

**Comprehensive Annual Financial Report**  
**of the**  
**Greater Arizona Development Authority**

A Component Unit of the State of Arizona

For Fiscal Year ended June 30, 2008

Prepared by the Division of Finance and Investment,  
Arizona Department of Commerce



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CPAs & BUSINESS ADVISORS

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# **INTRODUCTORY SECTION**



ARIZONA DEPARTMENT  
OF COMMERCE

*The center for economic advancement*

November 19, 2008

The Honorable Janet Napolitano,  
Governor of the State of Arizona;  
Members of the Legislature;  
Chief Justice of the Supreme Court; and  
Citizens and Taxpayers of the State of Arizona

Ladies and Gentlemen:

It is our pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the Greater Arizona Development Authority (GADA), a body corporate and politic of the State of Arizona, for the fiscal year ended June 30, 2008 (FY 08). Responsibility for the accuracy of data, as well as the completeness and fairness of presentation, including all disclosures, rests with GADA's management. The data presented in this report, to the best of our knowledge and belief, is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of GADA. All disclosures needed for the reader to gain a reasonable understanding of GADA's financial activities have been included.

The report is presented in three sections: Introductory, Financial, and Statistical.

The **Introductory Section** includes this Letter of Transmittal, the organizational chart of the Arizona Department of Commerce (of which GADA is an operating unit) and GADA, and a list of principal GADA officials.

The **Financial Section** includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A) and the basic financial statements (which include the financial statements and the notes to the financial statements). The financial section also includes Required Supplementary Information (RSI), which includes budgetary comparison schedules.

The **Statistical Section** includes five categories of information: Financial Trends, Revenue Capacity, Debt Capacity, Demographic and Economic Information, and Operating Information. U.S. generally accepted accounting principles (GAAP) require that management provides a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. GADA's MD&A can be found immediately following the Independent Auditors' Report.

## INTERNAL CONTROLS

The State of Arizona is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with U.S. GAAP. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. In the opinion of management, the internal controls established by the State of Arizona and used by GADA are adequate to provide reasonable assurance that these objectives are met.

## INDEPENDENT AUDIT

In compliance with ARS §41-1554.12, an annual financial audit of GADA is completed each year by a certified public accountant within 150 days after the close of the State fiscal year. For FY08, this audit was conducted by Eide Bailly, LLP, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Their report on the basic financial statements has been included in the financial section of this report.

## PROFILE OF GADA

GADA was created by an Act of the Arizona Legislature in 1997 and is a body corporate and politic of the State. GADA has powers, among others, to issue bonds to provide financial assistance to political subdivisions, special districts and Indian tribes for constructing or improving infrastructure; provide financial assistance to political subdivisions, special districts and Indian tribes to finance infrastructure projects; guarantee debt obligations of political subdivisions, special districts and Indian tribes that are issued to finance infrastructure projects; and provide technical assistance to political subdivisions, special districts and Indian tribes through staff or other professional assistance.

Pursuant to ARS §1554.01, GADA is governed by a nine member Board of Directors consisting of the director of the Arizona Department of Commerce who serves as the chair; the Director of the Arizona Department of Environmental Quality; the Director of the Arizona Department of Transportation; the Arizona State Treasurer; and five members, one of which shall be a representative of a tribal nation in Arizona, appointed by the Governor of the State. The position on the Board of Directors for a representative of a tribal nation on the Board of Directors is presently vacant. All appointed members shall reside in different counties, and no more than three members may be members of the same political party. Members appointed by the Governor serve staggered five year terms and no appointed member may serve more than two consecutive terms, except that service for a partial term of less than three years shall not be counted towards the two term limitation.

The members of the Board of Directors in FY08 were:

Jan Leshner, Chairman – Director, Arizona Department of Commerce<sup>1</sup>  
Marco López, Chairman – Director, Arizona Department of Commerce<sup>2</sup>  
The Hon. Dean Martin, Arizona State Treasurer  
Stephen Owens – Director, Arizona Department of Environmental Quality  
Victor Mendez – Arizona Department of Transportation  
Linda Binder – Mohave County  
Alan Willenbrock – Pima County  
Peggy Garcia – Yuma County<sup>3</sup>  
George Cordova – Apache County  
Michael Ortega – Cochise County<sup>4</sup>

GADA is a component unit of the State of Arizona. It is housed within the Arizona Department of Commerce and is part of the Finance and Investment Division as shown in the agency's organizational chart (see following graphic). The Act stipulates that agency employees serve as GADA's staff. Lisa Danka, MBA, is Executive Director of GADA and Jennifer Pittman-Leeper is the Program Manager. Other employees of the agency, including economists, chartered financial analysts and accounting professionals, provide support as needed. Financial advisory support is provided by Chip Pierce of Western Financial Group and Dane Fernandes of Kutak Rock LLP serves as bond counsel.

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<sup>1</sup> Ms. Leshner joined the Governor's Office in September 2008. She was replaced by Marco López.

<sup>2</sup> Mr. López was appointed Director of the Arizona Department of Commerce in September 2008. He replaced Jan Leshner.

<sup>3</sup> Ms. Garcia's term ended on January 15, 2008. She was replaced by Michael Ortega from Cochise County.

<sup>4</sup> Mr. Ortega was confirmed by the Arizona State Senate to the GADA Board on June 9, 2008.

Director's Office Director Deputy Director						
Communications Legislative Affairs						
Workforce and Business Development	Marketing and Business Attraction	Finance and Investment	Community Development	Operations	Research Administration	Energy
Innovation and technology	US Business Attraction	<b>GADA</b>	Smart Growth Office	Human Resources	Administration Support Unit	Energy Policy
Workforce Policy	International Office	Commerce & Econ Dev Comm	Rural Development	Accounting and Budget	Data Systems Unit	Building Science and Efficiency
Job Training and Apprentices	Film Office	Business Development Finance	Community and Business Development	Information technology	Economic Analysis Unit	Education and Community Outreach
Small Business Services				Procurement Services	Population Statistics Unit	Fiscal and Program Administration
Arizona Small Business Advocate					Budget Unit	
Special Projects					Technical Support Unit	

GADA has three primary programs through which it executes its mission:

1. **Financial Assistance (bonds)** – GADA generally issues two rounds of bonding per year. GADA bonds are usually sold as AA- rated tax-exempt issues. This allows borrowers with low (or no) investment grade ratings to potentially realize substantial interest savings. In addition, GADA typically subsidizes the costs of bond issuance, providing the opportunity for further savings on fees for underwriters, financial advisors, bond counsel, trustees, bond rating and bond insurance premiums. On average, GADA’s financial assistance saves borrowers \$25,000 to \$200,000, depending on the amount of the loan. To date, GADA has saved its borrowers more than \$11.1 million in gross interest and cost of issuance.

During FY08, Standard & Poor’s upgraded GADA to AA- underlying rating. Moody’s maintained an underlying A1 rating on GADA’s bonds. GADA has facilitated funding to 44 borrowers through a total of 69 separate loans.

2. **Technical Assistance Grants** – Depending on funding availability, competitive grants are offered periodically for early stage project development elements such as engineering planning, design review, feasibility studies or other infrastructure development elements. Grant awards can be used for the early phases of projects that may ultimately be funded through GADA bonds. Since the inception of the program, the Board has awarded \$1.78 million in technical assistance grants.
3. **Technical Assistance Loans** – Loans of up to \$250,000 may also be made to help fund infrastructure projects in the final phases of development. ARS §1554.03 limits the total amount of loans to \$800,000 at any given time. These short-term loans feature competitive interest rates and must be repaid within 3 years.

## FINANCIAL REPORTING ENTITY

The accompanying CAFR includes all the funds of GADA, which is a component unit of the State of Arizona, housed within the Arizona Department of Commerce. GADA has no component units of its own.

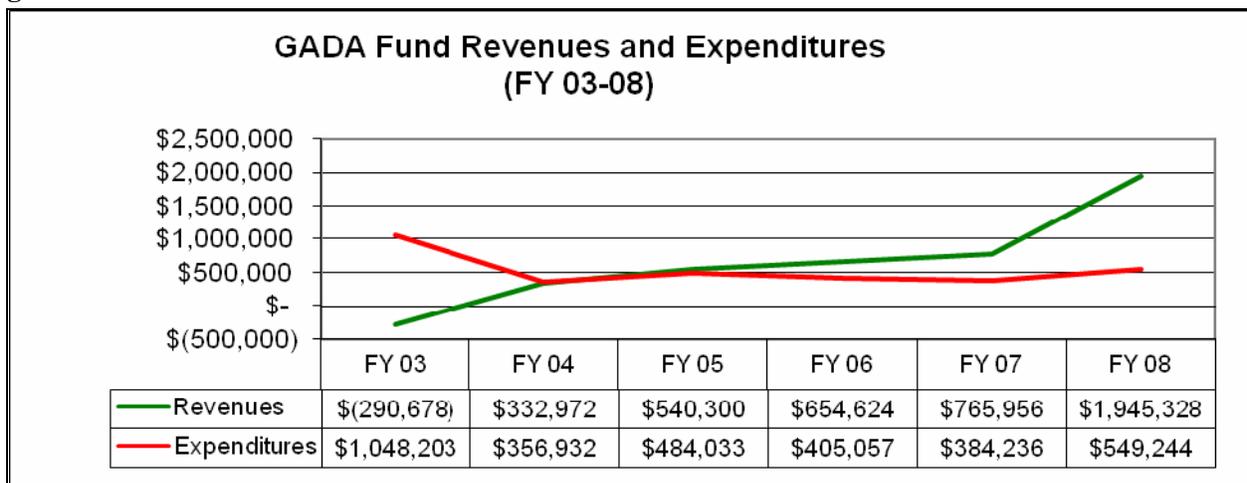
## BUDGETARY CONTROLS

Budgetary control is maintained through legislative appropriation and oversight by both the GADA Board of Directors and the Arizona Department of Commerce. The GADA Board of Directors must approve an annual budget for the upcoming fiscal year by May 15<sup>th</sup>. The Board reviews budget tracking information on a monthly basis. This budget is loaded into the State accounting system and monitored by the Arizona Department of Commerce to further enhance budgetary control. GADA’s annual audit must be provided to the Office of the Arizona Auditor General and the General Accounting Office of the Arizona Department of Administration. GADA must also comply with the procurement laws and rules of the State of Arizona.

## GADA FUND BALANCE

Figure 1 below details the revenues and expenditures for the GADA Fund for the last six fiscal years.

**Figure 1**



## RISK MANAGEMENT

As a component unit of the State of Arizona, property and liability coverage is purchased for GADA whenever available on reasonable terms. The State pays self-insurance losses, defense costs, premiums and administrative costs from an appropriated fund in which all of the State’s agencies participate. GADA’s share of these costs to the Arizona Department of Commerce in FY 08 was \$613.90.

## ECONOMIC CONDITION AND OUTLOOK<sup>5</sup>

The forecast of the Arizona Department of Commerce, Research Administration (RA) projects a continued loss of non-farm jobs for the calendar year 2008-09 with a decrease of more than 47,000 jobs (-1.8 percent). For ‘08, RA forecasts a loss of 34,000 jobs (-1.3 percent), and 13,500 (-0.5 percent) in ‘09. In contrast, the previous forecast released in May 2008 projected a loss of 9,200 non-farm jobs (-0.3 percent) for the entire two-year forecast period. RA expects an Arizona recovery will be delayed until late ‘09 or early ‘10 because of higher commodity prices, stagnant incomes and the effects of the crisis in finance and housing.

Higher commodity prices (especially food and energy) have also contributed to a global economic slowdown. RA projects economic and financial problems in Asia and Europe will impact Arizona by reducing demand for State exports and limiting supply of imported capital available for domestic lending. Stagnant incomes and rising prices have reduced consumers’ real spending power and damaged industries dependent on consumer spending such as trade, transportation, leisure and hospitality.

<sup>5</sup> Excerpted from Arizona’s Workforce Forecast Report, October 2, 2008, Arizona Department of Commerce <http://www.workforce.az.gov/admin/uploadedPublications/PrForecastUpdate08-09.pdf>

Indicators of the continued downturn in the housing market include rising mortgage foreclosures, declining sales of new and existing homes, higher inventories of unsold houses, falling housing starts and a continued decline in home prices. A reduction of credit availability in the financial markets has compounded the downturn in housing by increasing the difficulty in securing home loans for many buyers. Tighter credit means less money is available not only for home loans, but also other consumer and business purchases. This reduced spending will cause firms to decrease output and employment.

As a result of worsening problems in the financial and housing markets, job losses in construction are projected to increase in 2008-09 to more than 44,000 (31,000 jobs in '08 and 13,000 jobs in '09), a decline of almost 20 percent. The construction downturn is projected to contribute to reduction of employment in the professional and business services industries. Companies in this industry group hire many construction employees through contract and temporary labor services firms in the employment services sector. As a result, RA projects a loss of more than 7,000 jobs (-1.9 percent) for forecast period.

Job losses in financial activities are forecast to total more than 10,000 jobs (-5.7 percent) in 2008-09. Recent merger and acquisition activity in the financial services industry is projected to contribute to employment decreases. Slowing economic growth in the domestic and international economy has reduced the demand for goods produced in Arizona's factories. RA forecasts a reduction of almost 6,000 jobs (-3.3 percent), in manufacturing in 2008-09 as a consequence of decreased demand.

Despite a growing and aging population, the growth rate is forecast to slow as a consequence of the current economic downturn. Employment gains in the public sector are forecast to number 7,500 (1.8 percent) in 2008-09. Reduction in government tax revenue from a slowing economy is forecast to sharply curtail job growth in 2009, especially in the state and local education sectors. Natural resources and mining is projected to have slowing job growth as a result of reduced economic expansion in the rest of the world, especially in Asia. RA forecasts an increase of 2,500 jobs (22 percent).

Educational and health services is projected to have the largest job growth of any major industry group with a gain of more than 18,000 jobs (6.1 percent) in the forecast period. Leisure and hospitality is projected to have a gain of 2,700 jobs (1.0 percent) during the forecast period. Local tourism is forecast to provide some compensation for the reduction in the number of domestic and international travelers.

In conclusion, RA's updated forecast projects a greater loss of non-farm employment (-47,000 jobs or -1.8 percent) in 2008-'09 compared to its previous forecast released in May (-9,200 jobs, or -0.3 percent) because of a loss in business and consumer confidence. Higher food and energy prices, falling home values, stagnant incomes and contracting credit have all combined to erode business and consumer confidence.

## **GADA FINANCIAL POLICIES**

GADA's financial policies are an outgrowth of the authorities and restrictions provided in the Act, and significant policies include the following:

- **Operational funding** - Pursuant to ARS §41-1554.03.B, legislative appropriations may only be used for securing the bonds issued by GADA and providing assistance under technical assistance repayment agreements. All other expenses of the GADA program, including administrative costs, staff salaries and employee related benefits, professional services, technical assistance grants, and costs of issuing bonds must be paid from interest earned on the legislative appropriations, monies received from the US government, loan repayments, technical assistance repayments, administrative fees, penalties, gifts, grants, donations or any other monies received by GADA. Operational monies are held in a separate, segregated fund which consisted of \$939,393.01 as of June 30, 2008.
- **Financial and technical assistance grants** – Whenever possible, the Board provides additional financial assistance whenever possible by subsidizing the costs of bond issuance and providing early-stage planning grants. In FY 08, the 2007B and 2008A rounds each received a \$125,000 subsidy, and \$199,440 in grants was approved to seven grantees.

- **Minimum required balance** – Based on the requirements of ARS §41-1554.03.B, the GADA Fund maintained a minimum required balance of \$17.91 million in FY08. This balance is the sum of all legislative appropriations made to the Fund, minus certain losses and permitted expenditures:

**Figure 2**

<b>GADA Fund*</b> Deposits and Withdrawals Since Inception (FY 98) as of June 30, 2008	
FY 98 General Fund Appropriation	<b>\$ 3,000,000</b>
FY 98 Start Up Funding	<b>(200,000)</b>
FY 99 General Fund Appropriation	<b>8,000,000</b>
FY 00 General Fund Appropriation	<b>9,000,000</b>
FY 03 Withdrawal to General Fund	<b>(2,500,000)</b>
FY 03 LGIP Investment Loss (net of recoveries through the end of FY 07)	<b>(312,744)</b>
FY 08 General Fund Appropriation	<b>2,000,000</b>
FY 08 Withdrawal to General Fund	<b>(1,071,000)</b>
Total GADA Fund	<b>\$ 17,916,256</b>
*Does not reflect interest earnings from the GADA Fund	

- **Long-term investment horizon** – with the exception of the operating and , Technical Assistance Loan funds at the end of FY 08, \$17,302,511 of GADA’s cash and cash equivalents of \$19,041,904 were invested in Pool 15, a separate pool of investments owned by GADA and managed by the Arizona State Treasurer’s office on GADA’s behalf. The investments in GADA pool 15 are longer term investments, invested to recognize a stable income return to GADA for its operations. Interest earned from investment in Pool 15 is allocated to GADA monthly for the operating fund. The market fluctuations of individual securities held within the pool are recognized by GADA. Pool 15 does not seek to maintain a \$1.00 net asset value (NAV).

The remaining balance of GADA’s cash and cash equivalent investments are in the Local Government Investment Pool 5 (LGIP), which is an investment pool managed by the Treasurer’s office on behalf of political subdivisions in the State of Arizona. The LGIP seeks to maintain a fair value of each share equal to \$1 at all times.

## MAJOR INITIATIVES

There were two significant initiatives impacting GADA in FY 08:

1. Additional capitalization – the fiscal year 2007 Budget proposed by Arizona Governor Janet Napolitano included a request for additional capitalization of GADA of \$5 million in both fiscal years 08 and 09. Ultimately, the Arizona Legislature approved \$2 million for each fiscal year, a total of \$4 million. A \$2 million appropriation was deposited into Pool 15 in FY 08. However, due to State budgetary pressures, \$1,071,000 was subsequently transferred back to the general fund from GADA’s operating account.
2. Technical assistance grants –the GADA Board approved funding to seven grantees totaling \$199,440 for a wide variety of early-stage, infrastructure planning and design projects (see Figure 3). The funding for these projects has been rolled into the FY 09 budget, and most of the projects are expected to be complete by the end of the fiscal year:

**Figure 3**

<b>FY 08 GADA Technical Assistance Grant Recipients</b>		
<b>Recipient</b>	<b>Award</b>	<b>Project</b>
Casa Grande	\$25,380	Design and Operational Feasibility Plan
Glendale	\$22,560	Green building and environmental sustainability options report and a cost-benefit analysis for the construction of a LEED certified courthouse
Navajo Nation Rural Business Development Office	\$70,500	Architectural designs for new office spaces
Pinetop-Lakeside	\$13,500	Feasibility study for road expansion
Springerville	\$18,000	A 10-year water/wastewater Capital Improvement Plan to prioritize water and wastewater improvements and expansion
Florence	\$36,000	Architectural design and engineering studies for the construction of a police evidence room
San Xavier District	\$13,500	Engineering studies for a recreational park facility

**ACKNOWLEDGMENTS**

We wish to express our sincere thanks to the many individuals whose dedicated efforts have made this report possible. We greatly appreciate the professionalism and dedication demonstrated by the financial and management personnel of the Arizona Department of Commerce, the Arizona State Treasurer's Office, the GADA Staff, Board of Directors and professional consultants for their time and attention to this work.

Sincerely,



Marco A. López, Jr.  
Chairman of the Board



Lisa Danka  
Executive Director

# **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
Greater Arizona Development Authority  
Phoenix, Arizona

We have audited the accompanying financial statements of the governmental activities and its major fund of Greater Arizona Development Authority (GADA) as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of GADA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and its major fund of GADA, as of June 30, 2008, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2008 on our consideration of GADA's internal control over financial reporting and 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. 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.

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

Phoenix, Arizona  
November 19, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the Greater Arizona Development Authority's (GADA) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the transmittal letter at the front of this report and with GADA's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of GADA's officials and management.

### FINANCIAL HIGHLIGHTS

#### Government-Wide:

- The assets of GADA exceeded liabilities at the close of the fiscal year by \$19.174 million (reported as *net assets*). Of this amount, \$10.374 million is unrestricted<sup>6</sup> (or not yet pledged) and \$8.8 million is restricted for the purpose of security pledged to bond issuances (*restricted net assets*).
- GADA's total net assets increased in fiscal year 2008 by \$1,403,043. Net assets of governmental activities increased by \$1,403,043. An additional \$6,959 was recovered on an investment loss suffered in 2003.

#### Fund Level:

- As of the close of the fiscal year, GADA's governmental funds reported combined ending fund balances of \$19.174 million, an increase of \$1,396,084 from the beginning of the year. Approximately 54.1% of the combined fund balances, or \$10.374 million, is available to meet GADA's current and future needs as authorized by ARS §41-1554.03 *et seq.* (*unreserved fund balance*).

#### GADA Bonds:

- Although issued in the name of GADA, loans funded through GADA bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to ARS §41-1554.08, GADA's bonds do not constitute nor create a general, special or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the restricted net assets of \$8.8 million in the Pledged Collateral Reserve Fund (PCRF).
- The amount of GADA's bonds outstanding increased during the fiscal year to \$ 352.085 million, an increase of \$47.155 million (15.5%). Of the outstanding bonds, \$10.735 million are due to be paid within a year. Changes during the year included the issuance of \$54.265 million in the 2007B and 2008A rounds (\$26.505 million and \$27.76 million, respectively). In addition, \$7.11 million was retired from previous issuances.

More detailed information regarding the government-wide financial statements, fund level financial statements and long-term debt activity can be found beginning on page 17.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to GADA's basic financial statements, which are comprised of three components:

- 1) government-wide financial statements (pages 17-18),
- 2) fund financial statements (pages 19-22), and
- 3) notes to the financial statements (23-30). Required Supplementary Information and other supplementary information are included in addition to the basic financial statements.

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<sup>6</sup> Although these funds are not considered to be restricted from an accounting perspective, their use is limited pursuant to Arizona Revised Statutes, §41-1554 *et seq.*

## **Government-Wide Statements (Reporting GADA as a Whole)**

The government-wide financial statements provide a broad overview of GADA's finances in a manner similar to private sector business. The financial statements report information about GADA as a whole and its activities to help answer this question: Is GADA, as a whole, better or worse off as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The government-wide financial statements include the following:

The Statement of Net Assets (page 17) presents all of GADA's assets and liabilities, with the difference between the two reported as total net assets. Over time, increases and decreases in total net assets measure whether GADA's financial position is improving or deteriorating.

The Statement of Activities (page 18) presents information showing how GADA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., pay outs on technical assistance grants).

Generally, both government-wide statements report three activities:

- *Governmental Activities* – Most of GADA's basic services are reported under this category. Interest earnings on the GADA Fund generally fund these services.
- *Business-type Activities* – GADA is authorized to charge fees to borrowers to help cover costs associated with administration of applications for financial assistance. In FY08, the Board of Directors approved proposed rules changes to recover any costs incurred by GADA on behalf of applicants. The proposed changes are currently being reviewed by State regulatory authorities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the subject entity is financially accountable. GADA has no discretely presented component units.

At this time, all of GADA's activities are *governmental activities*; although *business-type* activities are eminent in the future, they may be referenced but are not discussed further in this report. Therefore, the balance of Management's Discussion and Analysis is focused on and limited to GADA's *governmental activities*.

## **Fund Financial Statements (Reporting GADA's Major Funds)**

The fund financial statements begin on page 19 and provide detailed information about the GADA Fund, which is a *governmental fund*. Governmental funds focus on how money flows into and out of those funds and the balances left at year end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of GADA's general government operations and the basic services it provides.

Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance GADA's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. This report includes two schedules (pages 20 and 22) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) reported on the government-wide statement.

Currently, GADA has no *proprietary funds* – such funds would reflect charges to customers for the services, such as the technical assistance application fee that will be instituted with GADA's next rule-making. Proprietary funds utilize accrual accounting; the same method used by private sector businesses. It is anticipated that GADA will begin reporting on proprietary funds in either the FY 08 or FY 09 audits.

Likewise, GADA does not have any *fiduciary funds*, and none are anticipated to be established.

## Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 23 of this report.

### Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules for the GADA Fund for the fiscal year and begins on page 31 of this report.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

The discussion in this section refers to pages 17 and 18 of the financial statements. GADA's overall financial position and operations for the past year are summarized in Figure 1, based on the information included in the government-wide financial statements.

### Change in Net Assets

The change in GADA's net assets from governmental activities covers two categories:

*Restricted net assets* or the Pledged Collateral Reserve Fund (PCRF) – all \$8.8 million of GADA's *restricted net assets* is held in the PCRF. These funds are pledged as security on GADA's bond issuances and represent 45.9% of net assets. Any deposits to the PCRF are determined by national ratings agencies on an issue-by-issue basis. In FY08, an additional deposit of \$745,000 was required to secure the 2007B bonds. GADA's *restricted net assets* increased by 9.2%.

*Unrestricted net assets* – The remaining balance of GADA's net assets of \$19.174 million represents *unrestricted net assets* of \$10.374 million (54.1%). GADA's *unrestricted net assets* consists of monies not yet pledged to bonds, interest earned on the GADA Fund or technical assistance loans, investment loss recovery and any other funds received without restrictions. At the end of FY 08, GADA's *unrestricted net assets* increased \$658,043 as a result of investment loss recovery, unspent investment earnings leftover from the FY08 budget, and the general fund appropriation received in FY 08. Also included are funds in the amount of \$89,378\_maintained at GADA's trustee for management and clearing purposes.

GADA's total net assets consist of general fund appropriations and interest earned on these appropriations. The current level of appropriated funds, interest income and the use of both is described in the Fund Financial Statements section of this document.

**Figure 1**

<b>Greater Arizona Development Authority</b>		
Net Assets as of June 30, 2008 and 2007		
	Governmental Activities	
	2008	2007
<b>ASSETS</b>		
Cash and cash equivalents	\$10,374,050	\$9,716,007
Intergovernmental receivables	10,735,000	7,385,000
Cash and cash equivalents - restricted	8,800,000	8,055,000
Intergovernmental receivables, long-term	341,350,000	297,545,000
Total assets	\$371,259,050	\$ 322,701,007
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Bonds, due in less than one year	\$10,735,000	\$7,385,000
Bonds, due in more than one year	341,350,000	297,545,000
Total liabilities	\$352,085,000	\$304,930,000
<b>NET ASSETS</b>		
Restricted <sup>7</sup>	\$8,800,000	\$ 8,055,000
Unrestricted <sup>8</sup>	10,374,050	9,716,007
Total net assets	19,174,050	17,771,007
Total liabilities and net assets	\$371,259,050	\$ 322,701,007

## FUND FINANCIAL STATEMENTS ANALYSIS

The discussion in this section refers to pages 19 through 22 of the financial statements. The Fund Financial Statements provide detailed information about GADA's major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that GADA uses to keep track of specific sources of funding and spending for a particular purpose. GADA's cash and cash equivalents are held in three funds: the GADA Fund, the technical assistance loan fund and the operating fund.

In order to understand GADA's funds, a discussion of the history of the GADA Fund is in order.

**History of GADA's General Fund Appropriation deposits and withdrawals** – GADA was created by the Arizona Legislature effective FY 98, and the GADA Fund was originally capitalized with general fund appropriations totaling \$20 million over a three-year period, as shown in Figure 2. Four deductions to the \$20 million GADA Fund have occurred since the inception of the program:

- 1) \$200,000 was authorized and expended to "start up" the program in FY 98;
- 2) \$2.5 million of the GADA Fund was withdrawn by the Arizona Legislature in FY 03 to help balance the budget during the recessionary period following 9/11;
- 3) During the year ended June 30, 2003, GADA sustained investment losses due to the bankruptcy of National Century Financial Enterprises Inc., a financing corporation in which the State's Local Government Investment Pool funds (including GADA) were invested. GADA's portion of this investment loss was \$668,578. GADA has received several payments representing recovery on this loss through partial settlements reached in the lawsuit as well as recoveries from the bankruptcy proceedings in previous fiscal years and as of June 30, 2008; GADA had recovered \$355,834 of this loss. GADA's unrecovered remaining loss was \$312,744 as of June 30, 2008; and
- 4) \$1.071 million of the GADA Fund was withdrawn by the Arizona Legislature in FY 08 to help balance the State budget.

The \$1,257,794 difference between GADA's *restricted and unrestricted* net assets of \$19.174 million (from Figure 1) and the total GADA Fund balance of \$17.916 million (from Figure 2) is a function of interest earned on the GADA Fund in FY 08 and previous fiscal years.

<sup>7</sup> Pledged as security on GADA bond issues

<sup>8</sup> Use of these funds is governed by ARS §41-1554.03

**Figure 2**

<b>GADA Fund*</b> Deposits and Withdrawals Since Inception (FY 98) as of June 30, 2008	
FY 98 General Fund Appropriation	<b>\$ 3,000,000</b>
FY 98 Start Up Funding	<b>(200,000)</b>
FY 99 General Fund Appropriation	<b>8,000,000</b>
FY 00 General Fund Appropriation	<b>9,000,000</b>
FY 03 Withdrawal to General Fund	<b>(2,500,000)</b>
FY 03 LGIP Investment Loss (net of recoveries through the end of FY 08)	<b>(312,744)</b>
FY 08 General Fund Appropriation	<b>2,000,000</b>
FY 08 Withdrawal to General Fund	<b>(1,071,000)</b>
Total GADA Fund	<b>\$ 17,916,256</b>
*This does not reflect the interest earnings from the GADA Fund	

**The GADA Fund** contains both *restricted* and *unrestricted* assets:

1. *Restricted assets*, or the Pledged Collateral Reserve Fund (PCRF) – all \$8.8 million of GADA’s *restricted net assets* are held in the PCRF. These funds are pledged as security on GADA’s bond issuances and represent 49.1% of the \$17.916 million GADA Fund. As noted earlier, there was an additional deposit of \$745,000 required in FY 08 to securitize bonds during the year.
2. *Unrestricted assets* – The remaining balance of \$9,116,256 million in the GADA Fund, or 50.9%, consists of monies not yet pledged to bonds and the technical assistance loan fund (discussed separately). Another \$8.125 million of the GADA Fund (47.8%) is available to securitize future GADA bond issuances. Other than the restrictions imposed on these monies by statute, these funds were uncommitted as of the end of FY 08.

**Technical Assistance Loan Fund** – ARS §41-1554.03.B authorizes up to \$800,000 of the GADA Fund to be used for technical assistance loans. These short-term loans (up to 3 years) may be used for later stage infrastructure project development and may be repaid from the proceeds of a GADA bond issuance. The Technical Assistance Loan Fund represents 4.4% of the GADA Fund. No technical assistance loans were funded in FY 08, and there are currently no outstanding loans.

**Operating Fund** – ARS §41-1554.03 *et seq.* requires that all operating expenses of the program, including staffing, professional services, technical assistance grants and any cost of issuance subsidies for bond issuances and all other expenses must be paid from interest earnings or funds received *other than the GADA Fund*. The GADA Board must approve an operating budget each year by May 15th for the following fiscal year. In FY 08, the total approved budget was \$936,128 and included an additional \$200,000 rolled over from FY 07; however, only \$549,244 of this amount was actually expended by the end of FY 08.

At the end of a fiscal year, any unspent portion of the approved budget, or interest earned on the GADA Fund or technical assistance loans in excess of that required to fund the approved budget, are held in the operating fund as an operating reserve. The use of these funds, beyond that approved in annual budget, requires a vote of the Board.

In FY 08, the operating fund benefited from interest revenue, earned on the GADA Fund, in the amount of \$1,016,328. After the budget expenses of \$549,244 were paid, the operating fund had excess of revenues over expenditures in the amount of \$526,254 (page 21 of the financial statements). This amount is reflected as a portion of the net change of governmental activities in the reconciliation statement on page 22.

The Board approved the roll over of \$252,140 in technical assistance grant funds to the FY 09 budget for grants that were awarded in fiscal years 2007 and 2008, but will not be paid out until FY 09 or beyond. The grantees and amounts awarded are discussed in Note 7, Subsequent Event, on page 30 of the financial statements.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital assets**

GADA has no capital assets.

### **Long-term debt**

Although issued in the name of GADA, loans funded through GADA bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to ARS §41-1554.08, GADA's bonds do not constitute nor create a general, special or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the *restricted* net assets of \$8.8 million in the PCRFB.

GADA generally conducts at least two bonding rounds per year. In FY 08, the Board authorized up to four rounds, although cost of issuance subsidies were only approved for two of the rounds, and only two rounds were actually conducted (2007B and 2008A). The amount of GADA bonds outstanding increased during the fiscal year to \$352.085 million, an increase of \$47.155 million (15.5%). Changes during the year included the issuance of \$54.265 million in the 2007B and 2008A rounds (\$26.505 million and \$27.76 million, respectively). The borrowers, purpose of the loan, amount and financing structure are shown in Figure 3. In addition to the 2007B and 2008A issuances, \$7.11 million was retired from previous issuances in FY 08.

### **Other Debt**

In April 2006, GADA issued \$63,220,000 principal amount of Infrastructure Revenue Bonds (Pinal County Road Project), Series 2006-1. Such bonds are secured by an indenture separate from the GADA Indenture and are payable from payments made by Pinal County, Arizona, to the Authority. Such payments are not a source of payment or security for other bonds issued by GADA; such bonds are not secured by the Pledged Collateral Reserve Fund. As with GADA's other issuances, this loan is solely the obligation of Pinal County and is documented by loan repayment agreement. Pursuant to ARS §41-1554.08, GADA's bonds do not constitute nor create a general, special or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State.

## **SIGNIFICANT EVENTS OCCURRING AFTER THE CLOSE OF THE FISCAL YEAR**

Since the close of FY08, several significant events occurred that management deemed worthy of mention.

- Legislative withdrawal - In June 2008, the Arizona Legislature passed the FY09 budget which included a withdrawal from the GADA fund in the amount of \$2 million to help close the State budget deficit. These monies were withdrawn from the portion of the fund not pledged to bondholders. The State's General Accounting Office has agreed to allow the \$2 million to remain in the GADA Fund until later in the fiscal year so it can continue to earn interest for the GADA program.
  - As of the end of the first quarter of FY 09, the State's budget deficit continued to widen, raising the possibility of additional legislative mandated withdrawals of unpledged funds in the future.
- Additional bonds - In August 2008, GADA issued \$15,265,000 and \$44,590,000 principal amount of Infrastructure Revenue Bonds (Santa Cruz County and Santa Cruz County Jail District), Series 2008-1 and 2008-2 respectfully. These bonds are secured by an indenture separate from the GADA Indenture and are payable from payments made by Santa Cruz County and Santa Cruz County Jail District to the Authority. Payments are not a source of payment or security for other bonds issued by GADA and the bonds are not secured by the Pledged Collateral Reserve Fund. As with GADA's other issuances, these loans are solely the obligation of Santa Cruz County and Santa Cruz County Jail District and are documented by loan repayment agreements.

- Pursuant to ARS §41-1554.08, GADA's bonds do not constitute nor create a general, special or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State.
- Change in Chairman - In September, Marco López was appointed by Governor Janet Napolitano as Director of the Arizona Department of Commerce, replacing Jan Leshner who moved to the Governor's Office as Chief of Staff. Pursuant to ARS §41-1551.01.A.1, the Director of the Arizona Department of Commerce is the Chairman of GADA.
- Lehman Brothers bankruptcy - On September 21, Lehman Brothers filed for Chapter 11 bankruptcy. GADA participates in a local government investment pool (LGIP) that had exposure to Lehman Brothers investments. The Arizona State Treasurer moved the effected funds into a separate pool. GADA's pro-rata share of exposure was just over \$22,400. The State Treasurer is exploring various options of recovery related to this matter.
- Bond insurer downgrades - When utilizing bond insurance, GADA has utilized only one bond insurer, MBIA Insurance Corporation. On November 7th, Moody's Investors Service downgraded the insurer financial strength of MBIA Insurance Corporation to Baa1 with a developing outlook from A2 on review for downgrade. Standard and Poor's and Fitch rating agencies have taken similar actions. GADA's management is working with bond counsel to issue a material event notice to the bond holders for the effected issuances.

**Figure 3**

<b>Greater Arizona Development Authority</b>					
FY 08 Issuances – 2007B and 2008A					
<b>Round</b>	<b>Borrower</b>	<b>Purpose</b>	<b>Amount</b>	<b>Interest &amp; Cost of Issuance Savings<sup>9</sup></b>	<b>Security Pledge</b>
<b>2007B</b>					
	Apache County	Administrative Facilities	\$3,980,000	\$121,000	Revenue Bonds
	Cottonwood	Miscellaneous Capital Projects	\$19,935,000	\$327,000	Revenue Bonds
	El Mirage	Transportation Improvements	\$1,145,000	\$94,000	G.O. Bonds
	Three Points Fire District	Fire Facilities	\$1,130,000	\$66,000	G.O. Bonds
	Willcox	Miscellaneous Capital Projects	\$315,000	\$75,000	G.O. Bonds
		<b>2007B Total</b>	<b>\$26,505,000</b>	<b>\$683,000</b>	
<b>2008A</b>					
	Douglas	Administrative Facilities	\$3,000,000	\$303,000	Revenue Bonds
	Lake Havasu City	Transportation Improvements	\$2,615,000	\$101,000	Revenue Bonds
	Pinal County	Miscellaneous Capital Projects	\$4,495,000	\$115,000	Revenue Bonds
	<b>Queen Creek*</b>	Reimbursement of an Equestrian Park	\$2,045,000	\$91,000	Revenue Bonds
	Rio Rico Fire District	Fire facilities and Equipment	\$3,835,000	\$198,000	G.O. Bonds
	Safford	Administrative Facilities	\$3,095,000	\$309,000	Revenue Bonds
	Show Low	Administrative Facilities	\$3,185,000	\$182,000	Revenue Bonds
	Thatcher	Miscellaneous Capital Projects	\$2,495,000	\$268,000	Revenue Bonds
	Williams	Transportation Improvements	\$2,995,000	\$300,000	Revenue Bonds
		<b>2008A Total</b>	<b>\$27,760,000</b>	<b>\$1,867,000</b>	
<b>*The bonds were sold in April of 2008, but the loan was not closed until FY09.</b>					

<sup>9</sup> GADA potentially saves borrowers money two ways: 1) Borrowers are allowed to utilize GADA’s underlying rating of AA- allowing borrowers to access lower interest rates than they typically can using their own rating, and 2) GADA subsidized the cost of issuance by \$125,000 in both the 2007B and 2008A rounds.

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

<b>ASSETS</b>	<b>Governmental Activities</b>
Cash and investments	\$ 10,374,050
Intergovernmental receivables	10,735,000
Cash and cash equivalents - restricted	8,800,000
Intergovernmental receivables, long-term	<u>341,350,000</u>
Total assets	<u>\$ 371,259,050</u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Bonds, due in less than one year	\$ 10,735,000
Bonds, due in more than one year	<u>341,350,000</u>
Total liabilities	<u>352,085,000</u>
 <b>NET ASSETS</b>	
Restricted	8,800,000
Unrestricted	<u>10,374,050</u>
Total net assets	<u>19,174,050</u>
Total liabilities and net assets	<u>\$ 371,259,050</u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2008**

<b>FUNCTIONS/PROGRAMS</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense)</b>
		<b>Charges for</b>	<b>Operating</b>	<b>Capital</b>	<b>Revenue and</b>
		<b>Services</b>	<b>Grants and</b>	<b>Grants and</b>	<b>Changes in</b>
			<b>Contributions</b>	<b>Contributions</b>	<b>Net Assets</b>
					<b>Governmental</b>
					<b>Activities</b>
Authority					
Personnel	\$ 153,166	\$ -	\$ -	\$ -	\$ (153,166)
Professional services	22,355	-	-	-	(22,355)
Program expenses					
Financial assistance	250,000	-	-	-	(250,000)
Technical assistance	94,000	-	-	-	(94,000)
Travel	1,602	-	-	-	(1,602)
Other operating	28,121	-	-	-	(28,121)
Total primary government	<u>\$ 549,244</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (549,244)</u>
General revenues:					
Investment earnings					\$ 1,016,328
Intergovernmental transfer					929,000
Total general revenues					<u>1,945,328</u>
Change in net assets					<u>1,396,084</u>
Recovery loss from prior years					6,959
Net assets - beginning of year					<u>17,771,007</u>
Net assets - end of year					<u>\$ 19,174,050</u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**BALANCE SHEET**  
**JUNE 30, 2008**

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ASSETS

Cash and investments	\$ 10,374,050
Cash and cash equivalents - restricted	<u>8,800,000</u>
	<u>\$ 19,174,050</u>

FUND BALANCE

Reserved for pledged collateral reserve fund	\$ 8,800,000
Unreserved	<u>10,374,050</u>
	<u>\$ 19,174,050</u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008**

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Fund balance - governmental fund type	<b>\$ 19,174,050</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term assets are not available to pay for current period expenditures and, therefore, are not reported in funds	<b>352,085,000</b>
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds	<b><u>(352,085,000)</u></b>
Net assets of governmental activities	<b><u><u>\$ 19,174,050</u></u></b>

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2008**

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REVENUES

Investment earnings	\$ 1,016,328
Intergovernmental transfer	929,000
	<u>1,945,328</u>

EXPENDITURES

Personnel	153,166
Professional services	22,355
Program expenses	
Financial assistance	250,000
Technical assistance	94,000
Travel	1,602
Other operating	28,121
Total expenditures	<u>549,244</u>

EXCESS OF REVENUES OVER EXPENDITURES 1,396,084

OTHER FINANCING SOURCES

Loss recovery from 2003 investment loss	6,959
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FUND BALANCE, beginning of year 17,771,007

FUND BALANCE, end of year \$ 19,174,050

**GREATER ARIZONA DEVELOPMENT AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008**

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Net change in fund balance - governmental fund type	<b>\$ 1,396,084</b>
Amounts reported for the governmental activities in the statement of activities are different because:	
No reconciling items	<u>-</u>
Changes in net assets of governmental activities	<u><b>\$ 1,396,084</b></u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2008**

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**NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Activities*

Greater Arizona Development Authority (GADA) was authorized during the 1997 Legislative Session and is a component of the State of Arizona. GADA was signed into law on April 26, 1997 under Arizona Revised Statutes (ARS) § 41-1554. On July 21, 1997, this legislation took effect and GADA was formally constituted. Pursuant to ARS § 41-1554.12, an annual audit of the Greater Arizona Development Authority is required within 150 days after the close of the fiscal year.

The purpose of GADA is to provide cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects. GADA has been designed to reduce local governments' cost of borrowing by reducing transaction costs, by providing technical expertise and by "pooling" or otherwise enhancing the credit or financial capacity of individual projects.

The accounting policies of GADA conform to accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of such significant policies.

*Financial Reporting Entity*

In accordance with the requirements of Statement No. 14, The Financial Reporting Entity, of the Government Accounting Standards Board (GASB), the financial statements must present GADA and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

*Measurement Focus, Basis of Accounting, and Basis of Presentation*

The accounts of GADA are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about GADA, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with a brief explanation to better identify the relationship between the government-wide statements and the statements for governmental funds.

## NOTES TO FINANCIAL STATEMENTS

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The government-wide statements of activities present a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of GADA and for each governmental program. Direct expenses are those that are specifically associated with the service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the receipts of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as requirements of a particular program. Revenues, which are not classified as program revenue, are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of GADA.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Using a fund accounting system, amounts are spent in accordance with established fund authorities. Fund authorities provide rule for the fund activity and are separately established for restricted and unrestricted activity. For both restricted and unrestricted funds that are available for expenditure, the decision for funding is transactional based with the departmental management system in place at GADA.

### **Governmental Funds**

The governmental fund is accounted for using modified accrual basis of accounting and current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

#### *Cash and Cash Equivalents*

GADA's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition.

#### *Investments*

GADA's investments are invested primarily with the LGIP (see Note 2). These pooled funds are investments of the U.S. Government, agencies guaranteed by the U.S. Government, and certificates of deposit. Investments are stated at cost, which equals fair value. The LGIP is established pursuant to ARS §35-326 and is operated by the State Treasurer in accordance with Arizona law.

#### *Net Assets*

Reservations of net assets represent amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

#### *Assistance Programs*

### **Technical Assistance**

The purpose of GADA's technical assistance program is to accelerate project development by assisting communities with various planning-related tasks. The eligible applicants include cities, towns, counties, special districts and Indian Tribes. Technical assistance may include such assistance as: 1) help in writing requests for proposals, 2) development of a project timeline, 3) independent review of feasibility studies or project designs, 4) development of rate studies, 5) analysis of fiscal capacity, and 6) development of a public outreach program.

## NOTES TO FINANCIAL STATEMENTS

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### **Financial Assistance**

GADA's bond structure allows the Authority to lower borrowing costs for Arizona's communities by issuing and selling bonds tax-exempt and by sharing financing costs among several borrowers. Eligible applicants include cities, towns, counties, Indian Tribes, and certain special districts. Principal and interest are payable semiannually. Loans are secured by the Pledged Collateral Reserve Fund, a requirement that is calculated and deposited by GADA from the GADA fund which is held by the State Treasurer. Some borrowers also have separate, additional reserve funds, which are held by the Trustee. An intercept mechanism of state-shared revenues for political subdivisions enhances the security of the GADA bonds.

### **Other Assistance**

In April 2006, the GADA issued \$63,220,000 principal amount of Infrastructure Revenue Bonds (Pinal County Road Project), Series 2006-1. Such bonds are secured by an indenture separate from the Indenture and are payable from payments made by Pinal County, Arizona, to GADA. Such payments are not a source of payment or security for the Bonds; such bonds are not secured by the Pledged Collateral Reserve Fund.

### *Budgets and Budgetary Accounting*

The level of control at which expenditures may not exceed budget is at the fund level. The budget for GADA is adopted on a basis consistent with accounting principles generally accepted in the United States of America. GADA adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

On or before May 15 each year, the GADA staff shall prepare a proposed budget for the ensuing fiscal year to be submitted to the Board for approval. The Board shall indicate its approval of the budget by adoption of the budget at a public meeting of the Board.

### *Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **NOTE 2 - CASH AND INVESTMENTS**

Cash and cash equivalents, both unrestricted and restricted, are made up of cash on hand and cash invested in the State Treasurer's Office. As of June 30, 2008, GADA's investments in the Treasurer's office totaled \$18,998,222. The majority of these investments, \$17,302,511, were in Pool 15, a separate pool of investments owned by GADA and managed by the Treasurer's office on GADA's behalf. The investments in GADA Pool 15 are longer term investments, invested to recognize a stable income return to GADA for its operations. Interest earned from investment in Pool 15 is allocated to GADA monthly. The market fluctuations of individual securities held within the pool are recognized by GADA. Pool 15 does not seek to maintain a \$1.00 NAV. The remaining balance of investments are in the Local Government Investment Pool, which is an investment pool managed by the Treasurer's office on behalf of political subdivisions in the State of Arizona. The LGIP (Pool 5) seeks to maintain a fair value of each share equal to \$1 at all times.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3 - RESTRICTED NET ASSETS

The restricted net assets amount of \$8,800,000 as of June 30, 2008 represents pledged security funds of \$745,000, \$2,305,000, \$3,050,000, \$1,582,000, \$322,356, \$137,500, \$49,144 and \$609,000 for eleven bonds that were issued by GADA during the fiscal years of 2008, 2007, 2006, 2005, 2004, 2003, 2001, 2000 and 1998, respectively. The restricted net assets amounts will remain restricted until the bonds are repaid.

### NOTE 4 – LONG-TERM DEBT

#### Changes in Bonds Payable

The following is a summary of changes in bonds payable for the year ended June 30, 2008.

Balance, June 30, 2007	\$ 304,930,000
Additions	54,265,000
Retirements	<u>(7,110,000)</u>
Balance, June 30, 2008	<u><u>\$ 352,085,000</u></u>

#### Maturities of Bonds Payable

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2009	\$ 10,735,000	\$ 16,231,951	\$ 26,966,951
2010	12,965,000	15,771,457	28,736,457
2011	13,975,000	15,245,581	29,220,581
2012	13,725,000	14,676,364	28,401,364
2013	14,335,000	14,064,309	28,399,309
2014-2018	71,625,000	60,795,721	132,420,721
2019-2023	73,890,000	43,715,056	117,605,056
2024-2028	71,045,000	25,531,586	96,576,586
2029-2033	29,020,000	12,224,952	41,244,952
2034-2037	<u>40,770,000</u>	<u>2,465,626</u>	<u>43,235,626</u>
	<u><u>\$352,085,000</u></u>	<u><u>\$ 220,722,601</u></u>	<u><u>\$ 572,807,601</u></u>

## NOTES TO FINANCIAL STATEMENTS

The following summarizes GADA's bonds outstanding at June 30, 2008:

<u>Description and Due Date</u>	<u>Interest Rate</u>	<u>Original Value</u>	<u>2008</u>
Series 1998 Bonds 08/1/98-08/1/18	4.10 - 5.75	\$ 13,270,000	\$ <b>8,180,000</b>
Series 2000A Bonds 08/1/00-08/1/20	5.00 - 6.00	18,930,000	<b>14,290,000</b>
Series 2001A Bonds 08/1/01-08/1/13	3.35 - 4.75	2,750,000	<b>1,535,000</b>
Series 2001B Bonds 08/1/01-08/1/14	4.38 - 4.75	3,100,000	<b>3,100,000</b>
Series 2002 Bonds 08/1/02-08/1/22	2.25 - 4.75	7,640,000	<b>7,125,000</b>
Series 2003A Bonds 08/1/03-08/1/20	3.00 - 5.00	11,230,000	<b>10,440,000</b>
Series 2004A Bonds 08/1/04-08/1/25	3.95 - 5.00	12,955,000	<b>8,510,000</b>
Series 2004B Bonds 08/1/04-08/1/29	2.00 - 5.50	10,360,000	<b>9,255,000</b>
Series 2005A Bonds 08/1/05-08/1/24	2.38 - 5.00	47,695,000	<b>45,950,000</b>
Series 2005B Bonds 08/1/05-08/1/35	3.00 - 5.00	64,100,000	<b>63,515,000</b>
Series 2006A Bonds 08/1/06-08/1/36	4.00 - 5.00	52,060,000	<b>50,115,000</b>
Series 2006B Bonds 08/1/07-08/1/24	4.00 - 5.00	36,520,000	<b>35,700,000</b>
Series 2007A Bonds 08/1/08-08/1/33	4.00 - 5.00	40,145,000	<b>40,105,000</b>
Series 2007B Bonds 08/1/08-08/1/27	4.00 - 5.00	26,505,000	<b>26,505,000</b>
Series 2008A Bonds 08/1/09-08/1/27	3.00 - 5.00	27,760,000	<b>27,760,000</b>
Total bonds payable			<b>352,085,000</b>
Less: current portion			<b>(10,735,000)</b>
Long-term portion			<b>\$ 341,350,000</b>

(continued on next page)

**NOTES TO FINANCIAL STATEMENTS**

GADA entered into a series of agreements with local Arizona communities which require these individual communities to make debt service payments to GADA equal to the debt service requirements of the bonds issued. These agreements directly relate to the bonds payable amounts recorded on GADA's Statement of Net Assets, and therefore are recorded on government-wide financial statements. The following is the local communities' portion of bonds payable included in the balance sheet of GADA as of June 30, 2008:

	1998	2000A	2001A	2001B	2002	2003A	2004A	2004B	2005A	2005B	2006A	2006B	2007A	2007B	2008A	Total
	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	
City of Avondale	\$ 4,730,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,730,000
City of Goodyear	3,185,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,185,000
City of Winslow	265,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	265,000
City of Cottonwood	-	495,000	1,395,000	-	-	-	-	-	-	-	-	-	-	19,935,000	-	21,825,000
Town of Gilbert	-	13,795,000	-	-	-	-	-	-	-	-	-	-	-	-	-	13,795,000
City of Holbrook	-	-	140,000	-	-	-	-	-	-	-	-	-	-	-	-	140,000
City of Flagstaff	-	-	-	3,100,000	-	-	-	-	-	-	-	-	-	-	-	3,100,000
Town of Clarkdale	-	-	-	-	565,000	-	-	-	-	-	-	-	-	-	-	565,000
City of Coolidge	-	-	-	-	3,105,000	-	-	-	-	-	-	-	-	-	-	3,105,000
Town of Guadalupe	-	-	-	-	3,455,000	-	-	-	-	-	-	-	-	-	-	3,455,000
Town of Queen Creek	-	-	-	-	-	5,235,000	-	7,130,000	-	2,405,000	11,365,000	-	-	-	-	26,135,000
City of Williams	-	-	-	-	-	3,395,000	-	-	-	1,395,000	-	-	-	-	2,995,000	7,785,000
Drexel Heights Fire District	-	-	-	-	-	1,810,000	-	1,070,000	-	1,230,000	-	1,240,000	-	-	-	5,350,000
City of Apache Junction	-	-	-	-	-	-	3,135,000	-	-	-	-	-	3,770,000	-	-	6,905,000
Town of Pinetop-Lakeside	-	-	-	-	-	-	940,000	-	-	-	-	-	-	-	-	940,000
City of El Mirage	-	-	-	-	-	-	4,435,000	-	-	-	-	-	-	1,145,000	-	5,580,000
City of Willcox	-	-	-	-	-	-	-	1,055,000	-	-	-	-	-	315,000	-	1,370,000
Town of Taylor	-	-	-	-	-	-	-	-	470,000	-	-	-	-	-	-	470,000
Town of Camp Verde	-	-	-	-	-	-	-	-	1,925,000	-	-	-	-	-	-	1,925,000
Town of Buckeye	-	-	-	-	-	-	-	-	9,400,000	-	14,730,000	-	2,200,000	-	-	26,330,000
Central Yavapai Fire District	-	-	-	-	-	-	-	-	10,600,000	-	-	-	-	-	-	10,600,000
Golden Ranch Fire District	-	-	-	-	-	-	-	-	8,425,000	-	-	-	-	-	-	8,425,000
Maricopa Fire District	-	-	-	-	-	-	-	-	1,380,000	-	-	3,045,000	-	-	-	4,425,000
Northwest Fire District	-	-	-	-	-	-	-	-	13,105,000	-	-	-	13,470,000	-	-	26,575,000
Three Points Fire District	-	-	-	-	-	-	-	-	645,000	-	-	-	-	1,130,000	-	1,775,000
Lake Havasu City	-	-	-	-	-	-	-	-	-	58,070,000	-	-	-	-	2,615,000	60,685,000
Town of Superior	-	-	-	-	-	-	-	-	-	415,000	-	-	-	-	-	415,000
City of Safford	-	-	-	-	-	-	-	-	-	-	9,150,000	-	-	-	3,095,000	12,245,000
Town of Sahuarita	-	-	-	-	-	-	-	-	-	-	14,870,000	-	-	-	-	14,870,000
City of Show Low	-	-	-	-	-	-	-	-	-	-	-	8,155,000	-	-	3,185,000	11,340,000
City of Somerton	-	-	-	-	-	-	-	-	-	-	-	6,665,000	-	-	-	6,665,000
Town of Quartzite	-	-	-	-	-	-	-	-	-	-	-	7,095,000	-	-	-	7,095,000
Apache Junction Fire District	-	-	-	-	-	-	-	-	-	-	-	9,500,000	-	-	-	9,500,000
Town of Chino Valley	-	-	-	-	-	-	-	-	-	-	-	-	5,015,000	-	-	5,015,000
Town of Eagar	-	-	-	-	-	-	-	-	-	-	-	-	3,300,000	-	-	3,300,000
Town of Parker	-	-	-	-	-	-	-	-	-	-	-	-	665,000	-	-	665,000
Town of Snowflake	-	-	-	-	-	-	-	-	-	-	-	-	1,065,000	-	-	1,065,000
Chino Valley Fire District	-	-	-	-	-	-	-	-	-	-	-	-	5,325,000	-	-	5,325,000
Golden Ranch Fire District	-	-	-	-	-	-	-	-	-	-	-	-	4,550,000	-	-	4,550,000
Mayer Fire District	-	-	-	-	-	-	-	-	-	-	-	-	745,000	-	-	745,000
Apache County	-	-	-	-	-	-	-	-	-	-	-	-	-	3,980,000	-	3,980,000
Douglas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,000,000	3,000,000
Picture Rocks Fire District	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,045,000	2,045,000
Pinal County	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,495,000	4,495,000
Rio Rico Fire District	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,835,000	3,835,000
Thatcher	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,495,000	2,495,000
<b>Total</b>	<b>\$ 8,180,000</b>	<b>\$ 14,290,000</b>	<b>\$ 1,535,000</b>	<b>\$ 3,100,000</b>	<b>\$ 7,125,000</b>	<b>\$ 10,440,000</b>	<b>\$ 8,510,000</b>	<b>\$ 9,255,000</b>	<b>\$ 45,950,000</b>	<b>\$ 63,515,000</b>	<b>\$ 50,115,000</b>	<b>\$ 35,700,000</b>	<b>\$ 40,105,000</b>	<b>\$ 26,505,000</b>	<b>\$ 27,760,000</b>	<b>\$ 352,085,000</b>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 5 - EMPLOYEE RETIREMENT PLANS

GADA's permanent full-time employees belong to the Arizona State Retirement Plan.

#### A. Plan Description

The Arizona State Retirement System (the System) is a cost-sharing, multiple-employer, defined benefit plan covering employees of Arizona school districts, the State, and certain political subdivisions. The System provides for retirement, disability, health insurance benefits, and death and survivor benefits. Benefits are paid from resources contributed by members and employers and from earnings on the invested funds. The Arizona Revised Statutes provide statutory authority for determining the employees' and employer contribution amounts as a percentage of covered payroll. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Arizona State Retirement System, 3300 North Central Avenue, Suite 1300, Phoenix, Arizona 85012 or by calling (602) 240-2000.

#### B. Funding Policy

Under state statutes, employee member contributions to the System were fixed at 9.6 percent of their compensation for the year ended June 30, 2008, with the contributions made by payroll deduction. Employers are required to contribute at the same rate as employees. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to change to contribution rate from that actuarially determined rate. The total contributions made by GADA for the year ended June 30, 2008 were \$9,950, equal to the required contributions for the year.

### NOTE 6 - CONTINGENT ASSET

Prior to July 2003, GADA's cash and cash equivalents, both unrestricted and restricted and made up of cash on hand and cash invested, were invested in the State's Local Government Investment Pool (LGIP). In this pool, GADA's monies were combined with those of the other investors in the pool. During the year ended June 30, 2003, investors in the LGIP sustained investment losses due to the bankruptcy of National Century Financial Enterprises Inc., a financing corporation in which LGIP funds were invested. GADA's portion of this investment loss was \$668,578 and has been recorded as a reduction of investment earnings in 2003. The State of Arizona, along with other investors in the LGIP pool as well as investors nationwide, has joined a class action lawsuit against the financing corporation in an effort to recover lost funds. GADA has received several payments representing recovery on this loss through partial settlements reached in the lawsuit as well as recoveries from the bankruptcy proceedings in previous fiscal years and as of June 30, 2008, the State Treasurer distributed an additional partial recovery to GADA of \$6,959. The class action lawsuit was still in progress as of June 30, 2008. GADA's unrecovered remaining loss was \$312,744 as of June 30, 2008.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7 - SUBSEQUENT EVENT

During fiscal year 2008, GADA approved the distribution of approximately \$200,000 in Technical Assistance Grant funds. As of August 2008, these funds had not yet been distributed. The participants in this grant issue are as follows:

<u>Name of Project/City</u>	<u>2008</u>
Casa Grande	\$ 25,380
Florence	36,000
Glendale	22,560
Navajo Nation	70,500
Pinetop - Lakeside	13,500
San Xavier District of the Tohono O'odham Nation	13,500
Springerville	18,000
City of San Luis	-
Teesto Chapter, Navajo Nation	-
Total	<u>\$ 199,440</u>

During fiscal year 2007, GADA approved the distribution of approximately \$200,000 in Technical Assistance Grant funds. As of August 2008, the following participants had not yet received their grants:

<u>Name of Project/City</u>	<u>Amount</u>
City of San Luis	\$ 17,500
Teesto Chapter, Navajo Nation	14,000
Total	<u>\$ 31,500</u>

**GREATER ARIZONA  
DEVELOPMENT AUTHORITY**

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –**  
**BUDGET AND ACTUAL**  
**YEAR ENDED JUNE 30, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance Between Final Budget and Actual Amounts</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Investment earnings	\$ 858,466	\$ 858,466	\$ 1,016,328	\$ 157,862
Intergovernmental transfer	2,000,000	2,000,000	929,000	(1,071,000)
	<u>2,858,466</u>	<u>2,858,466</u>	<u>1,945,328</u>	<u>(913,138)</u>
<b>EXPENDITURES</b>				
Personnel	218,604	218,604	153,166	65,438
Professional services	50,004	50,004	22,355	27,649
Program expenses				
Financial assistance	250,000	250,000	250,000	-
Technical assistance	400,000	400,000	94,000	306,000
Travel	7,512	7,512	1,602	5,910
Other operating	10,008	10,008	28,121	(18,113)
	<u>936,128</u>	<u>936,128</u>	<u>549,244</u>	<u>386,884</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	1,922,338	1,922,338	1,396,084	(526,254)
<b>LOSS RECOVERY</b>				
2003 investment loss	-	-	6,959	6,959
<b>FUND BALANCE, beginning of year, as reported</b>	<u>17,771,007</u>	<u>17,771,007</u>	<u>17,771,007</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 19,693,345</u>	<u>\$ 19,693,345</u>	<u>\$ 19,174,050</u>	<u>\$ (519,295)</u>



CPAs & BUSINESS ADVISORS

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

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Board of Directors  
Greater Arizona Development Authority  
Phoenix, Arizona

We have audited the financial statements of the governmental activities of the Greater Arizona Development Authority (GADA) as of and for the year ended June 30, 2008, which comprise GADA's basic financial statements and have issued our report thereon dated November 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the GADA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the statements, but not for the purpose of expressing an opinion on the effectiveness of the GADA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the GADA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the GADA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the GADA's financial statements that is more than inconsequential will not be prevented or detected by the GADA's internal control. We consider the deficiencies described in the accompanying schedule of audit findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the GADA's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the GADA 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*.

The Greater Arizona Development Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Greater Arizona Development Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailey LLP". The signature is written in a cursive, flowing style.

Phoenix, Arizona  
November 19, 2008

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**SCHEDULE OF AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2008**

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**Significant Deficiency**

08-1 Report Preparation

*Criteria:* A good system of internal accounting control contemplates an adequate system for preparing the year end financial statement.

*Condition:* The Greater Arizona Development Authority does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

*Cause:* Greater Arizona Development Authority personnel do not attend the necessary training to stay informed of accounting principles generally accepted in the United States of America.

*Effect:* The disclosures in the financial statements could be incomplete.

*Recommendation:* It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Response:* The financial information of GADA is maintained in the State's accounting system (called "AFIS"). The statements it produces are not in the format required under GAAP, but are considered the official statements for the program. Further, agency employees responsible for accounting and budgeting functions do indeed attend related professional training, offered by the State of Arizona and other parties. GADA's Executive Director is a member of the Government Finance Officers Association of Arizona, and attends GFOA training regarding internal controls.

It is important to note that as component units of the State of Arizona, GADA and the Arizona Department of Commerce have little ability and capacity with which to address personnel limitations, the underlying factor of the deficiencies. As a part of the Arizona Department of Commerce, GADA's financial, procurement and accounting functions are serviced by agency personnel as authorized and funded by the Arizona Legislature. Both the number of full-time equivalent employees (FTEs) and the salary and employee-related expenses are dictated by the legislative budget process.

As a relatively small agency in a very fast growing state with many needs, it is possible - but not at all probable - that the Arizona Department of Commerce will see increases in FTEs and the related required funding to the level that would satisfy the noted deficiency. Further complicating the picture are recent declines in the general fund revenue streams that would be the source of such funding.

In conclusion, the GADA Board will endeavor to address the deficiencies identified in the audit, but the Board is faced with certain, structural funding and personnel restrictions that may limit its options.

# **STATISTICAL SECTION**

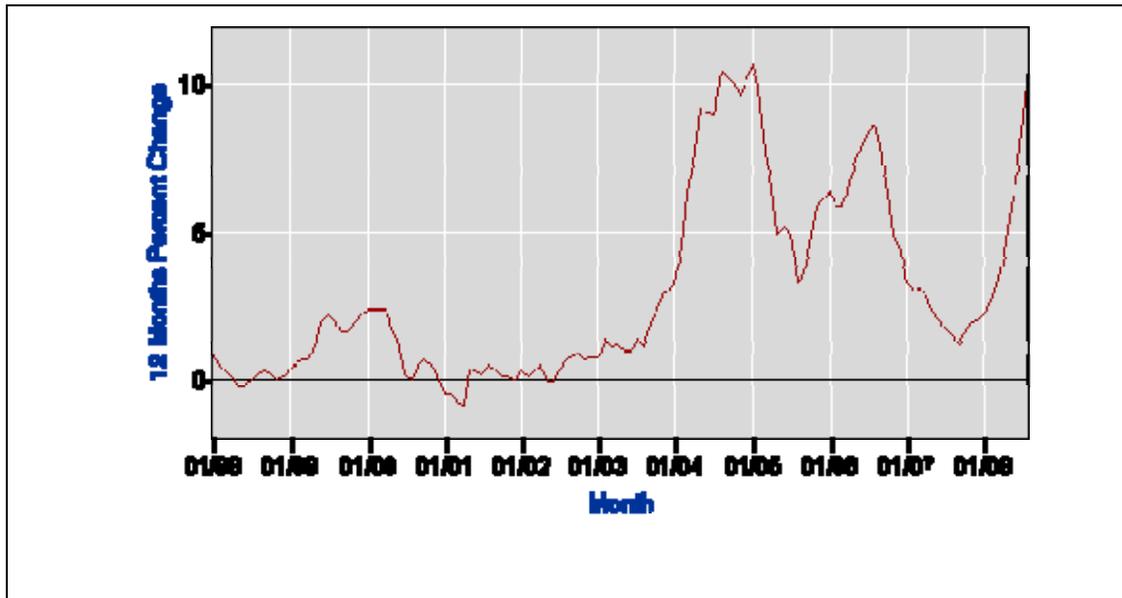
The **Statistical Section** includes five categories of information: Financial Trends, Revenue Capacity, Debt Capacity, Demographic and Economic Information, and Operating Information.

**Financial Trends**

In addition to Arizona tremendous growth, GADA and its borrowers are being heavily impacted by two significant financial trends:

- **Material for construction prices show no sign of decreasing** – The rapid growth of emerging economies has resulted in a large addition to world demands for raw and processed commodities, including oil, steel, and cement. Figure 4 shows the 12 month percent change in construction materials prices from the Bureau of Labor Statistics since 1998. The rate of price increases soared in the first few months of 2008, primarily due to higher oil prices and the cost of transportation.

Figure 4<sup>10</sup>



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
1998	0.9	0.5	0.3	0.1	-0.2	-0.2	0.0	0.2	0.3	0.2	0.0	0.1	0.2
1999	0.4	0.6	0.7	0.7	1.1	1.9	2.2	2.0	1.6	1.6	1.9	2.2	1.4
2000	2.4	2.4	2.4	2.4	1.7	1.1	0.2	0.0	0.5	0.7	0.5	0.1	1.2
2001	-0.5	-0.5	-0.7	-0.8	0.4	0.3	0.2	0.5	0.4	0.1	0.1	0.0	-0.1
2002	0.3	0.1	0.3	0.5	-0.1	-0.1	0.4	0.7	0.8	0.9	0.7	0.8	0.5
2003	0.8	1.3	1.1	1.2	1.0	1.0	1.3	1.1	1.9	2.3	2.9	3.0	1.5
2004	3.2	4.5	6.3	7.7	9.2	9.1	9.0	10.5	10.3	10.1	9.7	10.1	8.3
2005	10.8	9.9	8.2	6.5	4.9	5.2	4.9	3.3	3.6	4.9	5.9	6.1	6.1
2006	6.4	5.9	5.9	6.4	7.5	7.8	8.3	8.7	7.9	6.3	4.9	4.3	6.7
2007	3.3	3.0	3.1	2.9	2.4	2.1	1.7	1.5	1.2	1.5	1.9	2.0	2.2
2008	2.2	2.7	3.2	4.2	5.4	6.8(p)	8.5(p)	10.1(p)	11.0(p)				

p: Preliminary. All indexes are subject to revision four months after original publication.

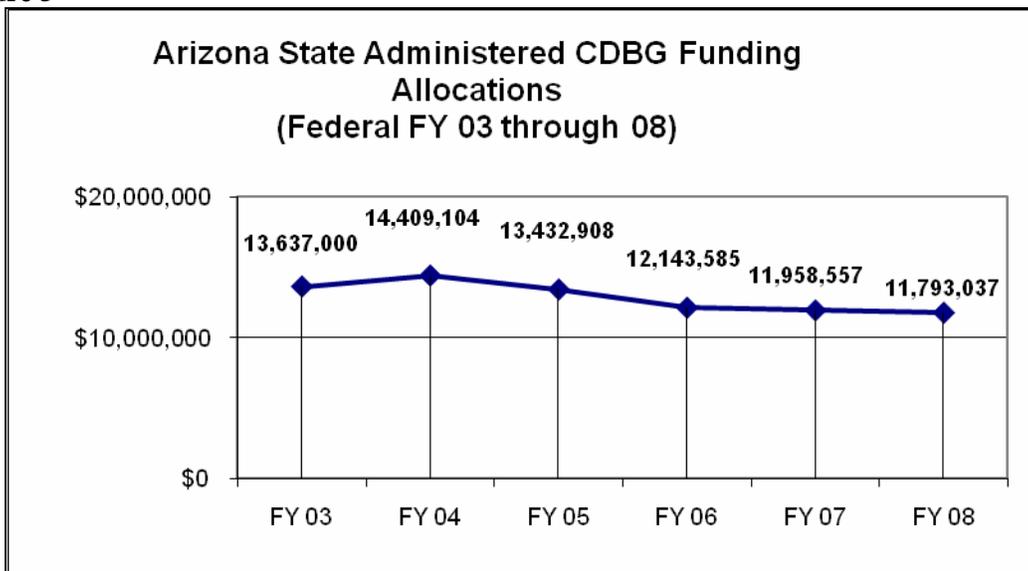
<sup>10</sup> <http://data.bls.gov/>

The implications for municipal building projects have been significant. Construction project costs have increased along with commodity prices recently. The surge in costs caused some construction contract renegotiations, delays, or both in the past three years. Some loans have been insufficient to finish projects as initially planned.

- **Decrease in federal funding available for infrastructure** – The federal Community Development Block Grant (CDBG) program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Historically, many of GADA’s borrowers have looked to the “State Administered” CDBG program<sup>11</sup> to help fund various infrastructure projects.

However, the level of funding for the State Administered CDBG program has been steadily decreasing. Figure 5 shows that Arizona’s funding for this program peaked in FY 04 and has since been declining annually even though the State’s population continues to grow. As a result of this downward trend, GADA’s target borrowers are looking elsewhere for infrastructure funding.

**Figure 5**



Source: Community Development Allocations and Appropriations, Community Planning and Development, US Department of Housing and Urban Development, <http://www.hud.gov/offices/cpd/communitydevelopment/budget/>

## Revenue Capacity

GADA’s revenue capacity is a function of two primary sources:

1. Legislative appropriations – in addition to the \$17.91 million GADA Fund, the fiscal year 2007 Budget proposed by Arizona Governor Janet Napolitano included a request for additional capitalization of GADA of \$5 million in both fiscal years 08 and 09. Ultimately, the Arizona Legislature approved \$2 million for each fiscal year. A \$2 million appropriation was deposited in the GADA Fund in FY 08. However, \$1,071,000 was transferred back to the general fund to help balance the State budget, for a net appropriation of \$929,000. It is unlikely that the FY 09 appropriation will occur.
2. Interest income – GADA benefited from interest earnings over the course of FY 08. At the beginning of the fiscal year, interest earnings were projected to be \$858,466. The actual earnings were \$1,016,328, a positive variance of \$157,862.

<sup>11</sup> <http://www.hud.gov/offices/cpd/communitydevelopment/programs/stateadmin/>

However, most of GADA cash and cash equivalents or \$17,302,511 is invested in Pool 15, consisting of longer term investments designed to recognize a stable income return to GADA for its operations. Interest earned from GADA's investments is allocated monthly to the operating fund. The market fluctuations of individual securities held within the pool are recognized by GADA. Pool 15 does not seek to maintain a \$1.00 NAV. As a result, GADA's revenue capacity may be negatively impacted depending on the state of the market.

The majority of the remaining balance of GADA's cash and cash equivalent investments of \$1,782,161 are in the State's Local Government Investment Pool (LGIP), which is an investment pool managed by the Treasurer's office on behalf of political subdivisions in the State of Arizona. The LGIP (Pool 5) seeks to maintain a fair value of each share equal to \$1 at all times. An additional \$89,378 is invested with the Trustee at US Bank in management and clearing accounts.

### **Issuing Capacity**

As of the end of FY 08, GADA is leveraging the PCRF on a 1:40 ratio – for every \$1 in the PCRF, GADA has been able to issue approximately \$40 in bonds. The amount of any increases to the PCRF is determined by the national rating agencies with each issuance. The rating agencies required an additional deposit of \$745,000 to secure the bonds issued in the 2007B round; however, no deposit was required for the 2008A bonds.

If the 1:40 ratio continues to hold, this represents an issuance capacity of roughly \$716 million, based on the \$17.91 million balance of the GADA Fund. As of the end of FY 08, \$375 million of this capacity had been exhausted or 52% of the lifetime capacity of the Fund.

### **Demographic and Economic Information**

Arizona has been in the top five states for growth for the last 60 years, and we do not anticipate that changing in the near future. Arizona's population is over 6 million, growing by over 3.3% per year – the fastest growing state population. The Arizona population is expected to reach 13.34 million by 2055, a 160% increase of the state's population from 5.13 million in 2000. There are a number of factors driving this projected growth. There is a demographic shift occurring in the US, with population moving from the north and east to the south and west. The baby boom generation is beginning to retire in warmer climates. Lower costs of living and attractive climate are bringing much of this population our way. U.S. and global populations are also growing, with people living longer as we begin to realize the promises of bio technology. Finally, Arizona's economy is young, strong and vibrant. The potential for opportunity can attract workers and companies.

Arizona is growing faster than any state except Nevada (measured by percentage change or number of new residents) and is now larger than Wisconsin, Minnesota, and Colorado. Arizona is now the 16th largest state, according to 2007 population estimates by the Census Bureau.

Projections from the U.S. Census Bureau and the Arizona Department of Commerce indicate that people will be moving to Arizona in even greater numbers in the years ahead. With the expected in-migration and birth rate, the result will be a state population approaching almost 11 million by 2030. By 2030, current projections indicate that Arizona will become the 10th largest state, bigger in population than Michigan and closing ground on Ohio. This growth is a key driver of the GADA program, and GADA's borrowers as of the end of FY 08 tend to have the following characteristics:

- Small but growing populations – Based on the 2000 U.S. Census numbers, at least 29 of GADA's borrowers, or 65.9%, have populations of 40,000 or under.<sup>12</sup> Two borrowers exceed 50,000, and two exceed 100,000. Population projections indicate Arizona's small communities and special districts will continue to grow rapidly.

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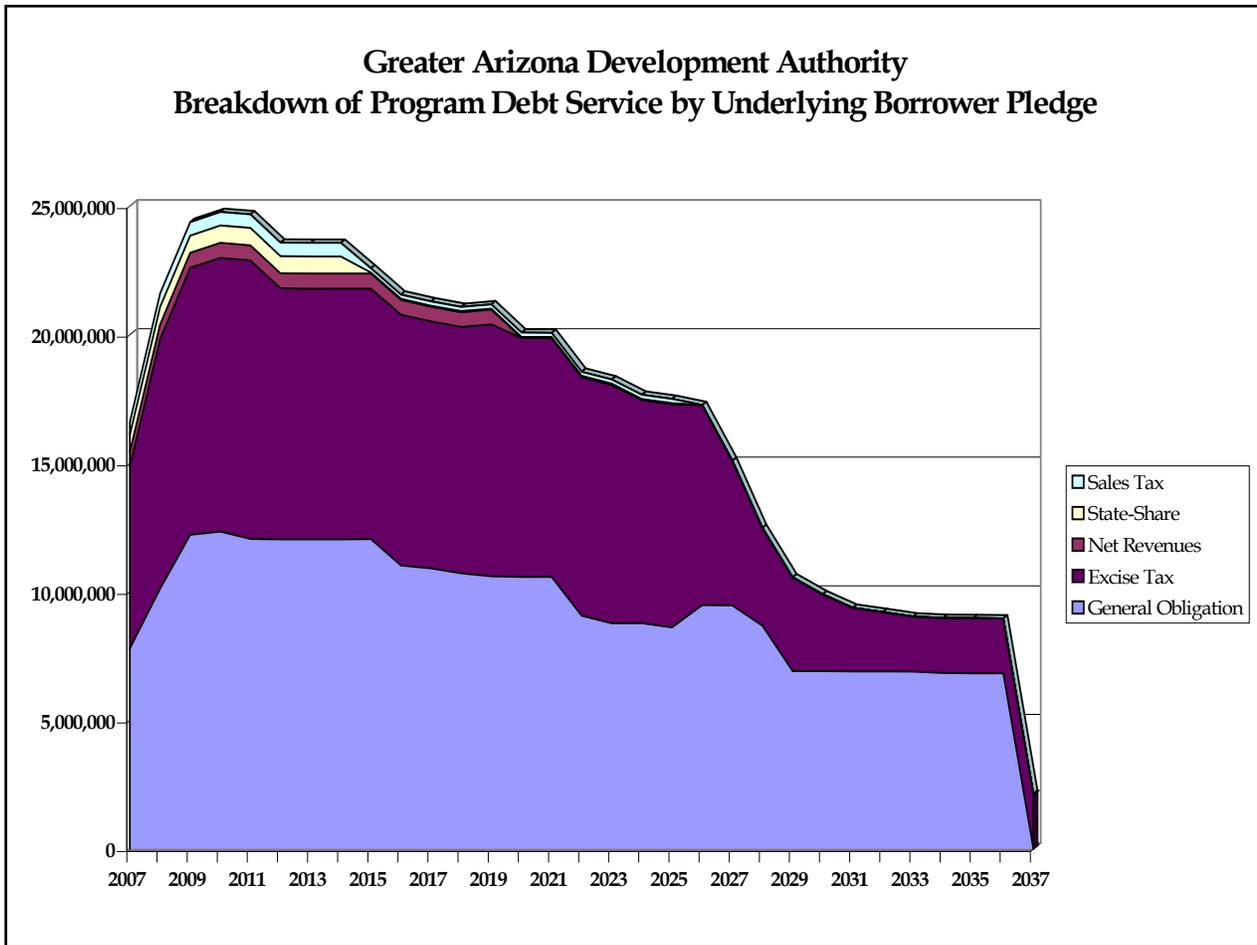
<sup>12</sup> This figure is considered to be very conservative as data is not available for special district borrowers. The actual figures for borrowers under 40,000 populations probably exceed the number and percentages listed here.

- Growth influenced by major metros –24 of GADA’s 44 borrowers – more than half - are located in Maricopa, Yavapai, Pima or Pinal Counties, and are contiguous or in close proximity to the state’s larger metro areas. Much of their growth is a spill over from or influenced by these areas as residents seek more available and affordable housing options.
- Repeat borrowers - 16 entities have borrowed two or more times through GADA. Collectively, these borrowers represent 40 loans or more than 66.5% of loans financed through GADA.
- Leverage - Because they are developing communities and service districts, most of GADA’s borrowers need to finance infrastructure in advance of anticipated development. As a result, the financial strength of the community or the specific utility enterprise at the time of borrowing would tend to limit access to the capital markets. GADA is able to offer increased capital market access to these borrowers because 1) GADA funds a secondary reserve fund (pledged collateral reserve fund) and 2) it has the ability to intercept state-shared revenues. These features are fundamental to the rating agencies’ perception of GADA as a solid credit.

### **Operating Information**

Borrowers generally pledge one of five different types of repayment sources: sales taxes, state-shared revenues, excise taxes, net revenues and/or general obligation pledges. Figure 6 shows the breakdown of debt service by pledge on GADA’s \$352.085 million in long-term debt outstanding at the end of FY 08. The largest percentage of GADA’s pledges, \$164.825 million or 46.81%, were general obligation pledges followed by excise tax pledges at \$149.71 million (42.52%), sales tax pledges at \$23.75 million (6.75%), state-shared revenues at \$8.29 million (2.36%) and net system revenues at \$5.0 million (1.42%).

**Figure 6**



The size of GADA’s bond issuances – both the number of borrowers and the amount borrowed - has grown substantially since 2004. This appears to be a function of Arizona’s rapid growth, the increase in construction materials prices, and a decline in other funding programs available to communities (several programs have seen cuts as a result of war and hurricane reparation funding demands). Figure 7 recaps the activity by calendar since GADA’s inception through the end of FY 08.

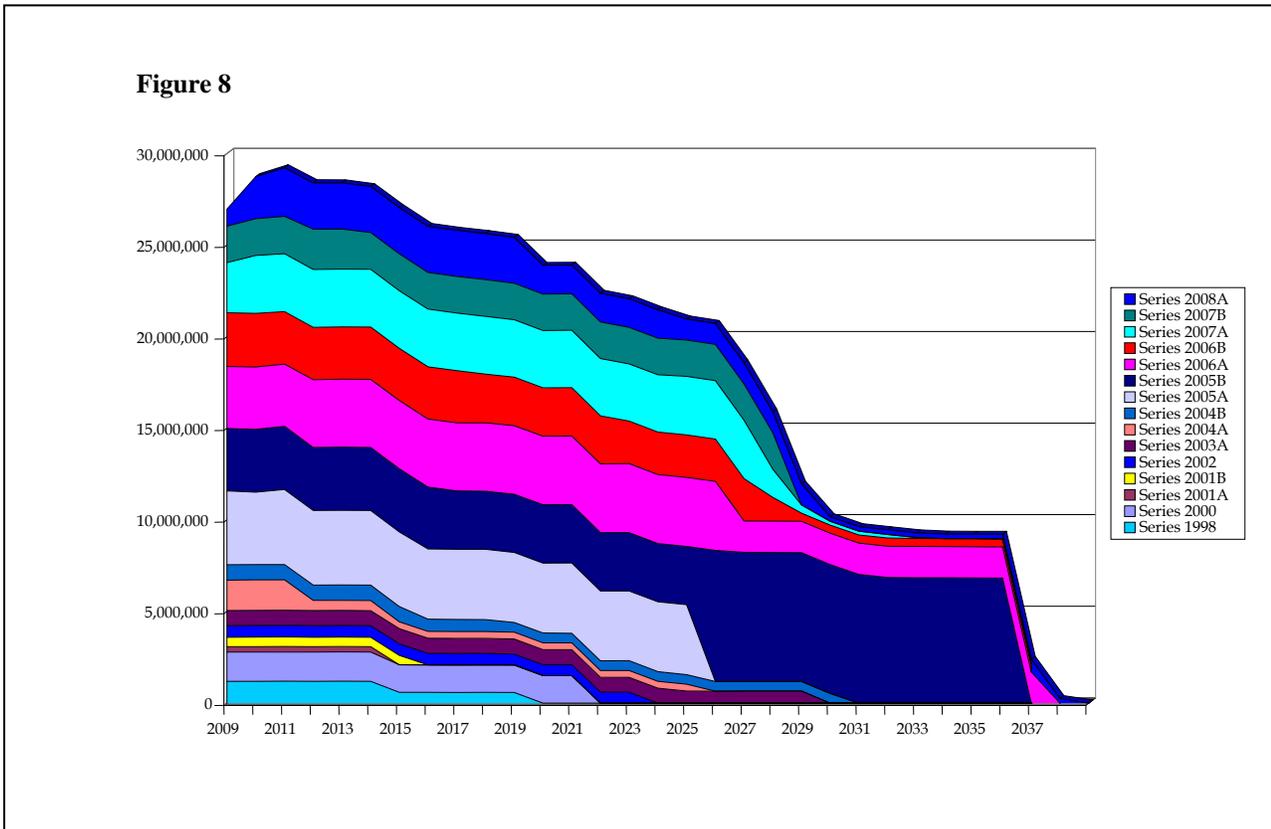
The debt service summary of GADA’s 15 bond issues (as of the end of FY 08) is shown in Figure 8, and clearly indicates the major increase in the portfolio that has occurred, beginning primarily with the 2005A issuance. Further detail regarding the individual borrowers to GADA can be found in Note 4, Long Term Debt, on pages 26-28 of the financial statements.

**Figure 7**

**Greater Arizona Development Authority**  
**Number of Borrowers and Amount Issued by**  
**Calendar Year ( 98-07)**

CY	# of Borrowers	Amount	Total to Date
1998	4	\$13.27M	\$13.27M
1999	0	\$0	\$13.27M
2000	2	\$18.93M	\$32.2M
2001	3	\$5.85M	\$38.05M
2002	3	\$7.64M	\$45.69M
2003	3	\$11.23M	\$56.92M
2004	6	\$23.315M	\$80.235M
2005	13	\$111.795M	\$192.03M
2006	10	\$88.58M	\$280.61M
2007	10	\$40.145M	\$320.755M
2008	14	\$54.265M	\$375.021M*

\* May not match other figures in this report due to debt retirements over the years



## ECONOMIC CONDITION AND OUTLOOK

The forecast of the Arizona Department of Commerce, Research Administration (RA) projects a continued loss of non-farm jobs for the calendar year 2008-09 with a decrease of more than 47,000 jobs (-1.8 percent). For '08, RA forecasts a loss of 34,000 jobs (-1.3 percent), and 13,500 (-0.5 percent) in '09. In contrast, the previous forecast released in May 2008 projected a loss of 9,200 non-farm jobs (-0.3 percent) for the entire two-year forecast period. RA expects an Arizona recovery will be delayed until late '09 or early '10 because of higher commodity prices, stagnant incomes and the effects of the crisis in finance and housing.

Higher commodity prices (especially food and energy) have also contributed to a global economic slowdown. RA projects economic and financial problems in Asia and Europe will impact Arizona by reducing demand for State exports and limiting supply of imported capital available for domestic lending. Stagnant incomes and rising prices have reduced consumers' real spending power and damaged industries dependent on consumer spending such as trade, transportation, leisure and hospitality.

Indicators of the continued downturn in the housing market include rising mortgage foreclosures, declining sales of new and existing homes, higher inventories of unsold houses, falling housing starts and a continued decline in home prices. A reduction of credit availability in the financial markets has compounded the downturn in housing by increasing the difficulty in securing home loans for many buyers. Tighter credit means less money is available not only for home loans, but also other consumer and business purchases. This reduced spending will cause firms to decrease output and employment.

As a result of worsening problems in the financial and housing markets, job losses in construction are projected to increase in 2008-09 to more than 44,000 (31,000 jobs in '08 and 13,000 jobs in '09), a decline of almost 20 percent. The construction downturn is projected to contribute to reduction of employment in the professional and business services industries. Companies in this industry group hire many construction employees through contract and temporary labor services firms in the employment services sector. As a result, RA projects a loss of more than 7,000 jobs (-1.9 percent) for forecast period.

Job losses in financial activities are forecast to total more than 10,000 jobs (-5.7 percent) in 2008-09. Recent merger and acquisition activity in the financial services industry is projected to contribute to employment decreases. Slowing economic growth in the domestic and international economy has reduced the demand for goods produced in Arizona's factories. RA forecasts a reduction of almost 6,000 jobs (-3.3 percent), in manufacturing in 2008-09 as a consequence of decreased demand.

Despite a growing and aging population, the growth rate is forecast to slow as a consequence of the current economic downturn. Employment gains in the public sector are forecast to number 7,500 (1.8 percent) in 2008-09. Reduction in government tax revenue from a slowing economy is forecast to sharply curtail job growth in 2009, especially in the state and local education sectors. Natural resources and mining is projected to have slowing job growth as a result of reduced economic expansion in the rest of the world, especially in Asia. RA forecasts an increase of 2,500 jobs (22 percent).

Educational and health service is projected to have the largest job growth of any major industry group with a gain of more than 18,000 jobs (6.1 percent) in the forecast period. Leisure and hospitality is projected to have a gain of 2,700 jobs (1.0 percent) during the forecast period. Local tourism is forecast to provide some compensation for the reduction in the number of domestic and international travelers.

In conclusion, RA's updated forecast projects a greater loss of non-farm employment (-47,000 jobs or -1.8 percent) in 2008-'09 compared to its previous forecast released in May (-9,200 jobs, or -0.3 percent) because of a loss in business and consumer confidence. Higher food and energy prices, falling home values, stagnant incomes and contracting credit have all combined to erode business and consumer confidence.

## **CONTACTING THE GREATER ARIZONA DEVELOPMENT AUTHORITY**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of GADA's finances and to demonstrate GADA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Greater Arizona Development Authority at (602) 771-1100. You may also access and print this report at

<http://www.azcommerce.com/CommAsst/GADA/Audits+and+Publications.htm>.