



FINANCIAL STATEMENTS

PHOENIX, ARIZONA

Year Ended June 30, 2018

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GREATER ARIZONA DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

Arizona Finance Authority Board of Directors
Advisory Board Members of the Greater Arizona Development Authority
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and its major fund of the Greater Arizona Development Authority (the "Authority"), a component unit of the State of Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 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 from material misstatement.

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

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

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 information of the Greater Arizona Development Authority, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Henry & Horne LLP

Casa Grande, Arizona
September 17, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS For The Year Ending June 30, 2018

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, 2018. Please read it in conjunction 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 FY 18 by \$12,311,014
- (Reported as *net position*). Of this amount, \$346,014 is unrestricted¹ (or not yet pledged) and \$11,965,000 (*restricted net position*) is restricted for the purpose of security pledged to outstanding bonds.

Fund Level

- As of the close of the FY 18, GADA's governmental funds reported combined ending fund balances of \$12,311,014 a decrease of \$1,158,360 from the beginning of the year. Approximately 2.81% of the combined fund balances, or \$346,014, is available to meet GADA's current and future needs as authorized by ARS §41-2254, E3 & ARS §41-2254, E4.

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 §41-2259, GADA's bonds do not constitute or 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 position of \$11,965,000 in the Pledged Collateral Reserve Fund (PCRF).

More detailed information regarding the government-wide financial statements, fund level financial statements and long-term debt activity can be found in beginning in the basic financial statements section.

¹ Although these funds are not considered to be restricted from an accounting perspective, their use is limited pursuant to Arizona Revised Statutes, §41-2554 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,
- 2) fund financial statements, and
- 3) notes to the financial statements.

Required Supplementary Information is 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 Position presents all of GADA's assets and liabilities, with the difference between the two reported as total net position. Over time, increases and decreases in total net position measure whether GADA's financial position is improving or deteriorating.

The Statement of Activities presents information showing how GADA's net position changed during the most recent fiscal year. All changes in net position 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., disbursements 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 FY 09, 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 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 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.

Government-Wide Financial Statements Analysis

The discussion in this section refers to the Statement of Net Position and the Statement of Activities. 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 Position

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

Restricted net position or the Pledged Collateral Reserve Fund (PCRF) – all \$11,965,000 of GADA's *restricted net position* is held in the PCRF. These funds are pledged as security on GADA's outstanding bonds and represent 97.19% of net position.

Unrestricted net position – The remaining balance of GADA's net position represents *unrestricted net position* of \$346,014 (2.81%). GADA's *unrestricted net position* 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 18, GADA's *unrestricted net position* decreased a total of \$1,158,360.

GADA's total net position 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
Greater Arizona Development Authority
Statement of Net Position as of June 30, 2018

	Governmental Activities	
	2017	2018
ASSETS		
Cash and cash equivalents	\$ 1,493,959	\$ 346,014
Cash and cash equivalents - restricted	11,965,000	11,965,000
Interest receivable	11,724	-
Intergovernmental receivables	13,025,000	26,550,000
Intergovernmental receivables - long-term	151,475,000	40,295,000
Total assets	<u>177,970,683</u>	<u>79,156,014</u>
LIABILITIES AND NET POSITION		
Accrued liabilities	1,309	-
Bonds, due in less than one year	13,025,000	26,550,000
Bonds, due in more than one year	151,475,000	40,295,000
Total liabilities	<u>164,501,309</u>	<u>66,845,000</u>
NET POSITION		
Restricted ¹	11,965,000	11,965,000
Unrestricted ²	1,504,374	346,014
Total net position	<u>\$ 13,469,374</u>	<u>\$ 12,311,014</u>

[1] Pledged as security on GADA bond issues

[2] Use of these funds is governed by ARS §41-2554

Fund Financial Statements Analysis

The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance 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.

- 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, 2016, GADA had recovered \$510,934 of this loss. GADA did not receive any Distributions in FY 18, however additional distributions may occur.
- 4) \$1.071 million in FY 08 and a total of \$5.196 million in FY 09 of the GADA Fund were withdrawn by the Arizona Legislature to help balance the State budget.
- 5) During the year ended June 30, 2009, GADA experienced another investment loss due to the bankruptcy of Lehman Brothers. GADA's portion of this loss was \$22,409. As of the end of June 30, 2016 a total of \$8,513 has been recovered, with \$690.54 recovered in FY 17. The total recovered is approximately 38% of the total loss and exceeds the original 21.1% recovery projection.
- 6) An additional \$1,968,800 was withdrawn by the Arizona Legislature in FY 10 to help balance the state budget.
- 7) In FY 18, \$1,319,000 was withdrawn by the Arizona Legislature to provide adequate support and maintenance for agencies of the state.

The \$346,014 difference between GADA's *restricted and unrestricted* net position of \$12,311,014 (from Figure 1) and the total GADA deposits and withdrawals of \$9,573,560 is a function of Operating Revenue exceeding Operating Expenses and interest earned on the GADA Fund in FY 18 and previous fiscal years.

Figure 2
 Greater Arizona Development Authority
 Statement of Activities as of June 30, 2018

	Governmental Activities	
	2017	2018
General revenues:		
Investment income	112,657	190,371
Total revenues	<u>112,657</u>	<u>190,371</u>
Expenses:		
Personnel	-	1,163
Administrative expenses	30,376	28,568
Total expenses	<u>30,376</u>	<u>29,731</u>
Increase / (decrease) in net position before transfers	82,281	160,640
Transfers in (out)	-	<u>(1,319,000)</u>
Change in net position	82,281	(1,158,360)
Net position, beginning	<u>13,387,093</u>	<u>13,469,374</u>
Net position, ending	<u>\$ 13,469,374</u>	<u>\$ 12,311,014</u>

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

1. *Restricted assets*, or the Pledged Collateral Reserve Fund (PCRF) – all \$11,965,000 of GADA's *restricted net position* are held in the PCRF. These funds are pledged as security on GADA's outstanding bonds and represent 97.19% of the \$12,311,014 GADA Fund.
2. *Unrestricted assets* – The remaining balance of \$346,014 in the GADA Fund consists of monies not yet pledged to bonds and the technical assistance loan fund (discussed separately).

Technical Assistance Loan Fund – ARS §41-2554 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. GADA did not fund any technical assistance loans in FY 18, and there are currently no outstanding loans.

Operating Fund – ARS §41-2554 E *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*.

At the end of a fiscal year, any unspent portion of the 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 requires a vote of the Board.

In FY 18, the operating fund benefited from interest revenue earned on the GADA Fund, in the amount of \$190,371. After the budget expenses of \$29,731 were paid and transfers out of \$1,319,000 were made, the operating fund had expenditures over revenues in the amount \$1,158,360.

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 §41-2259, 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 position of \$11,965,000 in the PCRF.

In FY 18 no new GADA actions were conducted. During FY 18, GADA saw seventeen (17) refunding/retirement/escrow actions on its outstanding individual bonds. This is ten more than the previous year. As interest rates continue to be low, more retirements are expected in FY 19 and we are currently aware of seven actions.

Economic Factors

The Arizona economy continues to improve, and interest rates remain low. Low interest rates not only impact the number of bonds being refunded or placed in escrow accounts. In FY 17 the average monthly interest revenue received was \$15,987 and in FY 18 the average was \$15,864.

Financial Contact

GADA's financial statements present users with a general overview of GADA's finances and demonstrate GADA's accountability. If you have any questions about the report or require additional financial information, please contact Jane Thompson, Controller, Greater Arizona Development Authority of Arizona, 100 North 15th Ave, Suite 103, Phoenix, Arizona 85007 or by phone at (602) 364-1323 or toll-free at (877)298-0425.

BASIC FINANCIAL STATEMENTS

GREATER ARIZONA DEVELOPEMENT AUTHORITY
 STATEMENT OF NET POSITION
 June 30, 2018

ASSETS	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 346,014
Intergovernmental receivables	26,550,000
Intergovernmental receivables, long-term	40,295,000
Restricted cash and cash equivalents	<u>11,965,000</u>
 Total assets	 <u>79,156,014</u>
 LIABILITIES	
Noncurrent liabilities:	
Due within one year:	
Bonds payable	26,550,000
Due in more than one year:	
Bonds payable	<u>40,295,000</u>
 Total liabilities	 <u>66,845,000</u>
 NET POSITION	
Restricted for:	
Debt service	11,965,000
Unrestricted	<u>346,014</u>
 Total net position	 <u><u>\$ 12,311,014</u></u>

GREATER ARIZONA DEVELOPEMENT AUTHORITY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
			<u>Governmental Activities</u>
Primary government:			
Personnel	\$ 1,163	\$ -	\$ (1,163)
Administrative expenses	28,568	-	(28,568)
Total governmental activities	<u>\$ 29,731</u>	<u>\$ -</u>	<u>\$ (29,731)</u>
General revenues:			
Investment income			\$ 190,371
Transfers in (out)			(1,319,000)
Total general revenues			<u>(1,128,629)</u>
Change in net position			(1,158,360)
Net position, beginning of year			<u>13,469,374</u>
Net position, end of year			<u>\$ 12,311,014</u>

GREATER ARIZONA DEVELOPEMENT AUTHORITY
 BALANCE SHEET
 GOVERNMENTAL FUND
 June 30, 2018

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 346,014
Cash and cash equivalents - restricted	<u>11,965,000</u>
Total assets	<u><u>\$ 12,311,014</u></u>
FUND BALANCE	
Fund balance:	
Restricted for pledged collateral reserve fund	\$ 11,965,000
Unassigned	<u>346,014</u>
Total fund balance	<u><u>\$ 12,311,014</u></u>

GREATER ARIZONA DEVELOPEMENT AUTHORITY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUND
June 30, 2018

Total governmental fund balance	\$ 12,311,014
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the fund	
Intergovernmental receivables	66,845,000
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	
Bonds payable	<u>(66,845,000)</u>
Net position of governmental activities	<u>\$ 12,311,014</u>

GREATER ARIZONA DEVELOPEMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2018

	<u>General</u>
REVENUES	
Investment income	<u>\$ 190,371</u>
EXPENDITURES	
Current:	
Administrative expenses	<u>28,568</u>
Excess (deficiency) of revenues over expenditures	<u>160,640</u>
OTHER FINANCING SOURCES	
Transfers out	<u>(1,319,000)</u>
Net change in fund balance	(1,158,360)
Fund balance - beginning of year	<u>13,469,374</u>
Fund balance - end of year	<u><u>\$ 12,311,014</u></u>

GREATER ARIZONA DEVELOPEMENT AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT
OF ACTIVITIES
Year Ended June 30, 2018

Net change in fund balance - total governmental fund	\$ (1,158,360)
No reconciling items	<u> -</u>
Change in net position of governmental activities	<u><u>\$ (1,158,360)</u></u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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) § 41-2252. On July 21, 1997, this legislation took effect and GADA was formally constituted. On August 6, 2016, Arizona House Bill 2666 became effective, transitioning GADA to the newly established Arizona Finance Authority (AFA). Pursuant to ARS § 41-2263, 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 the Governmental Accounting Standards Board Accounting Standards Codification, 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 position and the statement of activities display information about GADA, the primary governmental activity, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

GREATER ARIZONA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Government-Wide Financial Statements (Continued)

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.

The government-wide statements of activities present a comparison between expenses and program revenues 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 and 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 position should be reported as restricted when constraints placed on assets 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 restricted net position 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 rules 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.

GREATER ARIZONA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Governmental Funds (Continued)

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned - all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first.

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). 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.

Assistance Programs

Technical Assistance

The purpose of GADA's technical assistance program is to accelerate project development by providing funding to assist 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.

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.

GREATER ARIZONA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Assistance Programs (Continued)

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 §41-2259, 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 position of \$11.965 million in the Pledged Collateral Reserve Fund (PCRF).

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. 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, 2018, GADA's investments in the Treasurer's office totaled \$12,311,014. These investments were in Pools 5 and 4, separate pools and managed by the Treasurer's office on GADA's behalf. The investments in GADA Pool 5 are short term investments and the ones in Pool 4 are longer term investments, invested to recognize a stable income return to GADA for its operations. Interest earned from investments are allocated to GADA monthly. The market fluctuations of individual securities held within the both pools are recognized by GADA and do seek to maintain a \$1.00 NAV.

GREATER ARIZONA DEVELOPMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

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. Monies held by the State Treasurer are investments and are covered under the State Treasurer investment policy which includes the type of securities that can be purchased for investment purposes. These investments are not covered by the FDIC insurance or collateral.

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. As of June 30, 2018, the investments in the Treasurer's LGIP Pool 5 were rated AAA f/S1+ by Standard & Poor's. The LGIP Pool 4 funds are not rated.

NOTE 3 RESTRICTED CASH AND CASH EQUIVALENTS

The restricted net position amount of \$11,965,000 as of June 30, 2018 represents pledged security funds deposited to the Pledged Collateral Reserve Fund as required by the Series 2014A Bonds. The restricted net position amounts will remain restricted until bonds are repaid.

NOTE 4 LONG-TERM DEBT

Changes in Bonds Payable

The following is a summary of changes in bonds payable for the year ended June 30, 2018:

Balance as of June 30, 2017	\$ 164,500,000
Additions	-
Retirements	97,655,000
	<hr/>
Balance as of June 30, 2018	<u>\$ 66,845,000</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 LONG-TERM DEBT (Continued)

Maturities of Bonds Payable

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 26,550,000	\$ 3,839,621	\$ 30,389,621
2020	3,935,000	2,840,990	6,775,990
2021	3,645,000	2,380,351	6,025,351
2022	3,280,000	1,942,610	5,222,610
2023	3,130,000	1,767,660	4,897,660
2024-2028	14,080,000	6,369,448	20,449,448
2029-2033	9,255,000	2,402,899	11,657,899
2034-2038	2,960,000	419,024	3,379,024
2039	10,000	275	10,275
	<u>\$ 66,845,000</u>	<u>\$ 21,962,877</u>	<u>\$ 88,807,877</u>

The following summarized GADA's bonds outstanding at June 30, 2018:

<u>Description and Due Date</u>	<u>Interest Rate</u>	<u>Original Value</u>	<u>Total</u>
Series 2006B Bonds 08/1/07-08/1/24	4.00 - 5.00	36,520,000	\$ 12,495,000
Series 2007A Bonds 08/1/08-08/1/33	4.00 - 5.00	40,145,000	4,670,000
Series 2007B Bonds 08/1/8-08/1/27	4.00 - 5.00	26,505,000	190,000
Series 2008A Bonds 08/1/09-08/1/27	3.00 - 5.00	27,760,000	9,050,000
Series 2009A Bonds 08/1/09-08/1/38	5.00 - 5.50	16,000,000	9,820,000
Series 2009A-TE Bonds 08/1/09-08/1/38	6.85 - 8.10	10,725,000	4,705,000
Series 2009B Bonds 08/1/09-08/1/29	4.50 - 5.00	16,300,000	1,860,000
Series 2010A -TE Bonds 08/1/10-08/1/30	2.00 - 5.20	6,425,000	2,435,000
Series 2010A Taxable Bonds 08/1/10-08/1/30	3.60 - 6.34	16,945,000	14,420,000
Series 2014 R Bonds 03/26/14-08/1/28	2.00 - 5.00	10,395,000	7,200,000
Total bonds payable			\$ 66,845,000
Less: current portion			<u>26,550,000</u>
Long-term portion			<u>\$ 40,295,000</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 4 LONG-TERM DEBT (Continued)

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 Position, 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, 2018:

	2006B Bonds	2007A Bonds	2007B Bonds	2008A Bonds	2009A Bonds	2009B Bonds	2010A Bonds	2014 Refunding Bond	Total
City of Flagstaff	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,435,000	\$ -	\$ 2,435,000
City of Maricopa	-	-	-	-	-	-	14,420,000	-	14,420,000
City of Coolidge	-	-	-	-	-	-	-	1,245,000	1,245,000
Town of Guadalupe	-	-	-	-	-	-	-	1,280,000	1,280,000
Town of Queen Creek	-	-	-	890,000	-	-	-	3,370,000	4,260,000
City of Williams	-	-	-	305,000	-	-	-	1,305,000	1,610,000
City of Apache Junction	5,820,000	2,180,000	-	-	-	-	-	-	8,000,000
City of El Mirage	-	-	-	-	-	885,000	-	-	885,000
City of Wilcox	-	-	190,000	-	-	-	-	-	190,000
Town of Buckeye	-	1,595,000	-	-	-	-	-	-	1,595,000
Maricopa Fire District	1,070,000	-	-	-	-	-	-	-	1,070,000
Lake Havasu City	-	-	-	1,260,000	-	-	-	-	1,260,000
City of Safford	-	-	-	2,040,000	-	-	-	-	2,040,000
Town of Sahuarita	-	-	-	-	-	975,000	-	-	975,000
City of Show Low	-	-	-	385,000	-	-	-	-	385,000
Town of Quartzsite	5,605,000	-	-	-	-	-	-	-	5,605,000
Town of Parker	-	380,000	-	-	-	-	-	-	380,000
Mayer Fire District	-	515,000	-	-	140,000	-	-	-	655,000
City of Douglas	-	-	-	1,985,000	-	-	-	-	1,985,000
Pinal County	-	-	-	540,000	1,540,000	-	-	-	2,080,000
City of San Luis	-	-	-	-	12,845,000	-	-	-	12,845,000
Town of Thatcher	-	-	-	1,645,000	-	-	-	-	1,645,000
Total	\$ 12,495,000	\$ 4,670,000	\$ 190,000	\$ 9,050,000	\$ 14,525,000	\$ 1,860,000	\$ 16,855,000	\$ 7,200,000	\$ 66,845,000

REPORT ON INTERNAL CONTROL AND COMPLIANCE

INDEPENDENT AUDITORS' 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

Arizona Finance Authority Board of Directors
Advisory Board Members of the Greater Arizona Development Authority
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and its major fund of the Greater Arizona Development Authority (the "Authority"), as of and for the year ended June 30, 2018, and have issued our report thereon dated September 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry + Horne LLP

Casa Grande, Arizona
September 17, 2018