



Financial Statements
June 30, 2010

**Greater Arizona Development
Authority**
A Component Unit of the State of
Arizona

GREATER ARIZONA DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

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), a component unit of the State of Arizona, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of GADA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2010, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GADA's basic financial statements. The Management's Discussion and Analysis and the budgetary comparisons on pages 2 – 8 and 24, 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.

Eide Bailly LLP

Phoenix, Arizona
November 22, 2010

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, 2010. Please read 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 \$12.483 million (reported as *net assets*). Of this amount, \$2.018 million is unrestricted¹ (or not yet pledged) and \$10.465 million is restricted for the purpose of security pledged to bond issuances (*restricted net assets*).
- GADA's total net assets decreased in FY 10 by \$1,768,350. Net assets of governmental activities also decreased by \$1,768,350. In FY10, there were fund sweeps per House Bills 2643 and 2001 to the general fund totaling \$1,969,000.

Fund Level:

- As of the close of the fiscal year, GADA's governmental funds reported combined ending fund balances of \$12.483 million, a decrease of \$1.768 million from the beginning of the year. Approximately 16.2% of the combined fund balances, or \$2.018 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 \$10.465 million in the Pledged Collateral Reserve Fund (PCRF).
- The amount of GADA's bonds outstanding increased during the fiscal year to \$379.465 million, a net increase of \$11.13 million (3%). Of the outstanding bonds, \$15.005 million are due to be paid within a year. Changes during the year included the issuance of \$23.370 million in the 2010 round. In addition, \$12.240 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 9.

¹ 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 9-10),
- 2) fund financial statements (pages 11-14), and
- 3) notes to the financial statements (15-24). 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 9) 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 10) 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 rules 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 11 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 12 and 14) 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 16 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 24 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

The discussion in this section refers to pages 9 and 10 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 \$10.465 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 83.8% 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 \$12.483 million represents *unrestricted net assets* of \$2.018 million (16.2%). 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 10, GADA's *unrestricted net assets* decreased a total of \$2.373 million, \$1.969 million of which was a result of Legislative sweeps. Also included are funds in the amount of \$97,429 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.

See Figure 2 for the Statement of Activities.

Figure 1

Greater Arizona Development Authority
Net Assets as of June 30, 2010 and 2009

	Governmental Activities	
	2010	2009
ASSETS		
Cash and cash equivalents	\$2,018,319	\$4,391,669
Intergovernmental receivables	15,005,000	13,085,000
Cash and cash equivalents - restricted	10,465,000	9,860,000
Intergovernmental receivables, long-term	364,460,000	355,250,000
Total assets	<u>\$391,948,319</u>	<u>\$382,586,669</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Bonds, due in less than one year	\$15,005,000	\$13,085,000
Bonds, due in more than one year	364,460,000	355,250,000
Total liabilities	<u>\$379,465,000</u>	<u>\$368,335,000</u>
NET ASSETS		
Restricted ^[2]	\$10,465,000	\$9,860,000
Unrestricted ^[3]	2,018,319	4,391,669
Total net assets	<u>12,483,319</u>	<u>14,251,669</u>
Total liabilities and net assets	<u>\$391,948,319</u>	<u>\$382,586,669</u>

Figure 2

Greater Arizona Development Authority
Statement of Activities for the Years Ended June 30, 2010 and 2009

	Governmental Activities	
	2010	2009
REVENUES		
Investment earnings	\$ 458,761	\$ 697,981
Intergovernmental transfer	(1,968,800)	(5,196,100)
	<u>(1,510,039)</u>	<u>(4,498,119)</u>
EXPENDITURES		
Personnel	165,241	243,479
Professional services	22,326	27,918
Program expenses - Technical Assistance	70,500	151,006
Travel	244	-
Other operating	-	1,859
Total expenditures	<u>258,311</u>	<u>424,262</u>
Change in net assets	<u>(1,768,350)</u>	<u>(4,922,381)</u>
Net assets - beginning of year	<u>14,251,669</u>	<u>19,174,050</u>
Net assets - end of year	<u>\$ 12,483,319</u>	<u>\$ 14,251,669</u>

² Pledged as security on GADA bond issues

³ Use of these funds is governed by ARS §41-1554.03

FUND FINANCIAL STATEMENTS ANALYSIS

The discussion in this section refers to pages 11 through 14 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 3.

- 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 which was written off during the year ended June 30, 2010 due to the high level of uncertainty as to collectability; and
- 4) \$1.071 million in FY 08 and a total of \$5.196 million in FY09 of the GADA Fund was withdrawn by the Arizona Legislature to help balance the State budget.
- 5) Additional sweeps totaling \$1,969,000 was withdrawn by the Arizona Legislature in FY 10 to help balance the state budget.

The \$8,446,681 difference between GADA's *restricted and unrestricted* net assets of \$12,483,319 (from Figure 1) and the total GADA Fund balance of \$10,728,947 (from Figure 3) is a function of interest earned on the GADA Fund in FY 10 and previous fiscal years.

Figure 3

GADA Fund* Deposits and Withdrawals Since Inception (FY 98) as of June 30, 2010	
FY 98 General Fund Appropriation	\$ 3,000,000
FY 98 Start Up Funding	(200,000)
FY 99 General Fund Appropriation	8,000,000
FY 00 General Fund Appropriation	9,000,000
FY 03 Withdrawal to General Fund	(2,500,000)
FY 03 LGIP Investment Loss (net of recoveries through the end of FY 10)	(312,744)
FY 08 General Fund Appropriation	2,000,000
FY 08 Withdrawal to General Fund	(1,071,000)
FY 09 Withdrawal to General Fund	(2,000,000)
FY 09 Withdrawal to General Fund	(2,000)
FY 09 Withdrawal to General Fund	(3,194,100)
FY 09 LGIP Investment Loss Lehman Brothers	(22,409)
FY 10 Withdrawal to General Fund	(1,968,800)
Minimum Necessary Balance	\$ 10,728,947

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

1. *Restricted assets*, or the Pledged Collateral Reserve Fund (PCRF) – all \$10.465 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 97.5% of the \$10.729 million GADA Fund.
2. *Unrestricted assets* – The remaining balance of \$263,947 in the GADA Fund, or 2.5%, 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 10, and there are currently no outstanding loans.

Operating Fund – ARS §41-1554.03 *et seq.* requires that all operating expenses of the program, including staffing, professional services, technical assistance grants and any cost of issuance subsidies for bond issuances and all other expenses must be paid from interest earnings or funds received *other than the GADA Fund*. The GADA Board must approve an operating budget each year by for the following fiscal year. In FY 10, the total approved budget was \$403,655 and included an additional \$95,880 rolled over from the FY08 Technical Assistance grants to FY10; however, only \$258,111 of this amount was actually expended by the end of FY 10.

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 10, the operating fund benefited from interest revenue, earned on the GADA Fund, in the amount of \$458,761. After the budget expenses of \$258,111 were paid and the Intergovernmental Transfers of \$1,969,100 were subtracted, the operating fund was deficient of revenues over expenditures in the amount of \$1,768,350. (Page 10 of the financial statements). This amount is reflected as a portion of the net change of governmental activities in the reconciliation statement on page 14.

The Board approved the roll forward of an amount not to exceed \$95,880 from the FY08 technical assistance grant funds to the FY 10 budget

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 \$10.465 million in the PCRF.

GADA generally conducts at least two bonding rounds per year. In FY 10, the Board approved two rounds with approximately six-month application periods and six financial assistance rounds. Subsequently, those funds were transferred to the operating account to help balance the state budget. The amount of GADA bonds outstanding changes during the year included the issuance of \$23.37 million in the 2010A round. The borrowers, purpose of the loan, amount and financing structure are shown in Figure 4.

Figure 4

Greater Arizona Development Authority FY 10 Issuances – 2010A					
Round	Borrower	Purpose	Amount	Interest & Cost of Issuance Savings ⁴	Security Pledge
2010A					
	Maricopa	Miscellaneous Capital Project	\$20,000,000	\$1,443,000	G.O. Bonds
	Flagstaff	Reimbursement for Economic Development	\$3,370,000	\$85,000	Revenue Bonds
		2010A Total	\$23,370,000	\$1,528,000	

Additional long-term debt information can be found in Footnote 4.

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.

ECONOMIC FACTORS

The economy is still heavily affecting the operations of the State. Any future withdraws done by the State Legislature cannot be determined as budget cuts and sweeps from all Agencies and programs are still under review.

⁴GADA 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, 2010

ASSETS	<u>Governmental Activities</u>
Cash and investments	\$ 2,018,319
Intergovernmental receivables	15,005,000
Cash and cash equivalents - restricted	10,465,000
Intergovernmental receivables, long-term	<u>364,460,000</u>
Total assets	<u>\$ 391,948,319</u>
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Bonds, due in less than one year	\$ 15,005,000
Bonds, due in more than one year	<u>364,460,000</u>
Total liabilities	<u>379,465,000</u>
 NET ASSETS	
Restricted	10,465,000
Unrestricted	<u>2,018,319</u>
Total net assets	<u>12,483,319</u>
Total liabilities and net assets	<u>\$ 391,948,319</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
					<u>Governmental</u>
					<u>Activities</u>
Authority					
Personnel	\$ 165,241	\$ -	\$ -	\$ -	\$ (165,241)
Professional services	22,326	-	-	-	(22,326)
Program expenses					
Technical assistance	70,500	-	-	-	(70,500)
Travel	244	-	-	-	(244)
Total primary government	<u>\$ 258,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (258,311)</u>
General revenues:					
Investment earnings					
					\$ 458,761
General expenditures:					
Intergovernmental transfer to general fund					
					<u>(1,968,800)</u>
Total general revenues					
					<u>(1,510,039)</u>
Change in net assets					
					<u>(1,768,350)</u>
Net assets - beginning of year					
					<u>14,251,669</u>
Net assets - end of year					
					<u>\$ 12,483,319</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY

BALANCE SHEET

JUNE 30, 2010

ASSETS

Cash and investments	\$ 2,018,319
Cash and cash equivalents - restricted	<u>10,465,000</u>
	<u>\$ 12,483,319</u>

FUND BALANCE

Reserved for pledged collateral reserve fund	\$ 10,465,000
Unreserved	<u>2,018,319</u>
	<u>\$ 12,483,319</u>

**GREATER ARIZONA DEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Fund balance - governmental fund type	\$ 12,483,319
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	379,465,000
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds	<u>(379,465,000)</u>
Net assets of governmental activities	<u>\$ 12,483,319</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2010

REVENUES	
Investment earnings	<u>\$ 458,761</u>
EXPENDITURES	
Personnel	165,241
Professional services	22,326
Program expenses	
Technical assistance	70,500
Travel	244
Total expenditures	<u>258,311</u>
REVENUES OVER EXPENDITURES	<u>200,450</u>
OTHER FINANCING SOURCES (USES)	
Intergovernmental transfer to general fund	(1,968,800)
Bonds issued	23,370,000
Payment to fiscal agent	(23,370,000)
Total other financing sources (uses)	<u>(1,968,800)</u>
NET CHANGE IN FUND BALANCES	(1,768,350)
FUND BALANCE, beginning of year	<u>14,251,669</u>
FUND BALANCE, end of year	<u>\$ 12,483,319</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, 2010**

Net change in fund balance - governmental fund type	\$ (1,768,350)
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>\$ (1,768,350)</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Greater Arizona Development Authority (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 components 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

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

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.

Conduit Debt

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 GADA 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. At June 30, 2010, the balance of this bond was \$56,480,000.

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 GADA 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. At June 30, 2010, the balance of this bond was \$58,285,000.

GADA has no liability for these Infrastructure Revenue Bonds in the event of default by the borrowers. Accordingly, the bonds are not reported as liabilities on GADA's financial statements.

Loan Obligations

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 \$10.465 million in the PCRFB.

Intergovernmental Transfers to General Fund

Intergovernmental transfers to the general fund represent fund sweeps per House Bills 2643 and 2001 for \$568,800 and \$1,400,000, respectively. These are required fund transfers to the general fund for purposes of providing adequate support and maintenance for agencies of the State.

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.

NOTES TO FINANCIAL STATEMENTS

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. The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of the participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk.

Deposits

As of June 30, 2010, GADA's investments in the Treasurer's office totaled \$12,382,965. The majority of these investments, \$12,133,515, were in Pool 5, a separate pool of investments owned by GADA and managed by the Treasurer's office on GADA's behalf. The investments in GADA Pool 5 are longer term investments, invested to recognize a stable income return to GADA for its operations. Interest earned from investment in Pool 5 is allocated to GADA monthly. The market fluctuations of individual securities held within the pool are recognized by GADA. Pool 5 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.

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, 2010, 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. The LGIP pooled funds are not rated.

NOTE 3 - RESTRICTED NET ASSETS

The restricted net assets amount of \$10,465,000 as of June 30, 2010 represents pledged security funds of \$605,000, 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 fourteen bonds that were issued by GADA during the fiscal years of 2010, 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

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, 2010.

Balance, June 30, 2009	\$ 368,335,000
Additions	23,370,000
Retirements	<u>(12,240,000)</u>
Balance, June 30, 2010	<u>\$ 379,465,000</u>

Maturities of Bonds Payable

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011	\$ 15,005,000	\$ 18,400,948	\$ 33,405,948
2012	15,505,000	17,887,723	33,392,723
2013	16,115,000	17,206,274	33,321,274
2014	16,770,000	16,476,208	33,246,208
2015	15,890,000	15,723,895	31,613,895
2016-2020	80,455,000	67,163,938	147,618,938
2021-2025	82,940,000	46,096,811	129,036,811
2026-2030	64,320,000	24,648,820	88,968,820
2031-2035	28,850,000	10,622,004	39,472,004
2036-2039	43,615,000	979,592	44,594,592
	<u>\$379,465,000</u>	<u>\$ 235,206,212</u>	<u>\$ 614,671,212</u>

NOTES TO FINANCIAL STATEMENTS

The following summarizes GADA's bonds outstanding at June 30, 2010:

Description and Due Date	Interest Rate	Original Value	2010
Series 1998 Bonds 08/1/98-08/1/18	4.10 - 5.75	\$ 13,270,000	\$ 4,260,000
Series 2000A Bonds 08/1/00-08/1/20	5.00 - 6.00	18,930,000	350,000
Series 2001A Bonds 08/1/01-08/1/13	3.35 - 4.75	2,750,000	1,070,000
Series 2001B Bonds 08/1/01-08/1/14	4.38 - 4.75	3,100,000	2,310,000
Series 2002 Bonds 08/1/02-08/1/22	2.25 - 4.75	7,640,000	6,135,000
Series 2003A Bonds 08/1/03-08/1/20	3.00 - 5.00	11,230,000	9,755,000
Series 2004A Bonds 08/1/04-08/1/25	3.95 - 5.00	12,955,000	5,810,000
Series 2004B Bonds 08/1/04-08/1/29	2.00 - 5.50	10,360,000	8,385,000
Series 2005A Bonds 08/1/05-08/1/24	2.38 - 5.00	47,695,000	42,085,000
Series 2005B Bonds 08/1/05-08/1/35	3.00 - 5.00	64,100,000	62,925,000
Series 2006A Bonds 08/1/06-08/1/36	4.00 - 5.00	52,060,000	47,975,000
Series 2006B Bonds 08/1/07-08/1/24	4.00 - 5.00	36,520,000	33,055,000
Series 2007A Bonds 08/1/08-08/1/33	4.00 - 5.00	40,145,000	37,810,000
Series 2007B Bonds 08/1/08-08/1/27	4.00 - 5.00	26,505,000	25,035,000
Series 2008A Bonds 08/1/09-08/1/27	3.00 - 5.00	27,760,000	26,660,000
Series 2009A Bonds 08/1/09-08/1/38	5.00 - 5.50	26,725,000	26,175,000
Series 2009B Bonds 08/1/09 - 08/1/29	4.50 - 5.00	16,300,000	16,300,000
Series 2010A Bonds 08/1/10 - 08/1/30	2.00 - 5.20	23,370,000	<u>23,370,000</u>
Total bonds payable			379,465,000
Less: current portion			<u>(15,005,000)</u>
Long-term portion			<u>\$ 364,460,000</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, 2010:

	1998 Bonds	2009A Bonds	2009L Bonds	2009B Bonds	2002 Bonds	2002A Bonds	2004A Bonds	2005A Bonds	2005B Bonds	2006A Bonds	2006B Bonds	2007A Bonds	2007B Bonds	2008A Bonds	2009A Bonds	2009B Bonds	2010A Bonds	Total
City of Avondale	\$ 4,103,900																	\$ 4,103,900
City of Window	225,000																	225,000
City of Cottonwood		330,000																330,000
City of Heber			970,000															970,000
City of Heber			100,000															100,000
City of Flagstaff				2,710,000													2,710,000	2,710,000
City of Maricopa																	20,000,000	20,000,000
Town of Clarkdale					250,000													250,000
City of Coolidge					2,790,000													2,790,000
Town of Chandler					3,495,000													3,495,000
Town of Chandler																		3,095,000
Town of Queen Creek						4,970,000												4,970,000
City of Williams					6,715,000				2,270,000									26,795,000
Tucson Heights Fire District					195,000				1,255,000									2,405,000
City of Apache Junction						1,645,000			980,000									4,425,000
Town of Apache Junction						1,690,000												4,595,000
Town of Phoenix-Lakeville						555,000												555,000
City of El Mirage						4,065,000												14,740,000
City of Wickenburg																		1,170,000
Town of Tropic								480,000										480,000
Town of Camp Verde								1,755,000										1,755,000
Town of Buckeye								9,400,000										26,275,000
Central Yavapai Fire District								16,730,000										14,740,000
Golden Ranch Fire District								3,720,000										9,600,000
Maricopa Fire District								7,725,000										7,725,000
Neighborhood Fire District								1,025,000										3,715,000
Three Points Fire District								12,945,000										24,615,000
Lake Havasu City									58,070,000				930,000					60,000,000
Town of Superior									370,000									700,000
City of Sedona										8,335,000								11,880,000
Town of Sahuarita								13,735,000										20,425,000
City of Show Low																		10,370,000
City of Suenoita																		6,195,000
Town of Quartzite																		6,843,500
Apache Junction Fire District																		8,340,000
Town of Upland Valley																		4,655,000
Town of Mayer																		3,095,000
Town of Parker																		815,000
Town of Snowflake																		945,000
Chino Valley Fire District																		5,125,000
Golden Ranch Fire District																		4,390,000
Mayo Fire District																		850,000
Apache County																		3,980,000
Douglas																		2,035,000
Pinal County																		12,245,000
Rio Rico Fire District																		3,815,000
City of San Luis																		13,790,000
Town of Thatcher																		2,440,000
Total	\$ 4,246,000	\$ 350,000	\$ 1,070,000	\$ 2,510,000	\$ 6,135,000	\$ 9,755,000	\$ 8,810,000	\$ 12,865,000	\$ 62,925,000	\$ 47,975,000	\$ 31,055,000	\$ 37,181,500	\$ 25,615,000	\$ 4,265,000	\$ 16,195,000	\$ 16,195,000	\$ 33,370,000	\$ 279,465,000

NOTES TO FINANCIAL STATEMENTS

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, 2010, 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, 2010, 2009 and 2008 were \$9,423, \$14,472 and \$9,950, 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, 2010; however, GADA's unrecovered remaining loss from prior years of \$312,744 was deemed uncollectible and written off as of June 30, 2010.

Required Supplemental Information

Greater Arizona Development Authority

GREATER ARIZONA DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010

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.

The following table represents the approved budgeted amounts as prepared above.

	Budgeted Amounts		Actual Amounts	Variance Between Final Budget and Actual Amounts
	Original	Final		
REVENUES				
Investment earnings	\$ 360,737	\$ 360,737	\$ 458,761	\$ 98,024
EXPENDITURES				
Personnel	254,775	254,775	165,241	89,534
Professional services	40,000	40,000	22,326	17,674
Program expenses				
Technical assistance	95,880	95,880	70,500	25,380
Travel	2,500	2,500	244	2,256
Other operating	10,500	10,500	-	10,500
	<u>403,655</u>	<u>403,655</u>	<u>258,311</u>	<u>145,344</u>
REVENUES OVER (UNDER) EXPENDITURES	(42,918)	(42,918)	200,450	243,368
OTHER FINANCING USES				
Intergovernmental transfer to general fund	-	-	(1,968,800)	(1,968,800)
FUND BALANCE, beginning of year, as reported	<u>14,251,669</u>	<u>14,251,669</u>	<u>14,251,669</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ 14,208,751</u>	<u>\$ 14,208,751</u>	<u>\$ 12,483,319</u>	<u>\$ (1,725,432)</u>