

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

A Component Unit of the State of Arizona

For Fiscal Year ended June 30, 2009

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**

November 23, 2009

The Honorable Janice K. Brewer,  
Governor of the State of Arizona;  
Members of the Legislature;  
Chief Justice of the Arizona 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, 2009 (FY 09). 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 FY09, 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 was vacant during FY 09. 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 FY09 were:

Marco López, Chairman – Director, Arizona Department of Commerce<sup>1</sup>  
Kent Ennis, Chairman – Director, Arizona Department of Commerce<sup>2</sup>  
Donald E. Cardon, Chairman – Director, Arizona Department of Commerce<sup>3</sup>  
The Hon. Dean Martin, Arizona State Treasurer  
Benjamin Grumbles – Director, Arizona Department of Environmental Quality<sup>4</sup>  
John Halikowski – Arizona Department of Transportation Quality<sup>5</sup>  
Linda Binder – Mohave County  
Alan Willenbrock – Pima County  
George Cordova – Apache County  
Michael Ortega – Cochise County

GADA is a component unit of the State of Arizona. It is housed within the Arizona Department of Commerce and was part of the Finance and Investment Division until June 2009 when it became part of the Community Development 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> Marco López was appointed Director of the Arizona Department of Commerce in September 2008. He replaced Jan Leshner.

<sup>2</sup> Kent Ennis replaced Marco López when he left Commerce in January 2009.

<sup>3</sup> Donald E. Cardon replaced Kent Ennis when he was appointed the Director of the Arizona Department of Commerce in June 2009.

<sup>4</sup> Benjamin Grumbles replaced Stephen Owens when he was appointed in June 2009.

<sup>5</sup> John Halikowski replaced Victor Mendez when he was appointed in February 2009.

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	Regional Managers	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 almost \$17 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 45 borrowers through a total of 72 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. No Technical Assistance Grants were issued in FY09.
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. No Technical Assistance Loans were issued in FY09.

**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.

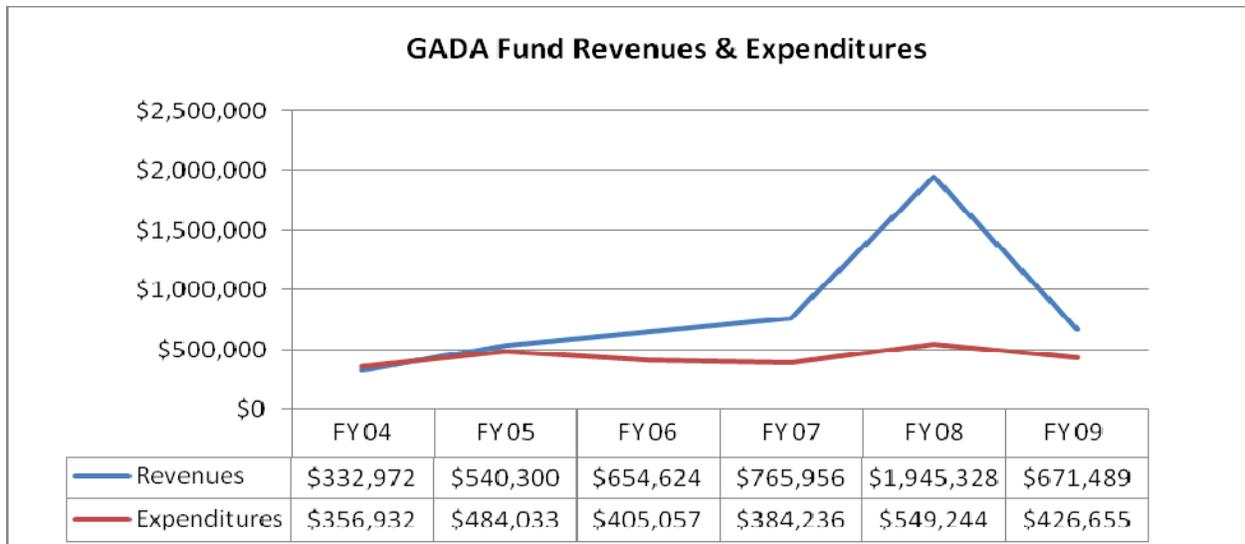
**BUDGETARY CONTROLS**

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 09 was \$1,480.31.

**ECONOMIC CONDITION AND OUTLOOK<sup>6</sup>**

The Arizona Department of Commerce (Commerce) projects nonfarm job losses for both 2009 (-178,500) and 2010 (-17,300). A total of more than 195,800 (7.5%) nonfarm jobs are expected to be lost over the two year period. The projected rate of loss for Arizona in 2009 is 6.8% and 0.7% for 2010. The nation, however, is forecast to have a slower rate of job loss of 3.7% in 2009 and 0.5% in 2010.

<sup>6</sup> Excerpted from Arizona’s Workforce Forecast Report, Arizona Department of Commerce <http://www.workforce.az.gov/admin/uploadedPublications/PrForecastUpdate08-09.pdf>

The bursting of the housing bubble and ensuing financial crisis caused substantial damage to Arizona's economy. Construction was a significant economic driver of Arizona employment during the housing boom in 2001-06. In June 2006, Arizona construction employment reached its historical peak of 247,500 jobs, and the share of total nonfarm employment held by construction was noticeably higher in Arizona (9.5%) in comparison to the nation (5.6%).

As the housing bubble burst in 2006, the share of construction employment in Arizona began to fall, reaching 5.8% in August 2009 compared to the nation at 4.7%. Along with Nevada, California and Florida, Arizona has experienced significant economic decline including job losses, home price devaluation and rising home mortgage foreclosures.

Compounding the effects of the housing collapse and the resulting downturn in Arizona's economy is the use of income by businesses and consumers to reduce debt, instead of purchasing goods and services. A large fraction of the consumer debt was created through home equity loans as people borrowed against the rising value of their homes. Businesses increased borrowing to expand operations to take advantage of opportunities in a growing economy.

As Arizona's economy starts to recover, Commerce projects nonfarm job growth will begin by the end of 2010 based on the following factors:

- Federal government economic stimulus spending is projected to boost the state's economy in the areas of infrastructure for energy, transportation, health care and education.
- Federal government expenditures are expected to be maintained for border security, rural area firefighting, military bases, and private sector contracting for civilian and military purposes.
- Federal monetary policy is encouraging lending through low interest rates and the injection of liquidity into financial institutions.
- A buildup in the inventory cycle is anticipated as businesses and consumers increase spending to replenish depleted inventories and buy essential and other goods such as cars, clothing and household appliances.
- Stable prices for many goods are expected to motivate some increased level of purchasing.

Recent trends have shown increasing stabilization in the U.S. and global economies. These include increased orders for manufactured goods; a rise in the overall capacity utilization rate; an uptick of national housing starts and sales; a greater willingness to lend in financial institutions; and a leveling of world trade. Recently, the economies of major U.S. trading partners, including China, France and Germany, have shown economic growth. As a result, U.S. export figures have increased.

All these trends will have a positive impact on Arizona's economy, but the growth rates are forecast to be slow for several reasons:

In an effort to reduce high debt levels, businesses and consumers will continue to moderate spending for goods and services. Stagnant wages and the fear of unemployment will result in constrained spending and increased savings by consumers. As of August 2009, Arizona's unemployment rate had reached 9.1%. Rates above 9% have not been seen since 1983. Risk of further credit losses exists due to deteriorating performance of commercial real estate loans. Financing for commercial properties and projects has been extremely difficult with the worsening fundamentals in this sector. The national demographic shift of population from northern and eastern states to those in the south and west has long fueled Arizona's economy. Until the national housing market recovers and people can sell their homes in order to move to Arizona, population growth will slow. Tourism, a primary driver of Arizona's economy, is not expected to recover quickly because of the weaknesses in the U.S. and global economies.

In manufacturing, job losses are forecast to total more than 15,200, or -8.8%, by the end of 2010. Aerospace products and parts is the only manufacturing industry expected to gain jobs as a result of ongoing civilian and military contracts. Natural Resources and Mining is forecast to lose more than 2,400 jobs (-18.1%), but gradually increasing national and global demand for both metallic and non-metallic mineral ores from rising industrial production is projected to bolster this sector.

Construction jobs are expected to decline more than 61,400 jobs, or -32.7%, by the end of 2010 due to continued weakness in residential and commercial real estate. However, federal government economic stimulus spending in energy and transportation projects is expected to bolster civil engineering and heavy construction. Likewise, Financial Activities is projected to lose more than 9,400 jobs, or -5.3%, because of continued weakness housing and commercial real estate is projected to contribute towards large jobs losses in the real estate, rental and leasing industries.

Employment reductions in Trade, Transportation and Utilities are projected to be greater than 37,700 jobs, or -7.3%. Wholesale trade, and transportation and warehousing are forecast to lose jobs in both 2009 and 2010. However, the growth in the inventory cycle is forecast to propel growth in retail trade as consumers replace worn out and broken goods. In addition, federal government economic stimulus spending in energy projects is forecast to cause expansion in utilities. As a result, retail trade and utilities are projected to lose jobs in 2009 and add jobs in 2010. Professional and Business Services are expected to lose over 42,500, or -11.0%, by the end of 2010.

Educational and Health Services is the only sector in Arizona to have job gains forecast for both 2009 (+600) and 2010 (+5,800). These projected increases are primarily in health care industries as a result of the continued growth and aging of Arizona's population. Despite projected losses in 2009, private educational services and social services are forecast to gain jobs in 2010.

Both Leisure and Hospitality and Other Services are forecast to shed jobs by the end of 2010 of 14,500 (-5.4%) and 6,900 (-6.9%), respectively. In the Government sector, only the federal government is forecast to gain jobs as a result of the decennial census, economic stimulus and ongoing activities in civilian and military spheres. However, state and local governments are expected to slash jobs in both 2009 and 2010 as a result of budget deficits and a more constrained ability to borrow funds. Education at the state and local level is forecast to hold steady due to support from federal government economic stimulus expenditures.

## **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 \$1,205,334.52 as of June 30, 2009.
- **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. At the January 25, 2009 Board meeting, the Board approved eliminating the cost of issuance subsidy for the 2009A Financial Assistance Round and moving \$25,000 to cover potential arbitrage liabilities and \$100,000 to the GADA fund for potential legislative sweeps. The changes occurred in February 2009. At the April 22, 2009 Board meeting, the Board approved eliminating the cost of issuance subsidy and moving the money to the operating account for potential legislative sweeps. Further, there were no technical assistant grants awarded.

- **Minimum required balance** – Based on the requirements of ARS §41-1554.03.B, the GADA Fund maintained a minimum required balance of \$9.86 million in FY09. This balance is the sum of all legislative appropriations made to the Fund, minus certain losses and permitted expenditures (See Figure 2):

**Figure 2**

**GADA Fund**  
Deposits and Withdrawals Since Inception (FY 98) as of June 30, 2009

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>
FY 09 Withdrawal to General Fund	<b>(2,000,000)</b>
FY 09 Withdrawal to General Fund	<b>(2,000)</b>
FY 09 Withdrawal to General Fund	<b>(3,194,100)</b>
<b>Minimum Necessary Balance</b>	<b>\$ 12,720,156*</b>
*Does not reflect any losses associated with the Lehman Brothers Bankruptcy	

- **Long-term investment horizon** – with the exception of the operating and Technical Assistance Loan funds at the end of FY 09, \$9,860,000 of GADA’s cash and cash equivalents of \$14,251,669 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 09:

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. In FY09, there were three additional sweeps to the GADA fund totaling \$5,196,100.
2. Technical assistance grants – during FY09, there were no Technical Assistance Grants awarded. Currently, there is one Grant still open which is expected to fund in November 2009 (FY10). (See Figure 3).

**Figure 3**

<b>FY 08 GADA Technical Assistance Grant Recipients</b>		
<b>Recipient</b>	<b>Award</b>	<b>Project</b>
Navajo Nation Rural Business Development Office	\$70,500	Architectural designs for new office spaces

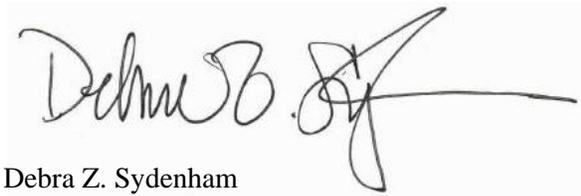
**ACKNOWLEDGMENTS**

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, GADA staff, the Arizona State Treasurer’s Office, Board of Directors and professional consultants for their time and attention to this work.

Sincerely,



Donald E. Cardon  
Chairman of the Board



Debra Z. Sydenham  
Executive Director

# **FINANCIAL SECTION**



CPAs & BUSINESS ADVISORS

## 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, 2009, 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, 2009, 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 September 25, 2009 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.

The Management's Discussion and Analysis and the budgetary comparisons on pages 10 – 17, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GADA's basic financial statements. The introductory section and the statistical tables are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Eide Bailly LLP*

Phoenix, Arizona  
November 23, 2009

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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, 2009. 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 \$14.251 million (reported as *net assets*). Of this amount, \$4.392 million is unrestricted<sup>7</sup> (or not yet pledged) and \$9.86 million is restricted for the purpose of security pledged to bond issuances (*restricted net assets*).
- GADA's total net assets decreased in FY 09 by \$4,922,381. Net assets of governmental activities also decreased by \$1,403,043. 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. In FY09, due to an increase in extreme budgetary controls, there were three additional sweeps to the GADA fund totaling \$5,196,100.

#### Fund Level:

- As of the close of the fiscal year, GADA's governmental funds reported combined ending fund balances of \$14.251 million, a decrease of \$4,922,381 from the beginning of the year. Approximately 69.1% of the combined fund balances, or \$9.86 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 \$9.86 million in the Pledged Collateral Reserve Fund (PCRF).
- The amount of GADA's bonds outstanding increased during the fiscal year to \$368.335 million, an increase of \$16.250 million (4.41%). Of the outstanding bonds, \$13.085 million are due to be paid within a year. Changes during the year included the issuance of \$43.025 million in the 2009A, 2009B (\$26.725 million and \$16.3 million, respectively). In addition, \$10.735 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 18.

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<sup>7</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.*

## 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 18 – 19),
- 2) fund financial statements (pages 20 - 23), and
- 3) notes to the financial statements (24 – 31). Required Supplementary Information and other supplementary information are included in addition to the basic financial statements.

### **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. 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 18) 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 19) 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 FY09, the Board of Directors approved proposed rule changes to recover any costs incurred by GADA on behalf of applicants.

*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 20 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 21 and 23) 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. Proprietary funds utilize accrual accounting; the same method used by private sector businesses.

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 24 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 32 of this report.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS**

The discussion in this section refers to pages 18 – 19 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 \$9.86 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 69.1% of net assets. Any deposits to the PCRF are determined by national ratings agencies on an issue-by-issue basis.

*Unrestricted net assets* – The remaining balance of GADA’s net assets of \$14.251 million represents *unrestricted net assets* of \$4.391 million (30.8%). 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 09, GADA’s *unrestricted net assets* decreased \$5,982,381 as a result of Legislative sweeps. 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, 2009		
	<b>Governmental Activities</b>	
	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Cash and cash equivalents	<b>\$4,391,669</b>	<b>\$10,374,050</b>
Intergovernmental receivables	<b>13,085,000</b>	<b>10,735,000</b>
Cash and cash equivalents - restricted	<b>9,860,000</b>	<b>9,860,000</b>
Intergovernmental receivables, long-term	<b>355,250,000</b>	<b>341,350,000</b>
Total assets	<b>\$382,586,669</b>	<b>\$371,259,050</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Bonds, due in less than one year	<b>\$13,085,000</b>	<b>\$10,735,000</b>
Bonds, due in more than one year	<b>355,250,000</b>	<b>341,350,000</b>
Total liabilities	<b>\$368,335,000</b>	<b>\$352,085,000</b>
<b>NET ASSETS</b>		
Restricted <sup>8</sup>	<b>\$9,860,000</b>	<b>\$8,800,000</b>
Unrestricted <sup>9</sup>	<b>4,391,669</b>	<b>10,374,050</b>
Total net assets	<b>14,251,669</b>	<b>19,174,050</b>
Total liabilities and net assets	<b>\$382,586,669</b>	<b>\$371,259,050</b>

## FUND FINANCIAL STATEMENTS ANALYSIS

The discussion in this section refers to pages 20 through 23 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 four funds: the GADA Fund, the technical assistance loan fund, the operating fund and funds held at US Bank.

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. Seven 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.
- 5) Three more sweeps totaling \$5,196,100 was withdrawn by the Arizona Legislature in FY 09 to help balance the state budget.

<sup>8</sup> Pledged as security on GADA bond issues

<sup>9</sup> Use of these funds is governed by ARS §41-1554.03

The \$5,468,331 difference between GADA's *restricted and unrestricted* net assets of \$14.251 million (from Figure 1) and the total GADA Fund balance of \$12.720 million (from Figure 2) is a function of interest earned on the GADA Fund in FY 09 and previous fiscal years.

**Figure 2**

<b>GADA Fund*</b> Deposits and Withdrawals Since Inception (FY 98) as of June 30, 2009	
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>
FY 09 Withdrawal to General Fund	<b>(2,000,000)</b>
FY 09 Withdrawal to General Fund	<b>(2,000)</b>
FY 09 Withdrawal to General Fund	<b>(3,194,100)</b>
<b>Minimum Necessary Balance</b>	<b>\$ 12,720,156*</b>
*Does not reflect any losses associated with the Lehman Brothers Bankruptcy	

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

1. *Restricted assets*, or the Pledged Collateral Reserve Fund (PCRF) – all \$9.86 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 77.5% of the \$12.72 million GADA Fund.
2. *Unrestricted assets* – The remaining balance of \$4,391,669 million in the GADA Fund, or 22.5%, consists of monies not yet pledged to bonds and the technical assistance loan fund (discussed separately).

**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. No technical assistance loans were funded in FY 09, 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 for the following fiscal year. In FY 09, the total approved budget was \$807,537 and included an additional \$252,000 rolled over from FY 08; however, only \$382,818 of this amount was actually expended by the end of FY 09.

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 funding 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 09, the operating fund benefited from interest revenue, earned on the GADA Fund, in the amount of \$697,981. After the budget expenses of \$424,262 were paid and the Intergovernmental Transfers of \$5,196,100 were subtracted, the operating fund was deficient of revenues over expenditures in the amount of \$4,922,381.

(Page 22 of the financial statements). This amount is reflected as a portion of the net change of governmental activities in the reconciliation statement on page 23.

The Board approved the rollover of \$252,000 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.

## **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 \$9.86 million in the PCRF.

GADA generally conducts at least two bonding rounds per year. In FY 09, the Board authorized up to four rounds, although cost of issuance subsidies were only approved for two of the rounds. Subsequently, those funds were transferred to the operating account to help balance the state budget. At the January 25, 2009 Board meeting, the Board approved eliminating the cost of issuance subsidy for the 2009A Financial Assistance Round and moving \$25,000 to cover potential arbitrage liabilities and \$100,000 to the GADA fund for potential legislative sweeps. The changes occurred in February 2009. At the April 22, 2009 Board Meeting, the Board approved eliminating the cost of issuance subsidy and moving the money to the operating account for potential legislative sweeps. The amount of GADA bonds outstanding increased during the fiscal year to \$368.335 million, an increase of \$16.5 million (4.1%). Changes during the year included the issuance of \$43.025 million in the 2009A and 2009B rounds (\$26.725 million and \$16.550 million, respectively). The borrowers, purpose of the loan, amount and financing structure are shown in Figure 3. In addition to the 2009A and 2009B issuances, \$26.775 million was retired from previous issuances in FY 09.

### **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.

In August 2008, GADA issued \$15,265,000 principal amount of Infrastructure Revenue Bonds (Santa Cruz County Court Facility Project), Series 2008-1 and \$44,590,000 principal amount of Infrastructure Revenue Bonds (Santa Cruz County Jail District Detention Facility Project), Series 2008-2. Such bonds are secured by an indenture separate from the GADA Indenture and are payable from payments made by Santa Cruz 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, these loans are solely the obligation of Santa Cruz County and are 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 FY09, several significant events have occurred that management deemed worthy of mention.

- Legislative withdrawal – As of July 2009, the Arizona Legislature had still not passed the FY10 budget. Budget cuts and sweeps from all Agencies and programs are still under review.
  - As of the end of the first quarter of FY 10, the State’s budget deficit continued to widen, raising the possibility of additional legislative mandated withdrawals of unpledged funds in the future. An initial sweep of \$568,000 occurred on September 3<sup>rd</sup>. These monies were withdrawn from the portion of the fund not pledged to bondholders. The State’s General Accounting Office has since requested another sweep in the amount of \$2 million. Commerce and GADA staff is currently looking at options to satisfy this request.
  - 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 GADA Staff – Effective July 13, 2009, Deb Sydenham replaced Lisa Danka as the Executive Director of GADA and Stephanie Washington replaced Jennifer Pittman-Leeper as the Program Manager of GADA.
- On September 17, 2009, Steven Eric Gundersen was appointed to the Board as The Native American Representative. His term expires January, 17, 2011.
- Lehman Brothers bankruptcy - On September 21, 2009, 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 \$22,409. 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 September 28th, Standard and Poor’s Investors Service downgraded the insurer financial strength of MBIA Insurance Corporation to BB-minus with a developing outlook from BB on review for downgrade.

Figure 3

Greater Arizona Development Authority FY 09 Issuances – 2009A and 2009B					
Round	Borrower	Purpose	Amount	Interest & Cost of Issuance Savings <sup>10</sup>	Security Pledge
<b>2009A</b>					
	Mayer Fire District	Capital Improvements & Equipment	\$180,000	\$142,000	G.O. Bonds
	Pinal County	Miscellaneous Capital Project	\$12,795,000	\$399,000	Revenue Bonds
	City of San Luis	Loan Repayment & Capital Improvements	\$13,750,000	\$4,012,000	Revenue Bonds
		<b>2009A Total</b>	<b>\$26,725,000</b>	<b>\$4,553,000</b>	
<b>2009B</b>					
	El Mirage	Transportation & City Parks Improvements	\$9,600,000	\$741,000	Revenue Bonds
	Sahuarita	Transportation Improvements	\$6,700,000	\$532,000	Revenue Bonds
		<b>2009B Total</b>	<b>\$16,300,000</b>	<b>\$1,273,000</b>	

<sup>10</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) sharing the cost of issuance with other borrowers in the round.

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

<b>ASSETS</b>	<b>Governmental Activities</b>
Cash and investments	\$ 4,391,669
Intergovernmental receivables	13,085,000
Cash and cash equivalents - restricted	9,860,000
Intergovernmental receivables, long-term	<u>355,250,000</u>
Total assets	<u>\$ 382,586,669</u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Bonds, due in less than one year	\$ 13,085,000
Bonds, due in more than one year	<u>355,250,000</u>
Total liabilities	<u>368,335,000</u>
 <b>NET ASSETS</b>	
Restricted	9,860,000
Unrestricted	<u>4,391,669</u>
Total net assets	<u>14,251,669</u>
Total liabilities and net assets	<u>\$ 382,586,669</u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2009**

<b>FUNCTIONS/PROGRAMS</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
					<b>Governmental Activities</b>
Authority					
Personnel	\$ 243,479	\$ -	\$ -	\$ -	\$ (243,479)
Professional services	27,918	-	-	-	(27,918)
Program expenses					
Technical assistance	151,006	-	-	-	(151,006)
Other operating	1,859	-	-	-	(1,859)
Total primary government	<u>\$ 424,262</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (424,262)</u>
General revenues:					
					\$ 697,981
					(5,196,100)
					<u>(4,498,119)</u>
					(4,922,381)
					<u>19,174,050</u>
					<u>\$ 14,251,669</u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**BALANCE SHEET**  
**JUNE 30, 2009**

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ASSETS

Cash and investments	\$ 4,391,669
Cash and cash equivalents - restricted	<u>9,860,000</u>
	<u>\$ 14,251,669</u>

FUND BALANCE

Reserved for pledged collateral reserve fund	\$ 9,860,000
Unreserved	<u>4,391,669</u>
	<u>\$ 14,251,669</u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009**

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Fund balance - governmental fund type	<b>\$ 14,251,669</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>368,335,000</b>
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds	<u><b>(368,335,000)</b></u>
Net assets of governmental activities	<u><u><b>\$ 14,251,669</b></u></u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2009**

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REVENUES	
Investment earnings	\$ 697,981
Intergovernmental transfer	(5,196,100)
	<u>(4,498,119)</u>
EXPENDITURES	
Personnel	243,479
Professional services	27,918
Program expenses	
Technical assistance	151,006
Other operating	1,859
Total expenditures	<u>424,262</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(4,922,381)</u>
OTHER FINANCING SOURCES (USES)	
Bonds issued	43,025,000
Payment to fiscal agent	(43,025,000)
Total other financing sources (uses)	<u>-</u>
FUND BALANCE, beginning of year	<u>19,174,050</u>
FUND BALANCE, end of year	<u>\$ 14,251,669</u>

**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, 2009**

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Net change in fund balance - governmental fund type	\$ (4,922,381)
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><u>\$ (4,922,381)</u></u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

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

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.

*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.

*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 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 Investments*

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.

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 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.

In 2008, the GADA issued \$15,265,000 and \$44,590,000 principal amounts of Infrastructure Revenue Bonds (Santa Cruz County Court Facility Project), Series 2008-1 and 2008-2, respectively. Such bonds are secured by an indenture separate from the Indenture and are payable from payments made by Santa Cruz 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 - DEPOSITS AND INVESTMENTS**

### *Cash and Investments*

Cash and investments, both unrestricted and restricted, are made up of cash on hand and cash invested in the State Treasurer's Office.

## NOTES TO FINANCIAL STATEMENTS

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### *Deposits*

As of June 30, 2009, GADA's investments in the Treasurer's office totaled \$14,106,160. The majority of these investments, \$12,108,411, 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.

In September 2008, the financial industry experienced an unprecedented event when Lehman Brothers Holding Inc., filed for Chapter 11 reorganization. The Lehman bonds represented 1.2554% of the monies in LGIP Pool 5. GADA's share, \$22,409, was transferred to Pool 57 where it will remain illiquid until the court completes the reorganization or a reasonably priced sale of the bonds can be executed. GADA removed their share from the investment balance as a result of the Chapter 11 filing.

### *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a bank failure, GADA's deposits may not be returned to it. GADA does not have a deposit policy for custodial credit risk; however GADA's deposits are managed by the State Treasurer and deposits of State treasury monies with financial institutions are required by State statutes to be entirely covered by the Federal Depository Insurance Corporation (FDIC) or, alternatively, collateralized for amounts in excess of the amount insured. As of June 30, 2009, all of GADA's deposits were FDIC insured or collateralized with securities held by pledging financial institution's trust department or agent.

### *Interest Rate Risk*

As a means of limiting its exposure to fair value losses arising from rising interest rates, GADA follows the investment policy established by the State Treasurer.

### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. All of GADA's investments are held with the State Treasurer and as such follows the State Treasurer investment policy.

## **NOTE 3 - RESTRICTED NET ASSETS**

The restricted net assets amount of \$9,860,000 as of June 30, 2009 represents pledged security funds of \$1,060,000, \$745,000, \$1,695,000, \$3,120,000, \$1,140,000, \$982,000, \$322,356, \$137,500, \$49,144 and \$609,000 for thirteen bonds that were issued by GADA during the fiscal years of 2009, 2007, 2006, 2005, 2004, 2003, 2002, 2001, 2000 and 1998, respectively. The restricted net assets amounts will remain restricted until the bonds are repaid.

## NOTES TO FINANCIAL STATEMENTS

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### 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, 2009.

Balance, June 30, 2008	\$ 352,085,000
Additions	43,025,000
Retirements	<u>(26,775,000)</u>
Balance, June 30, 2009	<u>\$ 368,335,000</u>

#### Maturities of Bonds Payable

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2010	\$ 13,085,000	\$ 17,859,425	\$ 30,944,425
2011	14,570,000	17,294,306	31,864,306
2012	14,610,000	16,677,195	31,287,195
2013	15,205,000	16,010,421	31,215,421
2014	15,505,000	15,293,449	30,798,449
2015-2019	76,135,000	65,598,083	141,733,083
2020-2024	77,260,000	46,210,263	123,470,263
2025-2029	67,185,000	26,186,514	93,371,514
2030-2034	29,665,000	12,521,520	42,186,520
2035-2039	45,115,000	1,805,892	46,920,892
	<u>\$368,335,000</u>	<u>\$ 235,457,070</u>	<u>\$ 603,792,070</u>

## NOTES TO FINANCIAL STATEMENTS

The following summarizes GADA's bonds outstanding at June 30, 2009:

Description and Due Date	Interest Rate	Original Value	2009
Series 1998 Bonds 08/1/98-08/1/18	4.10 - 5.75	\$ 13,270,000	\$ 4,635,000
Series 2000A Bonds 08/1/00-08/1/20	5.00 - 6.00	18,930,000	425,000
Series 2001A Bonds 08/1/01-08/1/13	3.35 - 4.75	2,750,000	1,310,000
Series 2001B Bonds 08/1/01-08/1/14	4.38 - 4.75	3,100,000	2,715,000
Series 2002 Bonds 08/1/02-08/1/22	2.25 - 4.75	7,640,000	6,500,000
Series 2003A Bonds 08/1/03-08/1/20	3.00 - 5.00	11,230,000	10,105,000
Series 2004A Bonds 08/1/04-08/1/25	3.95 - 5.00	12,955,000	7,190,000
Series 2004B Bonds 08/1/04-08/1/29	2.00 - 5.50	10,360,000	8,825,000
Series 2005A Bonds 08/1/05-08/1/24	2.38 - 5.00	47,695,000	44,005,000
Series 2005B Bonds 08/1/05-08/1/35	3.00 - 5.00	64,100,000	63,245,000
Series 2006A Bonds 08/1/06-08/1/36	4.00 - 5.00	52,060,000	49,070,000
Series 2006B Bonds 08/1/07-08/1/24	4.00 - 5.00	36,520,000	34,400,000
Series 2007A Bonds 08/1/08-08/1/33	4.00 - 5.00	40,145,000	39,190,000
Series 2007B Bonds 08/1/08-08/1/27	4.00 - 5.00	26,505,000	25,935,000
Series 2008A Bonds 08/1/09-08/1/27	3.00 - 5.00	27,760,000	27,760,000
Series 2009A Bonds 08/1/09-08/1/38	5.00 - 5.50	26,725,000	26,725,000
Series 2009B Bonds 08/1/09 - 08/1/29	4.50 - 5.00	16,300,000	16,300,000
Total bonds payable			368,335,000
Less: current portion			(13,085,000)
Long-term portion			<u>\$ 355,250,000</u>

(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, 2009:

	1998 Bonds	2000A Bonds	2001A Bonds	2001B Bonds	2002 Bonds	2003A Bonds	2004A Bonds	2004B Bonds	2005A Bonds	2005B Bonds	2006A Bonds	2006B Bonds	2007A Bonds	2007B Bonds	2008A Bonds	2009A Bonds	2009B Bonds	Total
City of Avondale	\$ 4,390,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,390,000
City of Winslow	245,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	245,000
City of Cottonwood	-	425,000	1,190,000	-	-	-	-	-	-	-	-	-	-	19,445,000	-	-	-	21,060,000
City of Holbrook	-	-	120,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	120,000
City of Flagstaff	-	-	-	2,715,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2,715,000
Town of Clarkdale	-	-	-	-	275,000	-	-	-	-	-	-	-	-	-	-	-	-	275,000
City of Coolidge	-	-	-	-	2,950,000	-	-	-	-	-	-	-	-	-	-	-	-	2,950,000
Town of Guadalupe	-	-	-	-	3,275,000	-	-	-	-	-	-	-	-	-	-	-	-	3,275,000
Town of Queen Creek	-	-	-	-	-	5,080,000	6,925,000	-	2,340,000	11,170,000	-	-	-	-	2,045,000	-	-	27,560,000
City of Williams	-	-	-	-	-	3,295,000	-	-	-	1,340,000	-	-	-	-	2,995,000	-	-	7,630,000
Drexel Heights Fire District	-	-	-	-	-	1,730,000	935,000	-	-	1,125,000	-	1,125,000	-	-	-	-	-	4,915,000
City of Apache Junction	-	-	-	-	-	-	2,135,000	-	-	-	-	-	3,640,000	-	-	-	-	5,775,000
Town of Pinetop-Lakeside	-	-	-	-	-	-	800,000	-	-	-	-	-	-	-	-	-	-	800,000
City of El Mirage	-	-	-	-	-	-	4,255,000	-	-	-	-	-	-	1,115,000	-	-	9,600,000	14,970,000
City of Willcox	-	-	-	-	-	-	-	965,000	-	-	-	-	-	305,000	-	-	-	1,270,000
Town of Taylor	-	-	-	-	-	-	-	-	450,000	-	-	-	-	-	-	-	-	450,000
Town of Camp Verde	-	-	-	-	-	-	-	-	1,845,000	-	-	-	-	-	-	-	-	1,845,000
Town of Buckeye	-	-	-	-	-	-	-	-	9,400,000	-	14,730,000	-	2,200,000	-	-	-	-	26,330,000
Central Yavapai Fire District	-	-	-	-	-	-	-	-	10,165,000	-	-	-	-	-	-	-	-	10,165,000
Golden Ranch Fire District	-	-	-	-	-	-	-	-	8,080,000	-	-	-	-	-	-	-	-	8,080,000
Maricopa Fire District	-	-	-	-	-	-	-	-	1,205,000	-	-	2,880,000	-	-	-	-	-	4,085,000
Northwest Fire District	-	-	-	-	-	-	-	-	12,570,000	-	-	-	13,040,000	-	-	-	-	25,610,000
Three Points Fire District	-	-	-	-	-	-	-	-	290,000	-	-	-	-	1,090,000	-	-	-	1,380,000
Lake Havasu City	-	-	-	-	-	-	-	-	-	58,070,000	-	-	-	-	2,615,000	-	-	60,685,000
Town of Superior	-	-	-	-	-	-	-	-	-	370,000	-	-	-	-	-	-	-	370,000
City of Safford	-	-	-	-	-	-	-	-	-	-	8,860,000	-	-	-	3,095,000	-	-	11,955,000
Town of Sahuarita	-	-	-	-	-	-	-	-	-	-	14,310,000	-	-	-	-	-	6,700,000	21,010,000
City of Show Low	-	-	-	-	-	-	-	-	-	-	-	7,795,000	-	-	3,185,000	-	-	10,980,000
City of Somerton	-	-	-	-	-	-	-	-	-	-	-	6,435,000	-	-	-	-	-	6,435,000
Town of Quartzite	-	-	-	-	-	-	-	-	-	-	-	6,970,000	-	-	-	-	-	6,970,000
Apache Junction Fire District	-	-	-	-	-	-	-	-	-	-	-	9,195,000	-	-	-	-	-	9,195,000
Town of Chino Valley	-	-	-	-	-	-	-	-	-	-	-	-	4,840,000	-	-	-	-	4,840,000
Town of Eagar	-	-	-	-	-	-	-	-	-	-	-	-	3,200,000	-	-	-	-	3,200,000
Town of Parker	-	-	-	-	-	-	-	-	-	-	-	-	640,000	-	-	-	-	640,000
Town of Snowflake	-	-	-	-	-	-	-	-	-	-	-	-	1,025,000	-	-	-	-	1,025,000
Chino Valley Fire District	-	-	-	-	-	-	-	-	-	-	-	-	5,325,000	-	-	-	-	5,325,000
Golden Ranch Fire District	-	-	-	-	-	-	-	-	-	-	-	-	4,550,000	-	-	-	-	4,550,000
Mayer Fire District	-	-	-	-	-	-	-	-	-	-	-	-	730,000	-	-	180,000	-	910,000
Apache County	-	-	-	-	-	-	-	-	-	-	-	-	-	3,980,000	-	-	-	3,980,000
Douglas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,000,000	-	-	3,000,000
Pinal County	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,495,000	12,795,000	-	17,290,000
Rio Rico Fire District	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,835,000	-	-	3,835,000
City of San Luis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,750,000	-	13,750,000
Town of Thatcher	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,495,000	-	-	2,495,000
<b>Total</b>	<b>\$ 4,635,000</b>	<b>\$ 425,000</b>	<b>\$ 1,310,000</b>	<b>\$ 2,715,000</b>	<b>\$ 6,500,000</b>	<b>\$ 10,105,000</b>	<b>\$ 7,190,000</b>	<b>\$ 8,825,000</b>	<b>\$ 44,005,000</b>	<b>\$ 63,245,000</b>	<b>\$ 49,070,000</b>	<b>\$ 34,400,000</b>	<b>\$ 39,190,000</b>	<b>\$ 25,935,000</b>	<b>\$ 27,760,000</b>	<b>\$ 26,725,000</b>	<b>\$ 16,300,000</b>	<b>\$ 368,335,000</b>

(continued on next page)

## 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 9.45 percent of their compensation for the year ended June 30, 2009, 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, 2009, 2008 and 2007 were \$14,472, \$9,950 and \$4,694, respectively, 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. The class action lawsuit was still in progress as of June 30, 2009. GADA's unrecovered remaining loss was \$312,744 as of June 30, 2009.

### NOTE 7 - SUBSEQUENT EVENT

During fiscal year 2009, GADA approved the distribution of approximately \$200,000 in Technical Assistance Grant funds. As of September 2009, the following participant in this grant issue had not yet been distributed their funds:

<u>Name of Project/City</u>	<u>Amount</u>
Navajo Nation	\$ 70,500

**GREATER ARIZONA  
DEVELOPMENT AUTHORITY**

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –**  
**BUDGET AND ACTUAL**  
**YEAR ENDED JUNE 30, 2009**

	<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	\$ 700,022	\$ 700,022	\$ <b>697,981</b>	\$ (2,041)
Intergovernmental transfer	-	-	<b>(5,196,100)</b>	(5,196,100)
	<u>700,022</u>	<u>700,022</u>	<u><b>(4,498,119)</b></u>	<u>(5,198,141)</u>
<b>EXPENDITURES</b>				
Personnel	259,537	259,537	<b>243,479</b>	16,058
Professional services	30,000	30,000	<b>27,918</b>	2,082
Program expenses				
Financial assistance	250,000	250,000	-	250,000
Technical assistance	252,000	252,000	<b>151,006</b>	100,994
Travel	5,000	5,000	-	5,000
Other operating	11,000	11,000	<b>1,859</b>	9,141
	<u>807,537</u>	<u>807,537</u>	<u><b>424,262</b></u>	<u>383,275</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>				
	(107,515)	(107,515)	<b>(4,922,381)</b>	(4,814,866)
<b>FUND BALANCE, beginning of year, as reported</b>				
	<u>19,174,050</u>	<u>19,174,050</u>	<u><b>19,174,050</b></u>	<u>-</u>
<b>FUND BALANCE, end of year</b>				
	<u>\$ 19,066,535</u>	<u>\$ 19,066,535</u>	<u><b>\$ 14,251,669</b></u>	<u>\$ (4,814,866)</u>



**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***

---

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, 2009, which comprise GADA's basic financial statements and have issued our report thereon dated November 23, 2009. 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 deficiency described in the accompanying schedule of audit findings to be a significant deficiency 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 the significant deficiency described above is not 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.

*Eide Bailly LLP*

Phoenix, Arizona  
November 23, 2009

**GREATER ARIZONA DEVELOPMENT AUTHORITY**  
**SCHEDULE OF AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2009**

---

**Significant Deficiency**

09-1 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**

As of late 2007, the percentage of municipal bonds issued with bond insurance exceeded 50% and had been at that level for a decade. Because of the large number of insurers, pricing of premiums was very competitive. Low and medium investment grade credits (Baa/BBB to A/A) could obtain insurance for very low prices, usually .20% to .40% of total debt service. This made insured Aaa/AAA ratings easily accessible and allowed most communities to issue debt at rates within 5 to 15 basis points of natural Aaa/AAA credits.

At present there are no remaining bond insurers with Aaa/AAA/AAA ratings. Bonds insured by the highest rated remaining insurer's trade at levels closer to low Aa/AA rated credits. And, because competition has been so dramatically reduced, the remaining insurers are very selective about the types of credits and size of the issues that they insure. Consequently, bond insurance is no longer an option for most, if not all, of the communities that come to the GADA.

At the same time that the bond insurance landscape has been completely transformed, credit spreads in the municipal market have widened dramatically. Two years ago a community with Baa/BBB ratings could issue bonds at rates within 50 basis points of Aaa/AAA rated credits. This meant that communities that chose not to obtain bond insurance could still access capital at relatively affordable rates. With the profound disruption of the capital markets and increased scrutiny on underlying credits, credit spreads have widened dramatically. Low investment grade credits now face interest rates 150 to 350 basis points higher than investment grade credits. Non-investment grade credits face a very challenging market environment.

The dramatic events since the fall of 2007, beginning with the start of the downgrades of the bond insurers and followed by the collapse of Bear Stearns, AIG and Lehman, have so profoundly altered the public finance landscape that the role that GADA plays for Arizona communities has never been more important.

### **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. Additionally, three more transfers from the GADA fund totaling \$5,196,100 were made to help balance the State budget.
2. Interest income – GADA benefited from interest earnings over the course of FY 09. At the beginning of the fiscal year, interest earnings were projected to be \$700,022. The actual earnings were \$672,231, a negative variance of \$27,791.

However, most of GADA cash and cash equivalents or \$14,251,669 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 \$4,391,669 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 09, 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. GADA determines additional deposits to the PCRF with each issuance of bonds. An additional deposit of \$1,060,000 was made to the PCRF to secure the bonds issued in the 2009A and 2009B rounds.

### **Demographic and Economic Information**

In the current economic downturn, Arizona's growth has slowed considerably. However, the State 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, and is estimated to be growing at 1.8%, even in the current climate.

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.

Projections from the U.S. Census Bureau and the Arizona Department of Commerce indicate that people will continue to move to Arizona as the economy recovers. 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:

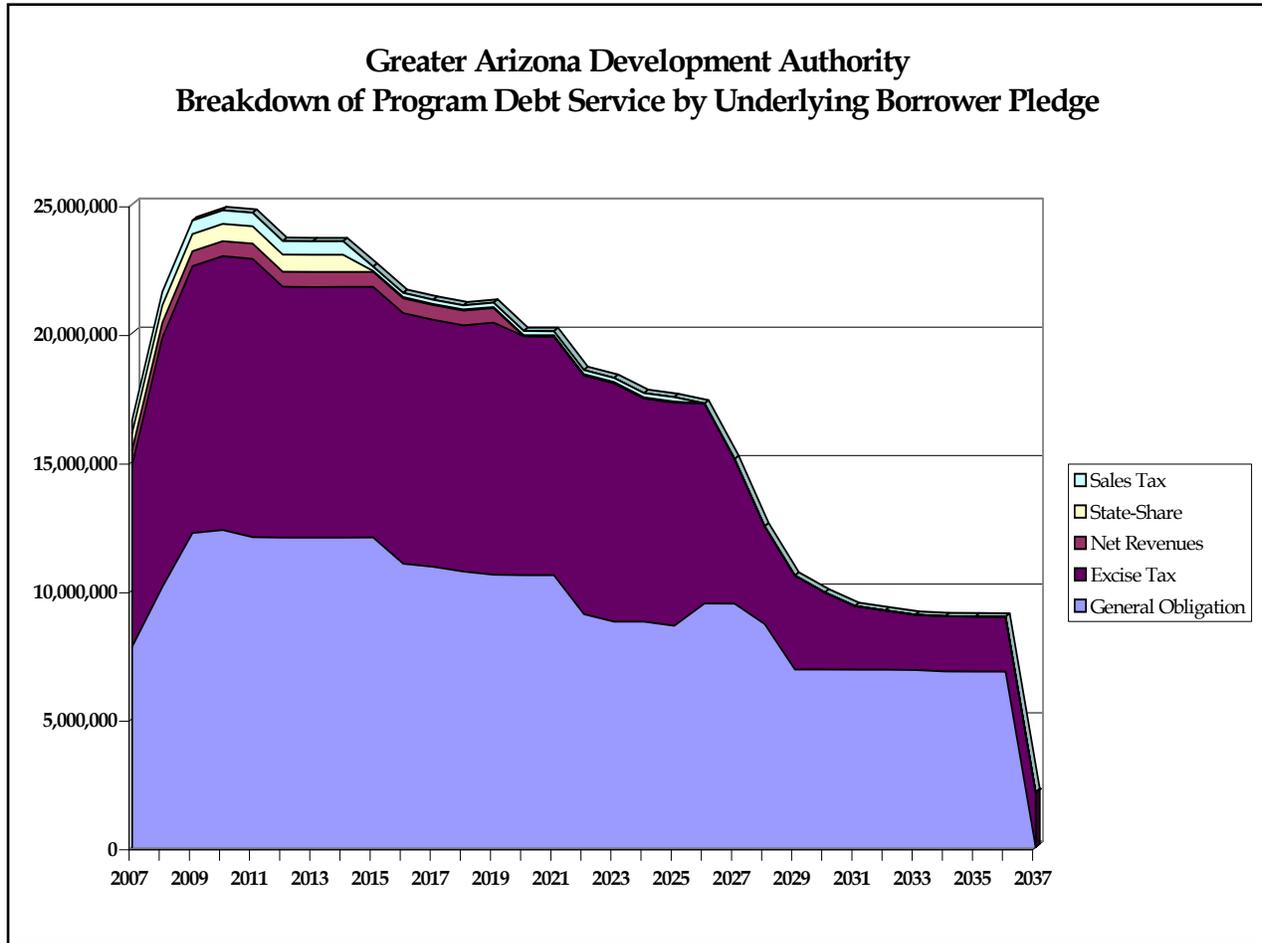
- Small but growing populations – Based on the 2000 U.S. Census numbers, at least 29 of GADA's borrowers, or 65.9%, have populations of 40,000 or under.<sup>11</sup> Two borrowers exceed 50,000, and two exceed 100,000. Population projections indicate Arizona's small communities and special districts will continue to grow rapidly.
- 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 spillover 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)

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<sup>11</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.

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.

**Figure 6**



**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 \$368.335 million in long-term debt outstanding at the end of FY 09. The largest percentage of GADA's pledges, \$167.86 million (45.57%) of excise tax pledges, followed by \$155.075 million or 42.10% of general obligation pledges, sales tax pledges at \$45.7 million (9.69%), state-shared revenues at \$5.065 million (1.38%) and net system revenues at \$4.635 million (1.26%).

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 an economic downturn). Figure 7 recaps the activity by calendar since GADA's inception through the end of FY 09.

The debt service summary of GADA's 17 bond issues (as of the end of FY 09) 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 20-22 of the financial statements.

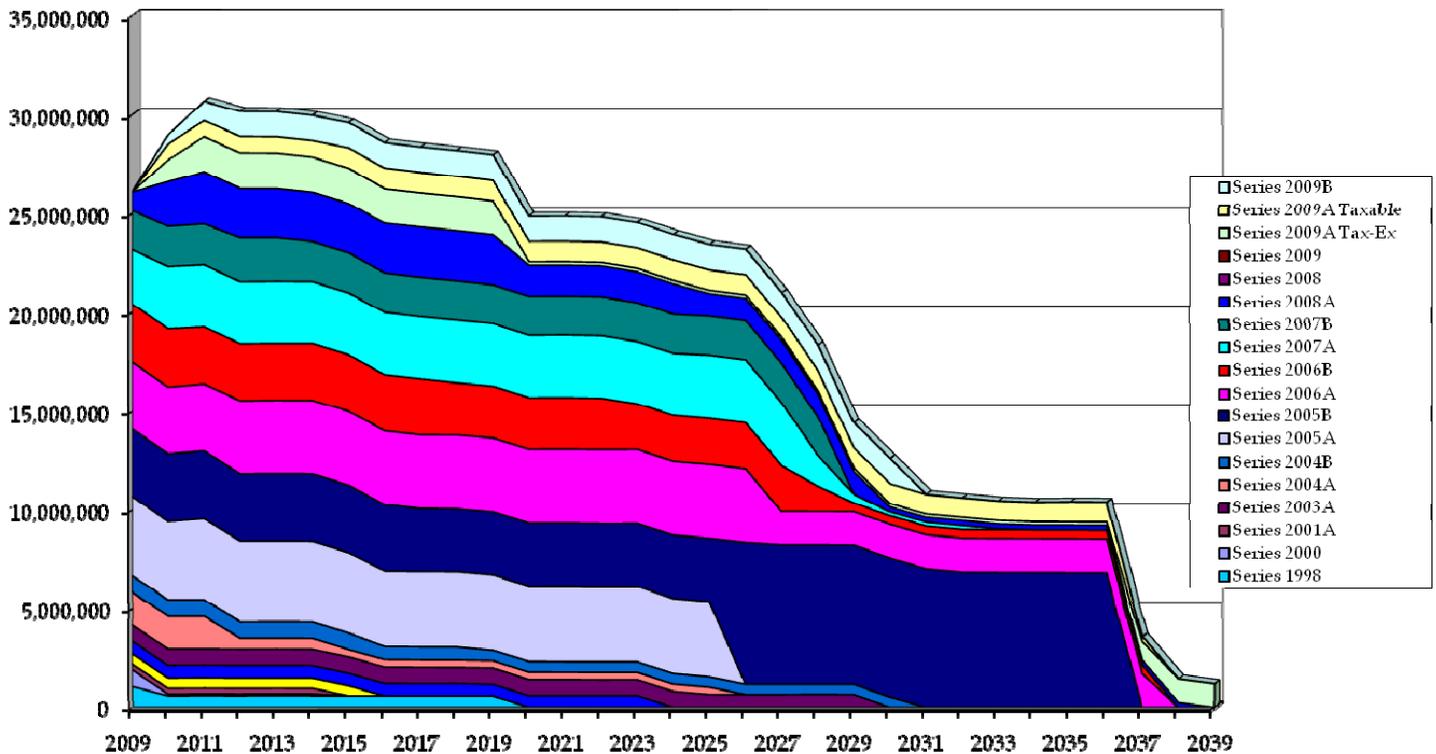
**Figure 7**

**Greater Arizona Development Authority**  
Number of Borrowers and Amount Issued by  
Calendar Year ( 98-09)

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
2009	5	\$16.3M	\$391.571M*

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

**Figure 8** **Greater Arizona Development Authority**  
**Summary of Debt Service**



## ECONOMIC CONDITION AND OUTLOOK

The Arizona Department of Commerce (Commerce) projects nonfarm job losses for both 2009 (-178,500) and 2010 (-17,300). A total of more than 195,800 (7.5%) nonfarm jobs are expected to be lost over the two year period. The projected rate of loss for Arizona in 2009 is 6.8% and 0.7% for 2010. The nation, however, is forecast to have a slower rate of job loss of 3.7% in 2009 and 0.5% in 2010.

The bursting of the housing bubble and ensuing financial crisis caused substantial damage to Arizona's economy. Construction was a significant economic driver of Arizona employment during the housing boom in 2001-06. In June 2006, Arizona construction employment reached its historical peak of 247,500 jobs, and the share of total nonfarm employment held by construction was noticeably higher in Arizona (9.5%) in comparison to the nation (5.6%).

As the housing bubble burst in 2006, the share of construction employment in Arizona began to fall, reaching 5.8% in August 2009 compared to the nation at 4.7%. Along with Nevada, California and Florida, Arizona has experienced significant economic decline including job losses, home price devaluation and rising home mortgage foreclosures.

Compounding the effects of the housing collapse and the resulting downturn in Arizona's economy is the use of income by businesses and consumers to reduce debt, instead of purchasing goods and services. A large fraction of the consumer debt was created through home equity loans as people borrowed against the rising value of their homes. Businesses increased borrowing to expand operations to take advantage of opportunities in a growing economy.

As Arizona's economy starts to recover, Commerce projects nonfarm job growth will begin by the end of 2010 based on the following factors:

- Federal government economic stimulus spending is projected to boost the state's economy in the areas of infrastructure for energy, transportation, health care and education.
- Federal government expenditures are expected to be maintained for border security, rural area firefighting, military bases, and private sector contracting for civilian and military purposes.
- Federal monetary policy is encouraging lending through low interest rates and the injection of liquidity into financial institutions.
- A buildup in the inventory cycle is anticipated as businesses and consumers increase spending to replenish depleted inventories and buy essential and other goods such as cars, clothing and household appliances.
- Stable prices for many goods are expected to motivate some increased level of purchasing.

Recent trends have shown increasing stabilization in the U.S. and global economies. These include increased orders for manufactured goods; a rise in the overall capacity utilization rate; an uptick of national housing starts and sales; a greater willingness to lend in financial institutions; and a leveling of world trade. Recently, the economies of major U.S. trading partners, including China, France and Germany, have shown economic growth. As a result, U.S. export figures have increased.

All these trends will have a positive impact on Arizona's economy, but the growth rates are forecast to be slow for several reasons:

- In an effort to reduce high debt levels, businesses and consumers will continue to moderate spending for goods and services. Stagnant wages and the fear of unemployment will result in constrained spending and increased savings by consumers. As of August 2009, Arizona's unemployment rate had reached 9.1%. Rates above 9% have not been seen since 1983.

- Risk of further credit losses exists due to deteriorating performance of commercial real estate loans. Financing for commercial properties and projects has been extremely difficult with the worsening fundamentals in this sector.
- The national demographic shift of population from northern and eastern states to those in the south and west has long fueled Arizona's economy. Until the national housing market recovers and people can sell their homes in order to move to Arizona, population growth will slow.
- Tourism, a primary driver of Arizona's economy, is not expected to recover quickly because of the weaknesses in the U.S. and global economies

## **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.