,244,042)	3,244,042	
	<u>(706,242)</u>	<u>3,244,042</u>	<u>2,537,800</u>
Excess (deficiency) of revenues and other sources over expenditures/expenses and other uses	424,296	(424,296)	
Change in net assets		1,310,884	1,310,884
Fund balance/net assets beginning of year	<u>483,403</u>	<u>7,756,851</u>	<u>8,240,254</u>
Fund balance/net assets, end of year	<u>\$ 907,699</u>	<u>\$ 8,643,439</u>	<u>\$ 9,551,138</u>

See notes to financial statements

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Reconciliation of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2006

Increase in Fund Balances Reported in the Statement of Revenues, Expenditures and Changes in Fund Balance	\$	424,296
Revenue:		
Revenue has been deferred in the governmental funds if it has not been received within one month following the fiscal year. However, this revenue is recognized in the government-wide statements if it has been earned under U.S. generally accepted accounting principles.		
Car Rental Surcharge		
Reverse the August 2005 receipts accrued as revenue in 2005 under the full accrual method of accounting.	\$ (137,236)	
Record revenue originally deferred as they were not collected within the 30 days after year end.	<u>132,418</u>	(4,818)
RV Space Rental Surcharge		
Reverse the August 2004 receipts accrued as revenue in 2004 under the full accrual method of accounting.	(7,680)	
Record revenue originally deferred as they were not collected within the 30 days after year end.	<u>17,800</u>	10,120
Capital Assets:		
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.		
Record depreciation expense	(849,838)	
Equipment addition	<u>5,238</u>	(844,600)
Long-Term Liabilities:		
Repayment of capital lease payable and the related interest is reported as an operating transfer in the fund statements but the repayment reduces long-term liabilities in the statement of net assets.		
Record interest expense.	(1,292,160)	
Amortization of the 2003 series COP premium.	50,783	
Amortization of the amount due from the Pima County general fund resulting from the refunding of COP debt.	<u>(254,378)</u>	(1,495,755)
Record long term compensated absences		(22,401)
Operating Transfer Out		
Payment to the general fund for its servicing of the capital lease.		<u>3,244,042</u>
Increase in Net Assets Reported in the Statement of Activities	\$	<u>1,310,884</u>

See notes to financial statements

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Notes to the Financial Statements

June 30, 2006

Note 1- Summary of significant accounting policies

The accounting policies of the Pima County, Arizona Stadium District (the 'District') conform to U.S. generally accepted accounting principles applicable to governmental unit as promulgated by the Governmental Accounting Standards Board ('GASB'). A summary of the District's more significant accounting policies follows.

A. Reporting entity:

The District was formed to promote and establish major league baseball spring training in Pima County, Arizona (the 'County'). The Board of Directors of the Stadium District is comprised of the same individuals who constitute the County Board of Supervisors. In addition the County Board of Supervisors is able to impose its will on the District as it levies the car rental and recreational vehicle space surcharge rates for the District. Although the District is a legally separate entity, ultimate financial accountability remains with the County.

B. Government-wide and fund financial statements:

The basic financial statements include the government-wide (based on the District as a whole) and fund financial statements. In the government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) the governmental activities are prepared using the economic resources measurement focus and the full accrual basis of accounting. The government-wide statements focus more on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the individual fund in the governmental category. The governmental fund in the fund financial statement is presented on a current financial resource and modified accrual basis of accounting. This is the manner in which this fund is normally budgeted. Since the governmental fund statement is presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the government-wide presentation.

C. Basis of presentation:

The District's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the District's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with activities or objectives specified for those resources. The District is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures.

The District's financial transactions are recorded and reported as a special revenue fund which is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. When both restricted and unrestricted net assets are available to finance fund expenses, restricted resources are used before unrestricted resources.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Notes to the Financial Statements

June 30, 2006

Note 1- Summary of significant accounting policies (continued)

D. Basis of accounting:

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred. The governmental fund is accounted for using the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual whereas expenditures are recognized when the fund liability is incurred. In applying the susceptible to accrual concept under the modified accrual basis, revenue sources are deemed both measurable and available if collectible within the current year or within one month of year-end and available to pay obligations of the current period.

E. Budgetary accounting:

The County adopts, on a modified accrual basis, budgets annually for all governmental fund types.

Adopted budgets provide that the beginning unreserved fund balance plus revenues and other financing sources equal expenditures and other uses. However, in the current fiscal year an increase in the ending fund balance of \$151,716 was anticipated due to an increase in the operating transfers in for transient lodging excise tax revenue effective on January 1, 2006.

The Stadium District's adopted budget for fiscal year 2005-2006 is reflected as a Special Revenue Fund in the County's adopted budget. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrances included as budgetary basis expenditures.

The budget information presented in the accompanying supplementary information reflects the original budget and the amended budget (which may be adjusted for legally authorized revisions of the annual budget during the year). Appropriation balances, including all outstanding encumbrances, lapse at the end of the fiscal year. Any item ordered in a fiscal year but not received is charged against an appropriation in the year that the item is received.

F. Capital assets:

Property and equipment purchased or acquired are carried at historical cost or estimated historical cost, if actual data was not available. Donated assets are valued at their estimated market value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful life of the asset, which range from 5 years to 50 years.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Notes to the Financial Statements

June 30, 2006

Note 1- Summary of significant accounting policies (continued)

G. Car and recreational vehicle (RV) surcharges:

Car and recreational rental surcharge revenues are recognized in the special revenue fund in the fiscal year that they are levied and collected including those collections made within 30 days subsequent to the fiscal year-end. The District levies, and the Arizona Department of Revenue collects the surcharge.

During the fiscal year, the surcharges were levied by the District's Board of Directors at \$3.50 per car rental contract and \$0.50 per day per RV space within the County.

H. Reimbursements:

The District accounts and reports for interfund transactions that represent expenditures initially made from other funds that are properly chargeable and subsequently reimbursed from its special revenue fund as reimbursements.

I. Operating transfers in:

Under an administrative procedure dated January 1, 1997, the County Board of Supervisors authorized half of the 2% transient lodging excise tax to be distributed to the District to be used for spring training baseball. The effective date was from December 31, 1996 until January 1, 2013.

On September 13, 2005 the County Board of Supervisors approved an increase in the tax rate from 2% to 6% with 34% of the transient lodging excise tax to be distributed to the District effective on January 1, 2006.

J. Estimates:

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Cash and Investments

The District has \$59,104 of cash on deposit with the County Treasurer that is available on demand. The Treasurer pools this deposit with other County monies for investment. The District's deposit is included in the Treasurer's investment pool but is not identified with specific investments.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Notes to the Financial Statements

June 30, 2006

Note 2 - Cash and Investments (continued)

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. The County Treasurer’s investment pool is unrated.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment’s fair value. The County does not have a formal investment policy with respect to interest rate risk. The County Treasurer’s investment pool had a weighted average maturity of 22 days at June 30, 2006.

Legal Provisions – Arizona Revised Statutes authorize counties to invest public monies in the State Treasurer’s investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States.

In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk – Statutes have the following requirements for credit risk:

1. Commercial Paper must be rated P1 by Moody’s investors service or A1 or better by Standard and Poor’s rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody’s investors service or Standard and Poor’s rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody’s investors service and Standard and Poor’s rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk – Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk – Statutes do not include any requirements for concentration of credit risk.

Interest rate risk – Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that the public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk – Statutes do not allow foreign investments.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Notes to the Financial Statements

June 30, 2006

Note 3 - Capital Assets

A summary of changes in capital assets follows:

	<u>Balance July 1, 2005</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2006</u>
Land	\$ 2,127,611			\$ 2,127,611
Stadium	39,638,291			39,638,291
Equipment	675,237	\$5,238		680,475
Accumulated depreciation	<u>(6,016,251)</u>	<u>(849,838)</u>		<u>(6,866,089)</u>
Investment in capital assets	<u>\$36,424,888</u>	<u>\$ (844,600)</u>		<u>\$35,580,288</u>

Note 4 – Claims, Judgments and Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; environmental claims; and natural disasters. The District is a participant in Pima County's self-insurance program and, in the opinion of the District's management, any unfavorable outcomes from these risks would be covered by that self-insurance program.

Accordingly, the District has no risk of loss beyond adjustments to future years' premium payments to Pima County's self-insurance program. The District obtained an excess municipal policy to cover claims for all other operations. There were no significant reductions in coverage from the prior year and settlements have not exceeded coverage in any of the previous 3 years.

Note 5 - Related Parties

For the year ended June 30, 2006, the District incurred expenses from Pima County for a variety of administrative and fiscal services totaling \$572,477. Of that amount, \$506,819 is for staffing, \$46,410 was for self-insurance premiums, and \$19,248 was for utilities. In addition, \$3,841 was provided for goods and services to other Pima County departments.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Notes to the Financial Statements

June 30, 2006

Note 6 - Reservation of Fund Balance

The reserve for capital repairs and refurbishments was established to segregate a portion of fund balance for legally restricted resources to be used for stadium capital repairs and refurbishments (see Note 9).

Note 7 - Interfund Transactions

Interfund transactions are entered directly into the cash accounts maintained in a central pooled cash account in which many County funds participate and, therefore, due from and due to other County funds are used to record cash deficits, loans or unpaid operating transfers between individual funds. At June 30, 2006, amounts due to/from the County's general fund and the District's special revenue fund were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue	General	\$2,427,687
General	Special Revenue	\$ 76,376

Included in the due from general fund is \$1,971,430 which is applicable to the difference between the carrying amount of the 1997 and 1999 certificates of participation and the reacquisition price which resulted in a loss on the refunding of debt in 2003. This amount is being amortized over a period of 125 months, which is the remaining term of refunded debt. The related amortization expense applicable to this refinancing was \$254,378 for 2006.

The District's cash position is to be reviewed at least twice a year. As the cash position improves the due to General Fund of \$76,376 will be repaid. During the current fiscal year \$201,882 was repaid to the General Fund for shortages absorbed in prior years for payments on the capital lease leaving a remaining balance of \$76,376.

Note 8 - Baseball Stadium Financing

The baseball stadium was originally financed with proceeds from the sale of certain Pima County jail facilities to First Trust of Arizona, National Association. First Trust financed its acquisition through the issuance of certificates of participation in First Trust's name, which are secured by the jail facilities. The proceeds totaling \$34,500,000 were paid to the County which, in turn, entered into a capital lease agreement with First Trust in an amount of \$35,660,000 for a 15 year term.

The terms of the capital lease are equivalent to the terms of the certificates of participation issued by First Trust, accordingly, as certain series of certificates of participation have been refunded, the terms of the capital lease have been amended. On October 23, 2003, the Series 1997 and 1999 certificates of participation were refunded and the related capital lease agreement was amended which extended the lease term to January 1, 2018 with the interest rates ranging from 2.0% to 5.0%, depending on the coupon.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Notes to the Financial Statements

June 30, 2006

Note 8 - Baseball Stadium Financing (continued)

A summary of changes in the capital lease obligation follows:

Balance July 1,2005	Additions	Reductions	Balance June 30,2006	Due in One Year
\$30,085,000	\$ 0	\$(1,750,000)	\$ 28,335,000	\$1,785,000

Future maturities of long-term liabilities are as follows:

Year ending June 30	Principal	Interest
2007	1,785,000	1,230,035
2008	1,870,000	1,138,660
2009	1,965,000	1,062,435
2010	2,025,000	982,335
2011	2,125,000	878,585
2012-2015	10,100,000	2,331,585
2016-2018	8,465,000	535,805
	<u>\$ 28,335,000</u>	<u>\$ 8,159,440</u>

This debt incurred a premium of \$761,740 and the cost of refinancing of \$2,649,770 that is being amortized over the life of the debt. Total amortization and interest expense were \$305,161 and \$1,292,160 in 2006.

Note 9 - Stadium Development and Use Agreement

In August 1996, the County and District entered into a Sports Complex Development Agreement with the AZPB Limited Partnership and the Chicago White Sox, Ltd. (the 'Agreement') to accommodate the spring training requirements of the Arizona Diamondbacks and the Chicago White Sox. The Agreement required the County and District to construct a baseball stadium and practice fields (the 'Baseball Complex') in Tucson, Arizona by January 15, 1998. The 'Baseball Complex' was completed and Major League training began in the spring of 1998.

In addition, in August 1996, the County and the District entered into a Sports Facilities Use Agreement with both the AZPB Limited Partnership and the Chicago White Sox, Ltd. These agreements are each for an initial 15-year term with five-year renewal periods, and set forth the allocation of spring training game revenues. The County and the District will receive jointly 20 percent of ticket revenue (100 percent of all surcharge and premium ticket revenues) and parking revenue and 100 percent of all soft concession

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Notes to the Financial Statements

June 30, 2006

Note 9 - Stadium Development and Use Agreement (continued)

revenue (as defined). The agreements require the County and District to set aside for capital repairs and refurbishment \$75,000 per year for the term of the agreements from the revenues earned under these agreements and other budgeted sources, if necessary. Amounts received under this agreement are included as stadium operations revenues in the accompanying financial statements.

In November 1997, the County and District entered into a Sports Facilities Use Agreement with Professional Sports, Inc. (PSI) that is affiliated with the AAA Pacific Coast League. This agreement stipulates among other things, that PSI shall have exclusive use of the Stadium on game days from April 1, through September 20, annually for a 15-year period. The agreement also sets forth the annual rent based upon turn-style attendance including stadium maintenance and other applicable costs. Amounts received under this agreement are included as stadium operations revenues in the accompanying financial statements.

Note 10 - Commitments

Under an intergovernmental agreement dated February 1, 1997, the District agreed to pay to the County all surcharge revenues and project revenues (both terms as defined in the intergovernmental agreement) less operation and maintenance costs.

The District agreed to levy and impose the surcharge and to collect the surcharge revenues and to pledge and assign such surcharge revenues, less operation and maintenance costs, to the County to secure its obligations under a related agreement. The accompanying financial statements include \$3,244,042 as operating transfers out of the District under this intergovernmental agreement.

Under an intergovernmental agreement dated June 9, 1997, the District agreed to take delivery of and use reclaimed water from the City of Tucson, Arizona. The rate and demand for reclaimed water is established pursuant to the Tucson code, for a period of 50 years and may be extended by mutual agreement.

Under an intergovernmental agreement dated June 17, 2003, the District entered into an agreement with the County whereby the District shall reimburse the County for use of County staff and services. The District is charged by the general fund for any personnel costs incurred. Additionally, the District accrues compensated absences for its direct personnel.

Pima County, Arizona Stadium District
(A Component Unit of Pima County, Arizona)

Schedules of Revenues, Expenditures and Changes
in Fund Balance - Budget to Actual - Special Revenue Fund (Unaudited)
Year Ended June 30, 2006

	Special Revenue Fund			
	Budget	Final Amended Budget	Modified Accrual Actual	Variance Favorable (Unfavorable)
Revenues				
Car rental surcharges	\$ 1,550,000	\$ 1,550,000	\$ 1,589,013	\$ 39,013
RV space rental surcharges	190,000	190,000	213,599	23,599
Stadium operations	1,041,263	1,041,263	1,170,642	129,379
Miscellaneous	20,000	20,000	5,431	(14,569)
Interest	20,000	20,000	9,622	(10,378)
Total revenues	<u>2,821,263</u>	<u>2,821,263</u>	<u>2,988,307</u>	<u>167,044</u>
Expenditures				
Culture and recreation	<u>1,541,169</u>	<u>1,541,169</u>	<u>1,857,769</u>	<u>(316,600)</u>
Excess of revenues over (under) expenditures	<u>1,280,094</u>	<u>1,280,094</u>	<u>1,130,538</u>	<u>(149,556)</u>
Other financing sources (uses):				
Operating transfers in	1,433,800	1,433,800	2,537,800	1,104,000
Operating transfers out	<u>(2,562,178)</u>	<u>(2,562,178)</u>	<u>(3,244,042)</u>	<u>(681,864)</u>
	<u>(1,128,378)</u>	<u>(1,128,378)</u>	<u>(706,242)</u>	<u>422,136</u>
Excess of revenues and other financing sources over expenditures and other uses	151,716	151,716	424,296	272,580
Fund balance, beginning of year	<u>0</u>	<u>0</u>	<u>483,403</u>	<u>483,403</u>
Fund balance, end of year	<u>\$ 151,716</u>	<u>\$ 151,716</u>	<u>\$ 907,699</u>	<u>\$ 755,983</u>



Independent Auditor Report



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Arizona State Legislature
The Board of Supervisors of Pima County, Arizona

We have audited the financial statements of Pima County, Arizona Stadium District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 26, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pima County, Arizona Stadium District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pima County, Arizona Stadium District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, members of the Arizona State Legislature and the Board of Supervisors of Pima County Arizona and is not intended to be and should not be used by anyone other than these specified parties.

September 26, 2006

Beach, Fleischman & Co., P.C.