

Comprehensive Annual Financial Report
of the
Greater Arizona Development Authority

A Component Unit of the State of Arizona

For Fiscal Year ended June 30, 2007

Prepared by the Division of Strategic Investment and Research,
Arizona Department of Commerce

TABLE OF CONTENTS

Page

INTRODUCTORY SECTION

Letter of Transmittal	1
Organizational Chart	3

FINANCIAL SECTION

Independent Auditor's Report.....	9
Management's Discussion and Analysis.....	10

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets	17
Statement of Activities	18

Fund Financial Statements:

Balance Sheet	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balance.....	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	22

Notes to Financial Statements:

1. Nature of Operations and Significant Accounting Policies	23
2. Cash and Cash Equivalents	25
3. Restricted Net Assets	26
4. Long-Term Debt	27
5. Employee Retirement Plans.....	29
6. Contingent Asset.....	29
7. Subsequent Event.....	30

Required Supplemental Information:

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	31
---	----

Report on Internal Control Over Financial Reporting and on Compliance and

Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32
--	----

STATISTICAL SECTION

Financial Trends.....	34
Revenue Capacity	36
Operating Information	37
Debt Capacity.....	38
Demographic and Economic Information.....	40

INTRODUCTORY SECTION



ARIZONA DEPARTMENT OF COMMERCE

JANET NAPOLITANO
GOVERNOR

JAN LESHER
DIRECTOR

November 1, 2007

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

Ladies and Gentlemen:

It is our pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the Greater Arizona Development Authority (GADA), a body corporate and politic of the State of Arizona, for the fiscal year ended June 30, 2007 (FY 07). Responsibility for the accuracy of data, as well as the completeness and fairness of presentation, including all disclosures, rests with GADA's management. The data presented in this report, to the best of our knowledge and belief, is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of GADA. All disclosures needed for the reader to gain a reasonable understanding of GADA's financial activities have been included.

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

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

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

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

INTERNAL CONTROLS

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

INDEPENDENT AUDIT

In compliance with ARS §41-1554.12, an annual financial audit of GADA is completed each year by a certified public accountant within 150 days after the close of the State fiscal year. For FY 07, this audit was conducted by Eide Bailly, LLC, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Their report on the basic financial statements has been included in the financial section of this report.

PROFILE OF GADA

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

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

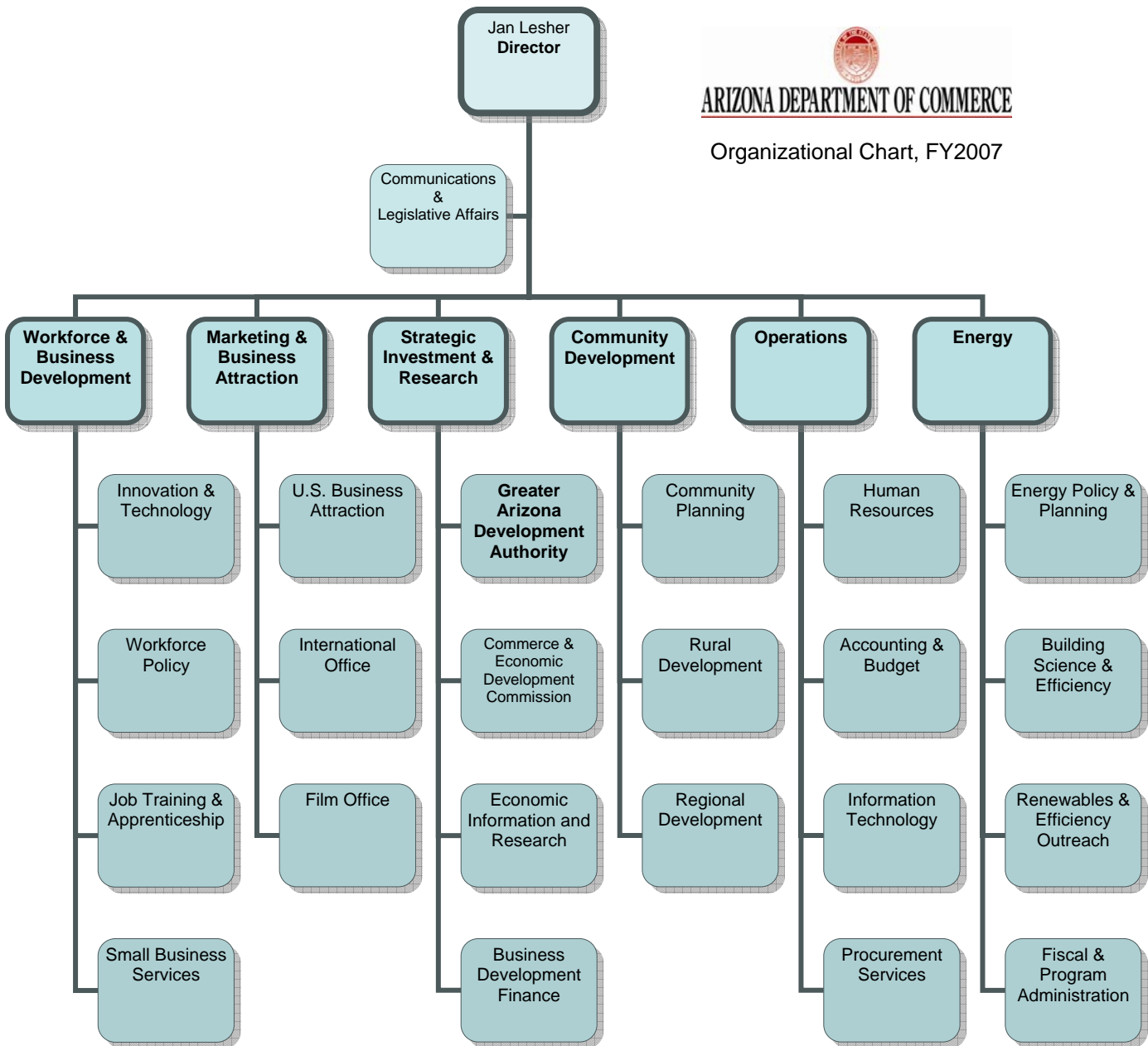
The members of the Board of Directors in FY 07 were:

Jan Leshner, Chairman – Director, Arizona Department of Commerce
The Hon. Dean Martin, Arizona State Treasurer
Stephen Owens – Director, Arizona Department of Environmental Quality
Victor Mendez – Arizona Department of Transportation
Linda Binder – Mohave County¹
Alan Willenbrock – Pima County
Peggy Garcia – Yuma County
George Cordova – Apache County
Tom Reilly – Yavapai County²

GADA is a component unit of the State of Arizona. It is housed within the Arizona Department of Commerce and is part of the Strategic Investment and Research Division as shown in the agency's organizational chart (see following graphic). The Act stipulates that agency employees serve as GADA's staff. Lisa Danka, MBA, is Executive Director of GADA, Jennifer Pittman-Leeper is the Program Manager and Kent Ennis, CFA, provides miscellaneous financial and economic support. Financial advisory support is provided by Chip Pierce of Western Financial Group and Dane Fernandes of Kutak Rock LLP serves as bond counsel.

¹ Ms. Binder was confirmed by the Arizona State Senate to the GADA Board on April 26, 2007.

² Mr. Reilly's term ended on January 15, 2007. He was replaced by Linda Binder from Mohave County.



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

1. **Financial Assistance (bonds)** – GADA generally issues two rounds of bonding per year. GADA bonds are typically insured and sold as AAA rated tax-exempt issues. This allows borrowers with low (or no) investment grade ratings to potentially realize substantial interest savings. In addition, GADA subsidizes the costs of bond issuance, providing the opportunity for further savings on fees for underwriters, financial advisors, bond counsel, trustees, bond rating and bond insurance premiums. Typically, GADA’s financial assistance saves borrowers \$25,000 to \$200,000, depending on the amount of the loan. To date, GADA has saved its borrowers more than \$8 million in gross interest and cost of issuance. Standard & Poor’s and Moody’s maintain underlying A+/A1 ratings, respectively, on GADA’s bonds. To date, GADA has facilitated funding to 39 borrowers through a total of 54 separate loans.

2. **Technical Assistance Grants** – Depending on funding availability, competitive grants are offered periodically for early stage project development elements such as engineering planning, design review, feasibility studies or other infrastructure development elements. Grant awards of up to \$25,000 can be used for the early phases of projects that may ultimately be funded through GADA bonds. Since the inception of the program, the Board has awarded \$1.67 million in technical assistance grants.
3. **Technical Assistance Loans** – Loans of up to \$250,000 may also be made to help fund infrastructure projects in the final phases of development. ARS §1554.03 limits the total amount of loans to \$800,000 at any given time. These short-term loans feature competitive interest rates and must be repaid within 3 years.

FINANCIAL REPORTING ENTITY

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

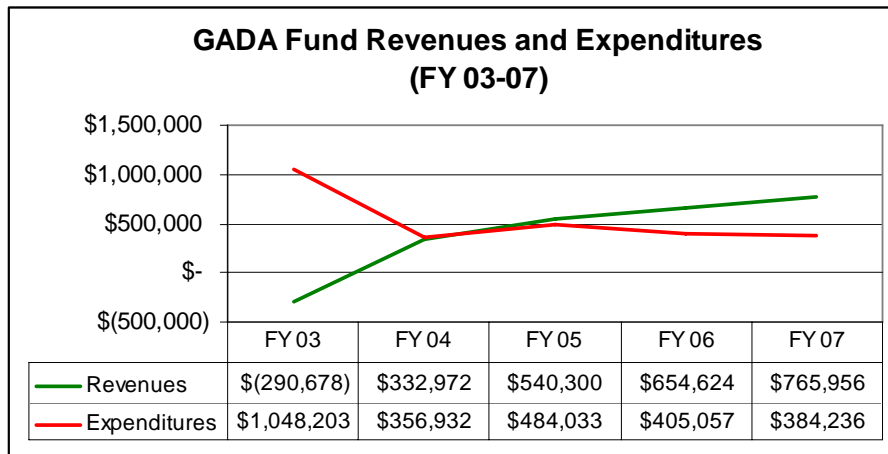
BUDGETARY CONTROLS

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

GADA FUND BALANCE

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

Figure 1



RISK MANAGEMENT

As a component unit of the State of Arizona, property and liability coverage is purchased for GADA whenever available on reasonable terms. The State is insured by an approved property insurer for claims in excess of \$3.500 million, but less than \$450.000 million, and liability claims in excess of \$2.000 million for the Universities and the School for the Deaf and Blind and \$7.000 million for all other state agencies, but less than \$100.000 million. The State's self-insurance fund provides property and liability coverage for claims less than or in excess of this coverage, or whenever coverage, such as workers' compensation and medical malpractice for non-University of Arizona professional staff, is unavailable on reasonable terms.³

The State pays self-insurance losses, defense costs, premiums and administrative costs from an appropriated fund in which all of the State's agencies participate. Total costs (excluding the cost of administering the program) have risen from approximately \$15.300 million in fiscal year 1988 to approximately \$79.900 million in fiscal year 2006 (latest available data). Yearly appropriations have also increased from approximately \$27.700 million in fiscal year 1988 to approximately \$85.700 million in fiscal year 2006 to meet rising losses and claims-related expenses. Annual funding is established for expected paid claims. The accrued insurance losses are not considered when determining funding for each fiscal year.⁴

ECONOMIC CONDITION AND OUTLOOK⁵

The current forecast update for calendar year 2007-08 shows Arizona's economy is expected to continue adding jobs over the two year period. This forecast update calls for growth of 113,700 nonfarm jobs, with growth rates of 2.4 percent in 2007 and 1.7 percent in 2008. This suggests that the economy is slowing more than predictions made in April 2007 of 3.7 percent for 2007 and 3 percent for 2008. Arizona's economy is nevertheless expected to perform better than the national economy over the two-year period. Global Insight forecasts that the nation's nonfarm jobs will grow by 1.4 percent in 2007 and by 1.1 percent job in 2008.

Economic expansion outside of the United States helps maintain growth in Arizona industries dependent on exports, such as natural resources and mining and tourism-related industries. Arizona's population growth is expected to continue at about the same pace — 6.1 percent over two years, according to the State's Population Statistics Unit.

Arizona's economy is expected to experience improving growth trends as some of the affects subside in the housing and finance (mortgage) industries. Population growth will eventually remove the surplus of unsold homes on the current market and provide the impetus of increasing demand for housing.

Demand for copper and other natural resource material is expected to remain strong in both the United States and abroad, and natural resources and mining is projected to continue its strong growth, with 13.3 percent in 2007 and 6 percent in 2008. Almost 2,000 new jobs are expected to be added in Arizona's fastest growing industry.

Construction is projected to lose 2,400 jobs in 2007 and 12,100 jobs in 2008, hastened by the slowdown in the housing market and a tightening lending market. Much of the recent impacts from the sub-prime lending and adjustable-rate mortgage loans are expected to cause various private sector driven adjustments to lending practices.

³ Letter Of Transmittal, Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2006, State of Arizona

⁴ Ibid

⁵ Excerpted from Arizona's Workforce Forecast Report, September 6, 2007, Arizona Department of Economic Security
http://www.workforce.az.gov/admin/uploadedPublications/2319_PrForecast200708.pdf

Manufacturing forecasts call for a loss of about 900 jobs in 2007 and 300 in 2008. Recent losses in this sector have been the result of Arizona factory closures and consolidations in the computer and electronic parts sector. Continued military demand is expected to support aerospace product and parts and fabricated metal job growth.

Trade, transportation and utilities employment is expected to have lower job growth than forecast in April 2007 as a result of the reduction in the growth rate of consumer spending, higher fuel costs and wavering consumer confidence. Despite this slowdown, trade, transportation and utilities is forecast to add the largest number of jobs of any major industry group — 27,000 during the forecast period.

Information is forecast to lose slightly more than 600 jobs in 2007 and then gain 300 jobs in 2008. Recent employment trends in this industry have begun to shift away from several years of losses.

Job growth in the financial activities industry is projected to slow in 2007 as the financial industry adjusts with credit tightening and restructuring. In 2008, economic and population growth is forecast to bolster this industry despite weakness in the housing market. The financial activities group is forecast to add 2,200 jobs this year and 3,300 jobs in 2008.

Professional and business services is forecast to add 24,400 jobs, with 3.9 percent growth in 2007 and 2.2 percent next year. Job growth is expected to be fairly good in professional, scientific and technical services, while the other sectors will bear more of the brunt of the economic slowdown.

Educational and health services is projected to gain 23,000 jobs during the forecast period. New health care facilities and schools continue to need staffing and will be necessary to meet population demands.

Leisure and hospitality is forecast to add more than 21,500 jobs. This industry is projected to do well from the domestic traveler seeking to explore Arizona and the Southwest, and from travelers from foreign markets taking advantage of the lower value of the U.S. dollar.

Other services is projected to add almost 8,700 jobs during the forecast period and represents the second largest percentage gain of any major industry group with increases of 5.1 percent in 2007 and 3.3 percent in 2008. Government is forecast to add more than 17,500 jobs over the forecast period.

In conclusion, Arizona's economy showed considerable job growth in 2006 — the fastest job growth state in the nation at 5.4 percent. Even with a slowing national economy, Arizona's economy is expected to outpace the nation over the forecast period: 1.4 percent (US) vs. 2.5 percent (AZ) in 2007, and 1.1 percent (US) vs. 1.7 percent (AZ) in 2008.

GADA FINANCIAL POLICIES

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

- **Operational funding** - Pursuant to ARS §41-1554.03.B, legislative appropriations may only be used for securing the bonds issued by GADA and providing assistance under technical assistance repayment agreements. All other expenses of the GADA program, including administrative costs, staff salaries and employee related benefits, professional services, technical assistance grants, and costs of issuing bonds must be paid from interest earned on the legislative appropriations, monies received from the US government, loan repayments, technical assistance repayments, administrative fees, penalties, gifts, grants, donations or any other monies received by GADA. In FY 07, interest earnings on the GADA Fund provided 100 percent of operational funding. These monies are held in a separate, segregated fund which consisted of approximately \$1.5 million as of June 30, 2007, representing an estimated two years of operational funding.

- **Financial and technical assistance grants** – Whenever possible, the Board provides additional financial assistance whenever possible by subsidizing the costs of bond issuance and providing early-stage planning grants. In FY 07, the 2006B and 2007A rounds each received a \$125,000 subsidy, and \$194,700 in grants was approved to ten grantees.
- **Minimum required balance** – Based on the requirements of ARS §41-1554.03.B, the GADA Fund maintained a minimum required balance of \$16.98 million in FY 07. This balance is the sum of all legislative appropriations made to the Fund, minus certain losses and permitted expenditures:

Figure 2

GADA Fund Deposits and Withdrawals Since Inception (FY 98) as of June 30, 2007	
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 07)	(319,703)
Total GADA Fund	\$ 16,980,297

- **Long-term investment horizon** – with the exception of the operating fund, at the end of FY 07, \$15,298,955 of GADA’s cash and cash equivalents of \$17,735,344 were invested in Pool 15, a separate pool of investments owned by GADA and managed by the Arizona State Treasurer’s office on GADA’s behalf. The investments in GADA pool 15 are longer term investments, invested to recognize a stable income return to GADA for its operations. Interest earned from investment in Pool 15 is allocated to GADA monthly for the operating fund. The market fluctuations of individual securities held within the pool are recognized by GADA. Pool 15 does not seek to maintain a \$1.00 net asset value (NAV).

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

MAJOR INITIATIVES

There were three significant initiatives impacting GADA in FY 07:

1. Additional capitalization – the fiscal year 2007 Budget proposed by Arizona Governor Janet Napolitano included a request for additional capitalization of GADA of \$5 million in both fiscal years 08 and 09. Ultimately, the Arizona Legislature approved \$2 million for each fiscal year, a total of \$4 million.
2. Statutory changes – GADA introduced legislation in 2007 which made several “technical corrections” to the Act. The following changes were adopted in House Bill 2785 and are effective September 19, 2007⁶:

⁶ Fact Sheet, strike everything amendment to HB 2785, Arizona State Senate, June 15, 2007.

http://www.azleg.gov/FormatDocument.asp?inDoc=/legtext/48leg/1r/summary/s.2785approp_strikermemo.doc.htm

- Expanded the definition of infrastructure under the purview of GADA to include any land, building or other personal property that will make up part of a facility.
 - Clarified the definition of pledged revenues for the repayment of a loan agreement includes monies received by a special district or Indian tribe.
 - Allowed GADA's board of directors the option to direct the State Treasurer to divest monies in the GADA revolving fund as needed to pay the principal and interest on bonds issued by GADA.
 - Expanded GADA's duties to include providing financial assistance to entities under its purview when those entities acquire, improve or construct infrastructure.
 - Clarified that assets used by an Indian tribe to secure a loan from GADA are subject to execution by the Attorney General in the event of a default on the loan contract.
 - Required voter approval of financial assistance to a county with a population of more than 200,000 persons.
3. Technical assistance grants – after a hiatus of six years in which interest earnings were too low to fund the technical assistance grant program, the GADA Board approved funding to ten grantees totaling \$194,700 for a wide variety of early-stage, infrastructure planning and design projects. The funding for these projects has been rolled into the FY 08 budget, and they are expected to be complete by the fiscal year:
- El Mirage - \$12,000 – Economic feasibility studies regarding animal control building options.
 - Forest Lakes Fire District - \$18,000 – Cost analysis of fire station and community center expansion project.
 - Gila County - \$14,000 – Engineering design for an Americans with Disabilities Act (ADA) compliance project.
 - Golden Valley County Improvement District No. 1 of Mohave County - \$40,000 – Development of an engineering scope of work and request for proposal process.
 - City of Maricopa - \$20,000 – Transportation feasibility study and assess right of way issues.
 - San Luis - \$17,500 – Development of a Capital Improvement Planning document.
 - Steamboat Chapter, Navajo Nation - \$28,000 – Mandatory right of way transportation studies.
 - Sun City West Fire District - \$20,000 – Feasibility study for a regional firefighting training facility.
 - Teesto Chapter, Navajo Nation - \$14,000 – Creation of a general planning document.
 - Town of Winkelman - \$11,200 – 208 Amendment process for development of wastewater upgrade project.

ACKNOWLEDGMENTS

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

Sincerely,



Jan Leshner
Chairman of the Board



Lisa Danka
Executive Director

FINANCIAL SECTION



CPAs & BUSINESS ADVISORS

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) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of GADA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and its major fund of GADA, as of June 30, 2007, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2007 on our consideration of GADA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Phoenix, Arizona
November 14, 2007

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

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, 2007. Please read it in conjunction with the transmittal letter at the front of this report and with GADA's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of GADA's officials and management.

FINANCIAL HIGHLIGHTS

Government-Wide:

- The assets of GADA exceeded liabilities at the close of the fiscal year by \$17.771 million (reported as *net assets*). Of this amount, \$9.716 million is unrestricted⁷ (or not yet pledged) and \$8.055 million is restricted for the purpose of security pledged to bond issuances (*restricted net assets*).
- GADA's total net assets increased in fiscal year 2007 by \$469,335. Net assets of governmental activities increased by \$381,720. An additional \$87,635 was recovered on an investment loss suffered in 2003.

Fund Level:

- As of the close of the fiscal year, GADA's governmental funds reported combined ending fund balances of \$17.771 million, an increase of \$469,335 from the beginning of the year. Approximately 54.6% of the combined fund balances, or \$9.716 million, is available to meet GADA's current and future needs as authorized by ARS §41-1554.03 *et seq.* (*unreserved fund balance*).

GADA Bonds:

- Although issued in the name of GADA, loans funded through GADA bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to ARS §41-1554.08, GADA's bonds do not constitute nor create a general, special or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the restricted net assets of \$8.055 million in the Pledged Collateral Reserve Fund (PCRF).
- The amount of GADA's bonds outstanding increased during the fiscal year to \$304.93 million, an increase of \$71.1145 million (32.8%). Changes during the year included the issuance of \$76.665 million in the 2006B and 2007A rounds (\$36,520 million and \$40,145 million, respectively). In addition, \$5.520 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 11.

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 11-12),
- 2) fund financial statements (pages 13-16), and
- 3) notes to the financial statements (17-24). Required Supplementary Information and other supplementary information are included in addition to the basic financial statements.

⁷ Although these funds are not considered to be restricted from an accounting perspective, their use is limited pursuant to Arizona Revised Statutes, §41-1554 *et seq.*

Government-Wide Statements (Reporting GADA as a Whole)

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

The Statement of Net Assets (page 11) 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 12) 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 FY 07, the Board of Directors approved a \$100 application fee. Implementation of this fee requires amendment of GADA's administrative rules and this rule-making activity is anticipated during FY 08. Until formal approval of the new rules by the Governor's Regulatory Review Council, this type of activity will not be reflected in GADA's financial statements.
- *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 13 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 14 and 16) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) reported on the government-wide statement.

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

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

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes can be found beginning on page 17 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 25 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

The discussion in this section refers to pages 11 and 12 of the financial statements. GADA’s overall financial position and operations for the past year are summarized in Figure 1, based on the information included in the government-wide financial statements.

Change in Net Assets

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

Restricted net assets or the Pledged Collateral Reserve Fund (PCRF) – all \$8.055 million of GADA’s *restricted net assets* is held in the PCRF. These funds are pledged as security on GADA’s bond issuances and represent 45.3% of net assets. Any deposits to the PCRF are determined by national ratings agencies on an issue-by-issue basis. **There were no additional deposits required to the PCRF for either the 2006B or 2007A issuances, and therefore, GADA’s *restricted net assets* did not change in FY 07.**

Unrestricted net assets – The remaining balance of GADA’s net assets of \$17.771 million represents *unrestricted net assets* of \$9.716 million (54.6%). 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 07, GADA’s *unrestricted net assets* increased \$469,355 as a result of increasing interest rates on GADA’s investments, investment loss recovery and unspent monies leftover from the approved FY 07 budget.**

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

Figure 1

Greater Arizona Development Authority		
Net Assets as of June 30, 2007 and 2006		
	Governmental Activities	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 9,716,007	\$ 9,246,652
Intergovernmental receivables	7,385,000	5,520,000
Cash and cash equivalents - restricted	8,055,000	8,055,000
Intergovernmental receivables, long-term	297,545,000	228,265,000
Total assets	\$ 322,701,007	\$251,086,652
LIABILITIES AND NET ASSETS		
LIABILITIES		
Bonds, due in less than one year	7,385,000	5,520,000
Bonds, due in more than one year	297,545,000	228,265,000
Total liabilities	304,930,000	233,785,000
NET ASSETS		
Restricted ⁸	\$ 8,055,000	\$8,055,000
Unrestricted ⁹	9,716,007	9,246,652
Total net assets	17,771,007	17,301,652
Total liabilities and net assets	\$ 322,701,007	\$251,086,652

FUND FINANCIAL STATEMENTS ANALYSIS

The discussion in this section refers to pages 13 through 16 of the financial statements. The Fund Financial Statements provide detailed information about GADA’s major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that GADA uses to keep track of specific sources of funding and spending for a particular purpose. GADA’s cash and cash equivalents are held in three major funds: the GADA Fund, the technical assistance loan fund and the operating fund.

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

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

- 1) \$200,000 was authorized and expended to “start up” the program in FY 98;
- 2) \$2.5 million of the GADA Fund was withdrawn by the Arizona Legislature in FY 03 to help balance the budget during the recessionary period following 9/11; and
- 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, 2007, GADA had recovered \$348,875 of this loss. GADA’s unrecovered remaining loss was \$319,703 as of June 30, 2007.

⁸ Pledged as security on GADA bond issues

⁹ Use of these funds is governed by ARS §41-1554.03

The \$791,000 difference between GADA’s *restricted and unrestricted* net assets of \$17.771 million (from Figure 1) and the total GADA Fund balance of \$16.98 million (from Figure 2) is largely a function of interest earned on the GADA Fund in FY 07 and previous fiscal years.

Figure 2

GADA Fund Deposits and Withdrawals Since Inception (FY 98) as of June 30, 2007	
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 07)	(319,703)
Total GADA Fund	\$ 16,980,297

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

1. *Restricted assets*, or the Pledged Collateral Reserve Fund (PCRF) – all \$8.055 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 47.4% of the \$16.98 million GADA Fund. As noted earlier, there were no additional deposits required by the national rating agencies to the PCRF for either the 2006B or 2007A issuances.
2. *Unrestricted assets* – The remaining balance of \$8.925 million in the GADA Fund, or 52.6%, consists of monies not yet pledged to bonds and the technical assistance loan fund (discussed separately). Another \$8.125 million of the GADA Fund (47.8%) is available to securitize future GADA bond issuances. Other than the restrictions imposed on these monies by statute, these funds were uncommitted as of the end of FY 07.

Technical Assistance Loan Fund – ARS §41-1554.03.B authorizes up to \$800,000 of the GADA Fund to be used for technical assistance loans. These short-term loans (up to 3 years) may be used for later stage infrastructure project development and may be repaid from the proceeds of a GADA bond issuance. The Technical Assistance Loan Fund represents 4.7% of the GADA Fund. No technical assistance loans were funded in FY 07, 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 June 30th for the following fiscal year. In FY 07, the total approved budget was \$699,540; however, only \$384,326 of this amount was actually expended by the end of FY 07.

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

In FY 07, the operating fund benefited from interest revenue, earned on the GADA Fund, in the amount of \$765,956. After the budget expenses of \$384,236 were paid, the operating fund had excess of revenues over expenditures in the amount of \$381,720 (page 16 of the financial statements). This amount is reflected as a net change of governmental activities in the reconciliation statement on page 17.

Of this amount, the Board approved the roll over of \$200,000 in technical assistance grant funds in FY 08 for grants that were awarded in June 2007, but will not be paid out until FY 08 or beyond. The grantees and amounts awarded are discussed in Note 7, Subsequent Event, on page 24 of the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

GADA has no capital assets.

Long-term debt

Although issued in the name of GADA, loans funded through GADA bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to ARS §41-1554.08, GADA's bonds do not constitute nor create a general, special or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the *restricted* net assets of \$8.055 million in the Pledged Collateral Reserve Fund (PCRF).

GADA generally conducts at least two bonding rounds per year. In FY 07, the Board authorized up to four rounds, although cost of issuance subsidies were only approved for two of the rounds, and only two rounds were actually conducted (2006B and 2007A). The amount of GADA bonds outstanding increased during the fiscal year to \$304.93 million, an increase of \$71.145 million (32.8%). Changes during the year included the issuance of \$76.665 million in the 2006B and 2007A rounds (\$36.52 million and \$40.145 million, respectively). The borrowers, purpose of the loan, amount and financing structure are shown in Figure 3. In addition to the 2006B and 2007A issuances, \$5.520 million was retired from previous issuances in FY 07.

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.

Figure 3

Greater Arizona Development Authority
 FY 07 Issuances - 2006B and 2007A

	Borrower	Purpose	Amount	Interest & Cost of Issuance Savings¹⁰	Financing Structure
2006 B					
	Drexel Hights Fire District	Public Safety	\$1,350,000	\$44,000	G.O. Bonds
	Apache Junction Fire District	Fire Facilities and Equipment	\$9,500,000	\$141,000	G.O. Bonds
	Quartzsite	Loan Consolidation and Capital Improvements	\$7,215,000	\$224,000	Revenue Bonds
	Maricopa Fire District	Fire Facilities and Equipment	\$3,200,000	\$76,000	Revenue Bonds
	Somerton	Transportation Improvements and a Ladder Truck	\$6,885,000	\$152,000	Revenue Bonds
	Show Low	Transportation and Capital Improvements	\$8,370,000	\$167,000	Revenue Bonds
		2006B Total	\$36,520,000	\$804,000	
2007A					
	Apache Junction	Library Expansion	\$3,800,000	\$116,000	Revenue Bonds
	Buckeye	Administrative Facilities	\$2,200,000	\$101,000	Revenue Bonds
	Chino Valley	Administrative Facilities	\$5,015,000	\$142,000	Revenue Bonds
	Chino Valley Fire District	Fire Facilities and Equipment	\$5,325,000	\$148,000	Revenue Bonds
	Eagar	Refundings of prior obligations, land, and equipment	\$3,300,000	\$116,000	Revenue Bonds
	Golder Ranch Fire District	Public Safety	\$4,550,000	\$135,000	G.O. Bonds
	Mayer Fire District	Fire Facilities and Equipment and Debt Refinancing	\$745,000	\$79,000	G.O. Bonds
	Northwest Fire District	Fire Facilities and Equipment	\$13,470,000	\$291,000	G.O. Bonds
	Parker	Miscellaneous Capital Project	\$665,000	\$75,000	Revenue Bonds
	Snowflake	Fire Facilities	\$1,075,000	\$78,000	Revenue Bonds
		2007A Total	\$40,145,000	\$1,281,000	
		FY 07 Total	\$76,665,000	\$2,085,000	

¹⁰ GADA potentially saves borrowers money two ways: 1) when funding allows, insurance is purchased for the loan pool to bring the bonds up to AAA rating, allowing borrowers to access lower interest rates than they typically can on their own, and 2) GADA subsidized the cost of issuance by \$125,000 in both the 2006B and 2007B rounds.

GREATER ARIZONA DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS	Governmental Activities
Cash and cash equivalents	\$ 9,716,007
Intergovernmental receivables	7,385,000
Cash and cash equivalents - restricted	8,055,000
Intergovernmental receivables, long-term	<u>297,545,000</u>
Total assets	<u>\$ 322,701,007</u>
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Bonds, due in less than one year	\$ 7,385,000
Bonds, due in more than one year	<u>297,545,000</u>
Total liabilities	<u>304,930,000</u>
NET ASSETS	
Restricted	8,055,000
Unrestricted	<u>9,716,007</u>
Total net assets	<u>17,771,007</u>
Total liabilities and net assets	<u>\$ 322,701,007</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

<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	\$ 114,770	\$ -	\$ -	\$ -	\$ (114,770)
Program expenses					
Financial assistance	250,252	-	-	-	(250,252)
Travel	2,838	-	-	-	(2,838)
Other operating	16,376	-	-	-	(16,376)
Total primary government	<u>\$ 384,236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (384,236)</u>

General revenues:

Investment earnings	<u>\$ 765,956</u>
Total general revenues	<u>765,956</u>
Change in net assets	<u>381,720</u>
Recovery loss from prior years	<u>87,635</u>
Net assets - beginning of year	<u>17,301,652</u>
Net assets - end of year	<u>\$ 17,771,007</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY

BALANCE SHEET

JUNE 30, 2007

ASSETS

Cash and cash equivalents	\$ 9,716,007
Cash and cash equivalents - restricted	<u>8,055,000</u>
	<u>\$ 17,771,007</u>

FUND BALANCE

Reserved for pledged collateral reserve fund	\$ 8,055,000
Unreserved	<u>9,716,007</u>
	<u>\$ 17,771,007</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Fund balance - governmental fund type	\$ 17,771,007
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	304,930,000
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds	<u>(304,930,000)</u>
Net assets of governmental activities	<u><u>\$ 17,771,007</u></u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

REVENUES	
Investment earnings	<u>\$ 765,956</u>
EXPENDITURES	
Personnel	114,770
Program expenses	
Financial assistance	250,252
Travel	2,838
Other operating	16,376
Total expenditures	<u>384,236</u>
EXCESS OF REVENUES OVER EXPENDITURES	381,720
OTHER FINANCING SOURCES	
Loss recovery from 2003 investment loss	87,635
FUND BALANCE, beginning of year, restated	<u>17,301,652</u>
FUND BALANCE, end of year	<u><u>\$ 17,771,007</u></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
FOR THE YEAR ENDED JUNE 30, 2007

Net change in fund balance - governmental fund type	\$ 381,720
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>\$ 381,720</u>

GREATER ARIZONA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

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

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

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

FINANCIAL REPORTING ENTITY

In accordance with the requirements of Statement No. 14, The Financial Reporting Entity, of the Government Accounting Standards Board (GASB), the financial statements must present GADA and its 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. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

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. The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end and on behalf of the government are also recognized as revenue. All other governmental fund type revenues are recognized when received. Therefore, governmental fund financial statements include a reconciliation with a brief explanation to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS

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.

Fund Financial Statements

Fund financial statements report detailed information about GADA. The focus of governmental enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

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

CASH AND CASH EQUIVALENTS

GADA's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less, including amounts on deposit with the Arizona State Treasurer's Local Government Investment Pool (LGIP).

GADA's cash and cash equivalents 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.

NOTES TO FINANCIAL STATEMENTS

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.

Financial Assistance - GADA's bond structure allows the Authority to lower borrowing costs for Arizona's communities by issuing and selling bonds as AAA rated tax-exempt debt 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 and an Agreement Reserve Fund, both of which are held by the Trustee. An intercept mechanism of state-shared revenues for political subdivisions enhances the security of the GADA bonds.

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

BUDGETS AND BUDGETARY ACCOUNTING

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

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

ESTIMATES

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

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents, both unrestricted and restricted, are made up of cash on hand and cash invested in the State Treasurer's Office. As of June 30, 2007, GADA's investments in the Treasurer's office totaled \$17,735,344. The majority of these investments, \$15,298,955, were in Pool 15, a separate pool of investments owned by GADA and managed by the Treasurer's office on GADA's behalf. The investments in GADA pool 15 are longer term investments, invested to recognize a stable income return to GADA for its operations. Interest earned from investment in Pool 15 is allocated to GADA monthly. The market fluctuations of individual securities held within the pool are recognized by GADA. Pool 15 does not seek to maintain a \$1.00 NAV. The remaining balance of investments are in the Local Government Investment Pool, which is an investment pool managed by the Treasurer's office on behalf of political subdivisions in the State of Arizona. The LGIP (Pool 5) seeks to maintain a fair value of each share equal to \$1 at all times.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - RESTRICTED NET ASSETS

The restricted net assets amount of \$8,055,000 as of June 30, 2007 represents pledged security funds of \$2,305,000, \$3,050,000, \$1,582,000, \$322,356, \$137,500, \$49,144 and \$609,000 for eleven bonds that were issued by GADA during the fiscal years of 2007, 2006, 2005, 2004, 2003, 2001, 2000 and 1998, respectively. The restricted net assets amounts will remain restricted until the bonds are repaid.

NOTE 4 – LONG-TERM DEBT

Changes in Bonds Payable

The following is a summary of changes in bonds payable for the years ended June 30, 2007.

Balance, June 30, 2006	\$ 233,785,000
Additions	76,665,000
Retirements	<u>(5,520,000)</u>
Balance, June 30, 2007	<u><u>\$ 304,930,000</u></u>

Maturities of Bonds Payable

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2008	\$ 7,385,000	\$ 13,721,802	\$ 21,106,802
2009	10,165,000	13,888,441	24,053,441
2010	10,965,000	13,472,988	24,437,988
2011	11,510,000	13,023,437	24,533,437
2012-2016	57,635,000	57,453,242	115,088,242
2017-2021	60,355,000	43,683,546	104,038,546
2022-2026	62,000,000	28,701,337	90,701,337
2027-2031	43,255,000	15,085,072	58,340,072
2032-2036	39,575,000	5,596,431	45,171,431
2037	<u>2,085,000</u>	<u>51,050</u>	<u>2,136,050</u>
	<u><u>\$304,930,000</u></u>	<u><u>\$ 204,677,345</u></u>	<u><u>\$ 509,607,345</u></u>

NOTES TO FINANCIAL STATEMENTS

The following summarizes GADA's bonds outstanding at June 30, 2007:

Description and Due Date	Interest Rate	Original Value	2007
Series 1998 Bonds 08/1/98-08/1/18	4.10 - 5.75	\$ 13,270,000	\$ 8,990,000
Series 2000A Bonds 08/1/00-08/1/20	5.00 - 6.00	18,930,000	15,055,000
Series 2001A Bonds 08/1/01-08/1/13	3.35 - 4.75	2,750,000	1,755,000
Series 2001B Bonds 08/1/01-08/1/14	4.38 - 4.75	3,100,000	3,100,000
Series 2002 Bonds 08/1/02-08/1/22	2.25 - 4.75	7,640,000	7,025,000
Series 2003A Bonds 08/1/03-08/1/20	3.00 - 4.85	11,230,000	10,765,000
Series 2004A Bonds 08/1/04-08/1/25	3.95 - 5.00	12,955,000	9,775,000
Series 2004B Bonds 08/1/04-08/1/29	2.00 - 5.50	10,360,000	9,660,000
Series 2005A Bonds 08/1/05-08/1/24	2.38 - 5.00	47,695,000	47,180,000
Series 2005B Bonds 08/1/05-08/1/35	3.00 - 5.00	64,100,000	63,845,000
Series 2006A Bonds 08/1/06-08/1/36	4.00 - 5.00	52,060,000	51,115,000
Series 2006B Bonds 08/1/07-08/1/24	4.00 - 5.00	36,520,000	36,520,000
Series 2007A Bonds 08/1/08-08/1/33	4.00 - 5.00	40,145,000	40,145,000
Total bonds payable			304,930,000
Less: current portion			(7,385,000)
Long-term portion			\$ 297,545,000

(Continued)

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, 2007:

	1998 Bonds	2000A Bonds	2001A Bonds	2001B Bonds	2002 Bonds	2003A Bonds	2004A Bonds	2004B Bonds	2005A Bonds	2005B Bonds	2006A Bonds	2006B Bonds	2007A Bonds	Total
City of Avondale	\$ 4,407,509	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,407,509
City of Goodyear	4,290,188	-	-	-	-	-	-	-	-	-	-	-	-	4,290,188
City of Winslow	292,303	-	-	-	-	-	-	-	-	-	-	-	-	292,303
City of Cottonwood	-	630,133	1,599,545	-	-	-	-	-	-	-	-	-	-	2,229,678
Town of Gilbert	-	14,424,867	-	-	-	-	-	-	-	-	-	-	-	14,424,867
City of Holbrook	-	-	155,455	-	-	-	-	-	-	-	-	-	-	155,455
City of Flagstaff	-	-	-	3,100,000	-	-	-	-	-	-	-	-	-	3,100,000
Town of Clarkdale	-	-	-	-	319,241	-	-	-	-	-	-	-	-	319,241
City of Coolidge	-	-	-	-	3,310,360	-	-	-	-	-	-	-	-	3,310,360
Town of Guadalupe	-	-	-	-	3,395,399	-	-	-	-	-	-	-	-	3,395,399
Town of Queen Creek	-	-	-	-	-	5,385,000	-	7,325,000	-	2,470,000	11,555,000	-	-	26,735,000
City of Williams	-	-	-	-	-	3,495,000	-	-	-	1,450,000	-	-	-	4,945,000
Drexel Heights Fire District	-	-	-	-	-	1,885,000	-	1,205,000	-	1,395,000	-	1,350,000	-	5,835,000
City of Apache Junction	-	-	-	-	-	-	4,090,000	-	-	-	-	-	3,800,000	7,890,000
Town of Pinetop-Lakeside	-	-	-	-	-	-	1,075,000	-	-	-	-	-	-	1,075,000
City of El Mirage	-	-	-	-	-	-	4,610,000	-	-	-	-	-	-	4,610,000
City of Wilcox	-	-	-	-	-	-	-	1,130,000	-	-	-	-	-	1,130,000
Town of Taylor	-	-	-	-	-	-	-	-	490,000	-	-	-	-	490,000
Town of Cape Verde	-	-	-	-	-	-	-	-	2,005,000	-	-	-	-	2,005,000
Town of Buckeye	-	-	-	-	-	-	-	-	9,400,000	-	14,730,000	-	2,200,000	26,330,000
Central Yavapai Fire District	-	-	-	-	-	-	-	-	11,025,000	-	-	-	-	11,025,000
Golden Ranch Fire District	-	-	-	-	-	-	-	-	8,760,000	-	-	-	-	8,760,000
Maricopa Fire District	-	-	-	-	-	-	-	-	1,420,000	-	-	3,200,000	-	4,620,000
Northwest Fire District	-	-	-	-	-	-	-	-	13,105,000	-	-	-	-	26,575,000
Three Points Fire District	-	-	-	-	-	-	-	-	975,000	-	-	-	-	975,000
City of Lake Havasu City	-	-	-	-	-	-	-	-	-	58,070,000	-	-	-	58,070,000
Town of Superior	-	-	-	-	-	-	-	-	-	460,000	-	-	-	460,000
City of Safford	-	-	-	-	-	-	-	-	-	-	9,420,000	-	-	9,420,000
Town of Sahuarita	-	-	-	-	-	-	-	-	-	-	15,410,000	-	-	15,410,000
City of Show Low	-	-	-	-	-	-	-	-	-	-	-	8,370,000	-	8,370,000
City of Somerton	-	-	-	-	-	-	-	-	-	-	-	6,885,000	-	6,885,000
Town of Quartzite	-	-	-	-	-	-	-	-	-	-	-	7,215,000	-	7,215,000
Apache Junction Fire District	-	-	-	-	-	-	-	-	-	-	-	9,500,000	-	9,500,000
Town of Chino Valley	-	-	-	-	-	-	-	-	-	-	-	-	5,015,000	5,015,000
Town of Eagar	-	-	-	-	-	-	-	-	-	-	-	-	3,300,000	3,300,000
Town of Parker	-	-	-	-	-	-	-	-	-	-	-	-	665,000	665,000
Town of Snowflake	-	-	-	-	-	-	-	-	-	-	-	-	1,075,000	1,075,000
Chino Valley Fire District	-	-	-	-	-	-	-	-	-	-	-	-	5,325,000	5,325,000
Golden Ranch Fire District	-	-	-	-	-	-	-	-	-	-	-	-	4,550,000	4,550,000
Mayer Fire District	-	-	-	-	-	-	-	-	-	-	-	-	745,000	745,000
Total	\$ 8,990,000	\$ 15,055,000	\$ 1,755,000	\$ 3,100,000	\$ 7,025,000	\$ 10,765,000	\$ 9,775,000	\$ 9,660,000	\$ 47,180,000	\$ 63,845,000	\$ 51,115,000	\$ 36,520,000	\$ 40,145,000	\$ 304,930,000

(Continued)

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 9.10 percent of their compensation for the year ended June 30, 2007, 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, 2007 were \$4,694, 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 sustained LGIP sustained investment losses due to the bankruptcy of National Century Financial Enterprises Inc. a financing corporation in which LGIP funds were invested. GADA's portion of this investment loss was \$668,578 and has been recorded as a reduction of investment earnings in 2003. The State of Arizona, along with other investors in the LGIP pool as well as investors nationwide, has joined a class action lawsuit against the financing corporation in an effort to recover lost funds. GADA has received several payments representing recovery on this loss through partial settlements reached in the lawsuit as well as recoveries from the bankruptcy proceedings in previous fiscal years and as of June 30, 2007, the State Treasurer distributed an additional partial recovery to GADA of \$87,635. The class action lawsuit was still in progress as of June 30, 2007. GADA's unrecovered remaining loss was \$319,703 as of June 30, 2007.

In July 2003, the majority of GADA's cash and cash equivalents were invested in the newly created Pool 15, more fully discussed in Note 2 above.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – SUBSEQUENT EVENT

During fiscal year 2007, GADA approved the distribution of approximately \$200,000 in Technical Assistance Grant funds. As of August 2007, these funds had not yet been distributed. The participants in this grant issue are as follows:

<u>Name of Project/City</u>	<u>Amount</u>
Forest Lakes Fire District	\$ 18,000
City of Maricopa	20,000
Gila County	14,000
Golden Valley County Improvement District	40,000
City of El Mirage	12,000
Sun City West Fire District	20,000
Steamboat Chapter, Navajo Nation	28,000
Teesto Chapter, Navajo Nation	14,000
City of San Luis	17,500
Winkelman	11,200
	<hr/>
Total	\$ 194,700

REQUIRED SUPPLEMENTAL INFORMATION

GREATER ARIZONA DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Between Final Budget and Actual Amounts</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 601,776	\$ 601,776	\$ 765,956	\$ 164,180
EXPENDITURES				
Personnel	149,580	149,580	114,770	34,810
Program expenses				
Financial assistance	250,000	250,000	250,252	(252)
Travel	6,540	6,540	2,838	3,702
Other operating	9,000	9,000	16,376	(7,376)
	<u>415,120</u>	<u>415,120</u>	<u>384,236</u>	<u>30,884</u>
EXCESS OF REVENUES OVER EXPENDITURES	186,656	186,656	381,720	195,064
LOSS RECOVERY				
2003 investment loss	-	-	87,635	-
FUND BALANCE, beginning of year, as reported	<u>16,645,954</u>	<u>16,645,954</u>	<u>17,301,652</u>	<u>655,698</u>
FUND BALANCE, end of year	<u>\$ 16,832,610</u>	<u>\$ 16,832,610</u>	<u>\$ 17,771,007</u>	<u>\$ 938,397</u>



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

Board of Directors
Greater Arizona Development Authority
Phoenix, Arizona

We have audited the accompanying financial statements of the governmental activities and its major fund of Greater Arizona Development Authority as of and for the year ended June 30, 2007, and have issued our report thereon dated November 14, 2007. 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; and the provisions of Title 28, Chapter 18, Article 2, of the Arizona Revised Statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Greater Arizona Development Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Greater Arizona Development Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Greater Arizona Development Authority's internal control over financial reporting.

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

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

The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure adequate internal control. This is not unusual in organizations of your size, but management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of the operations.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

The Greater Arizona Development Authority does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we drafted the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

The Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters identified in an Audit*, was established during the current fiscal year. The Greater Arizona Development Authority was not aware of the new standard and therefore was not able to address the above mentioned significant deficiencies for the current fiscal year.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Greater Arizona Development 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*.

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

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

Phoenix, Arizona
November 14, 2007

STATISTICAL SECTION

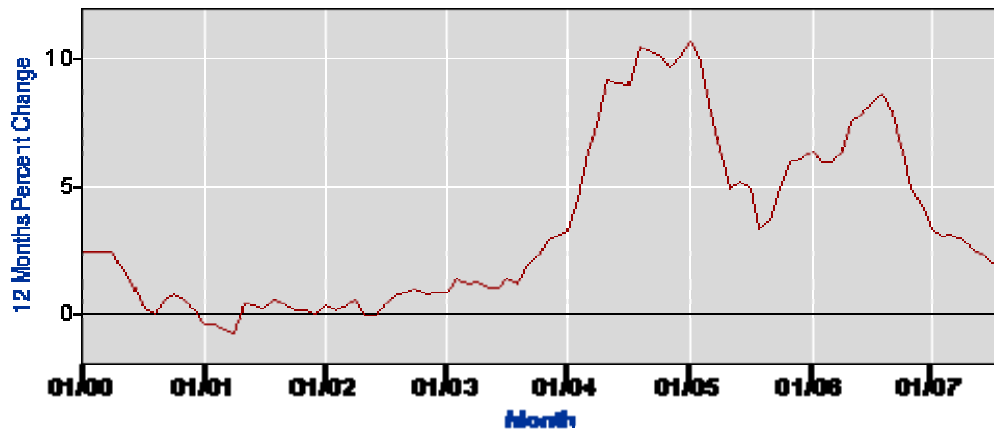
The **Statistical Section** includes five categories of information: Financial Trends, Revenue Capacity, Debt Capacity, Demographic and Economic Information, and Operating Information.

Financial Trends

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

- **Materials prices show no sign of decreasing** – China’s rapid growth and drive to prepare for the 2008 Olympic Games is a new and very large addition to world demands for raw and processed commodities, including oil, steel, and cement. At the same time, recent low U.S. interest rates created the conditions for record demand for housing, even though this sector has slowed substantially in Arizona in FY 07. Figure 4 shows the 12 month percent change in construction materials prices from the Bureau of Labor Statistics since 2000. Although the rate of price increases has moderated in the first few months of 2007 (according to BLS), materials prices are still increasing month over month.

Figure 4



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann
2000	2.4	2.4	2.4	2.4	1.7	1.1	0.2	0	0.5	0.7	0.5	0.1	1.2
2001	-0.5	-0.5	-0.7	-0.8	0.4	0.3	0.2	0.5	0.4	0.1	0.1	0	-0.1
2002	0.3	0.1	0.3	0.5	-0.1	-0.1	0.4	0.7	0.8	0.9	0.7	0.8	0.5
2003	0.8	1.3	1.1	1.2	1	1	1.3	1.1	1.9	2.3	2.9	3	1.5
2004	3.2	4.5	6.3	7.7	9.2	9.1	9	10.5	10.3	10.1	9.7	10.1	8.3
2005	10.8	9.9	8.2	6.5	4.9	5.2	4.9	3.3	3.6	4.9	5.9	6.1	6.1
2006	6.4	5.9	5.9	6.4	7.5	7.8	8.3	8.7	7.9	6.3	4.9	4.3	6.7
2007	3.3	3	3.1	2.9	2.5P	2.2P	1.9P	1.5P					

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

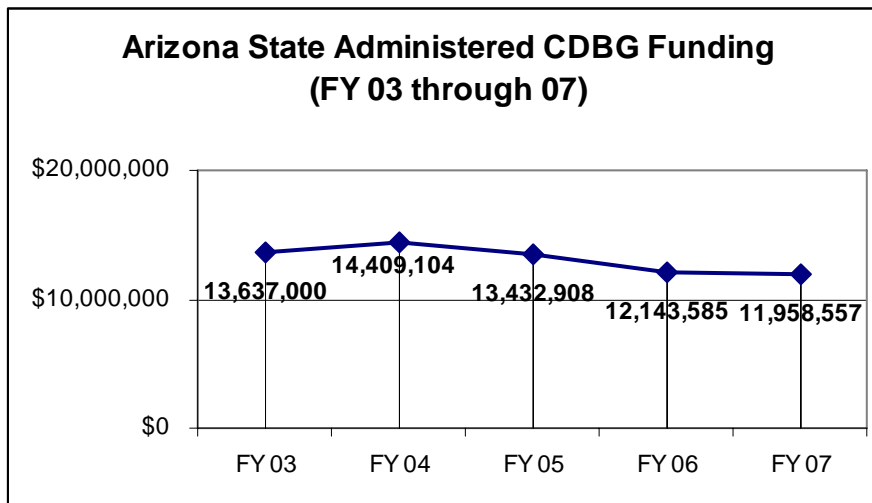
The implications for municipal building projects have been significant. Construction project costs have increased along with commodity prices recently. The surge in costs caused some construction contract renegotiations, delays, or both in the past three years. Some bond funds raised in the past two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

- **Decrease in federal funding available for infrastructure** – The federal Community Development Block Grant (CDBG) program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Beginning in 1974, the CDBG program is one of the longest continuously run programs at US Department of Housing and Urban Development. The CDBG program provides annual grants on a formula basis to 1180 general units of local government and States.

Historically, many of GADA’s borrowers have looked to the “State Administered” CDBG program¹¹ to help fund various infrastructure projects. Under this program, a block grant is provided to the States, which then award grants to smaller units of general local government¹² that carry out community development activities. Annually, each State develops funding priorities and criteria for selecting projects. In a 2006 survey of GADA’s target borrowers, 45% of responding communities under 50,000 in population, and 50% of counties under 200,000, indicated they would look to CDBG for infrastructure funding.

However, the level of funding for the State Administered CDBG program has been steadily decreasing. Figure 5 shows that Arizona’s funding for this program peaked in FY 04, and has since been declining annually, even though the State’s population continues to grow. Anecdotally, it is believed that much of the decline is due to budget pressures elsewhere, mainly war and hurricane reparation funding needs. As a result of this downward trend, GADA’s target borrowers are having to look elsewhere for infrastructure funding.

Figure 5



<http://www.hud.gov/offices/cpd/communitydevelopment/budget/>

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

¹² Cities with populations of less than 50,000 (except cities that are designated principal cities of Metropolitan Statistical Areas), and counties with populations of less than 200,000

Revenue Capacity

GADA's revenue capacity is a function primarily two sources:

1. Legislative appropriations – in addition to the \$16.98 million GADA Fund, the fiscal year 2007 Budget proposed by Arizona Governor Janet Napolitano included a request for additional capitalization of GADA of \$5 million in both fiscal years 08 and 09. Ultimately, the Arizona Legislature approved \$2 million for each fiscal year, and a total of \$4 million is expected to be deposited to the Fund by the end of FY 09.
2. Interest income – GADA has benefited from increasing interest rates over the course of FY 07. At the beginning of the fiscal year, interest earnings were projected to be \$601,776. The actual earnings were \$757,927, a variance of \$156,151.

However, most of GADA cash and cash equivalents or \$15,298,955 is invested in Pool 15, consisting of longer term investments designed to recognize a stable income return to GADA for its operations. Interest earned from GADA's investments is allocated monthly to the operating fund. The market fluctuations of individual securities held within the pool are recognized by GADA. Pool 15 does not seek to maintain a \$1.00 NAV. As a result, GADA's revenue capacity may be negatively impacted depending on the state of the market.

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

Issuing Capacity

As of the end of FY 07, GADA is leveraging the \$16.98 million GADA Fund on a 1:39 ratio – for every \$1 in the PCRFB, GADA has been able to issue approximately \$39 in bonds. The amount of any increases to the PCRFB is determined by the national rating agencies with each issuance. The balance of the PCRFB hit its current \$8.055 million with the 2006A issuance. However, the rating agencies did not require any deposits into the fund with either the 2006B or the 2007A bonds.

If the 1:39 ratio continues to hold, this represents an issuance capacity of roughly \$662 million, based on the \$16.98 million balance of the GADA Fund. As of the end of FY 07, \$320 million of this capacity had been exhausted, or 48% of the lifetime capacity of the Fund.

Demographic and Economic Information

Arizona has been in the top five states for growth for the last 60 years, and we do not anticipate that changing in the near future – current estimates call for a 2-3 fold increase in population by 2050, or almost 15 million people. There are a number of factors driving this projected growth. There is a demographic shift occurring in the US, with population moving from the north and east to the south and west. The baby boom generation is beginning to retire in warmer climates. Lower costs of living and attractive climate are bringing much of this population our way. U.S. and global populations are also growing, with people living longer as we begin to realize the promises of bio technology. Finally, Arizona's economy is young, strong and vibrant. The potential for opportunity can attract workers and companies.

Arizona is growing faster than any state except Nevada (measured by percentage change or number of new residents) and is now larger than Wisconsin, Minnesota, and Colorado. Arizona is now the 17th largest state, according to 2005 population estimates by the Census Bureau.

Projections from the U.S. Census Bureau and the Arizona Department of Economic Security indicate that people will be moving to Arizona in even greater numbers in the years ahead. With the expected in-migration and birth rate, the result will be a state population approaching almost 11 million by 2030. By 2030, current projections indicate that Arizona will become the 10th largest state, bigger in population than Michigan and closing ground on Ohio.

This growth is a key driver of the GADA program, and GADA's borrowers as of the end of FY 07 tend to have the following characteristics:

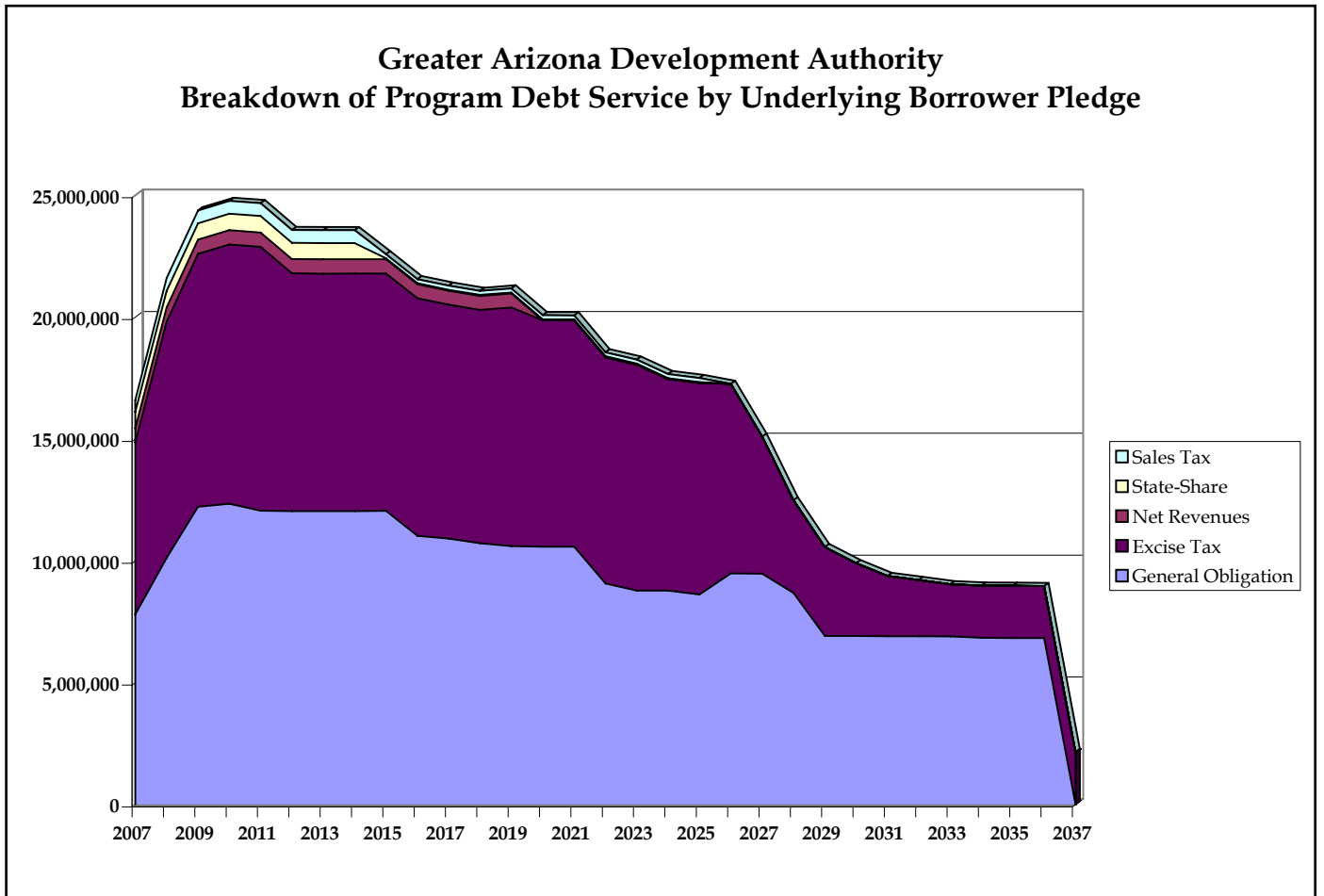
- Small but growing populations – at least 27 of GADA's borrowers, or 69%, have populations of 40,000 or under.¹³ Three borrowers exceed 50,000, and one exceeds 100,000. Population projections indicate Arizona's small communities and special districts will continue to grow rapidly.
- Growth influenced by major metros – 19 of GADA's 39 borrowers – almost half - are located in Maricopa, Yavapai, Pima or Pinal Counties, and are contiguous or in close proximity to the state's larger metro areas. Much of their growth is a spill over from or influenced by these areas as residents seek more available and affordable housing options.
- Repeat borrowers - ten entities have borrowed two or more times through GADA. Collectively, these borrowers represent 23 loans or more than 42% of loans financed through GADA.
- Leverage - Because they are developing communities and service districts, most of GADA's borrowers need to finance infrastructure in advance of anticipated development. As a result, the financial strength of the community or the specific utility enterprise at the time of borrowing would tend to limit access to the capital markets. GADA is able to offer increased capital market access to these borrowers because 1) it funds a secondary reserve fund (pledged collateral reserve fund) and 2) has the ability to intercept state-shared revenues. These features are fundamental to the rating agencies' and bond insurers' perception of GADA as a solid credit.

Operating Information

Borrowers generally pledge one of five different types of repayment sources: sales taxes, state-shared revenues, excise taxes, net revenues and/or general obligation pledges. Figure 4 shows the breakdown of debt service by pledge on GADA's \$304.93 million in long-term debt outstanding at the end of FY 07. The largest percentage of GADA's pledges, \$159.32 million or 52.2%, were full faith and credit, general obligations pledges, followed by excise taxes at \$112.36 million (36.8%), sales taxes at \$23.62 million (7.7%), net revenues at \$5.345 million (1.8%) and state-shared revenues at \$4.3 million (1.4%).

¹³ This figure is considered to be very conservative as data is not available for nine special district borrowers. The actual figures for borrowers under 40,000 population probably exceed the number and percentages listed here.

Figure 4



The size of GADA’s bond issuances – both the number of borrowers and the amount borrowed - has grown substantially since 2004. This appears to be a function of Arizona’s rapid growth, the increase in construction materials prices, and a decline in other funding programs available to communities (several programs have seen cuts as a result of war and hurricane reparation funding demands). Figure 5 recaps the activity by calendar since GADA’s inception through the end of FY 07.

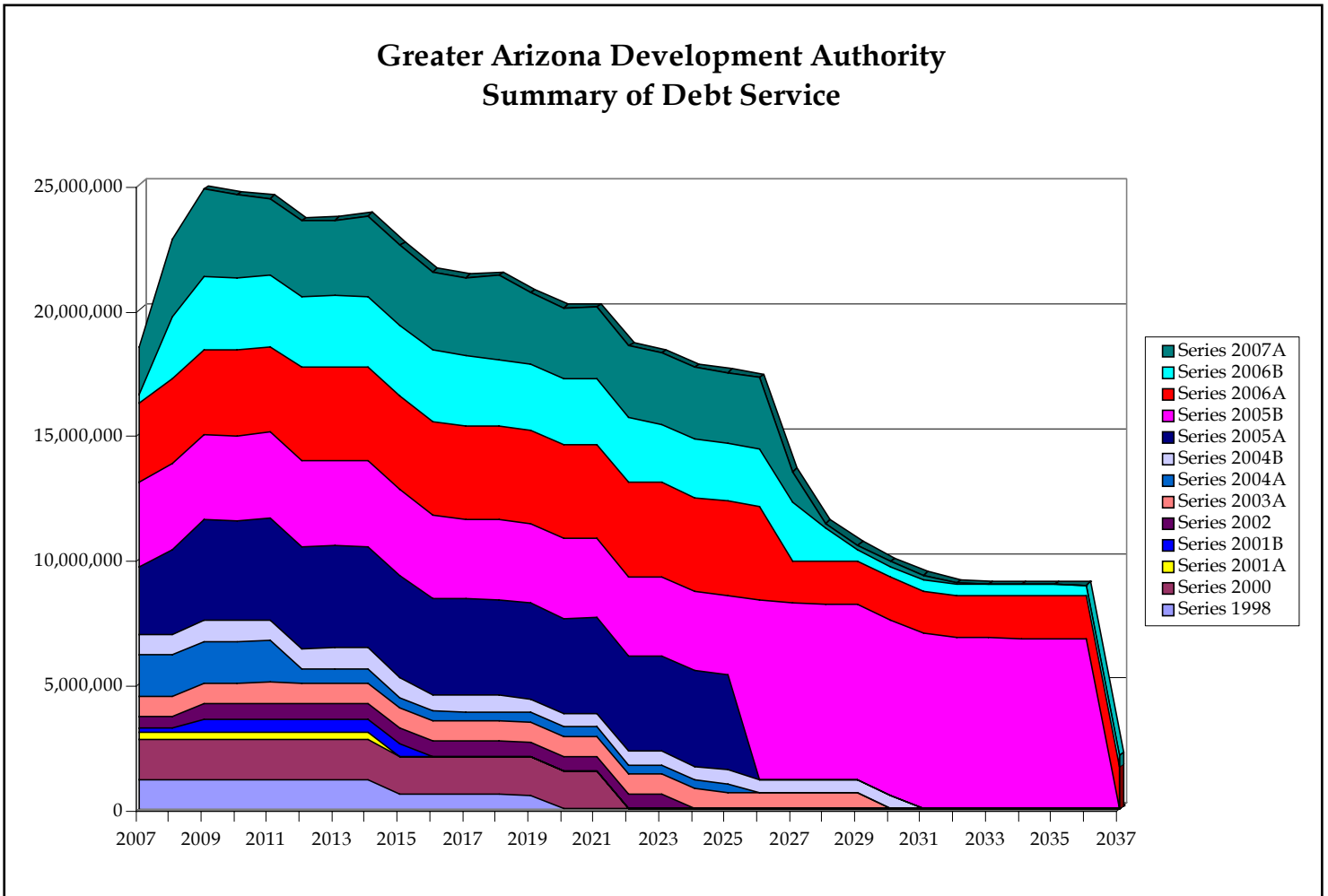
The debt service summary of GADA’s 13 bond issues (as of the end of FY 07) is shown in Figure 6, and clearly indicates the major increase in the portfolio that has occurred, beginning primarily with the 2005A issuance. Further detail regarding the individual borrowers to GADA can be found in Note 4, Long Term Debt, on pages 20-22 of the financial statements.

Figure 5

Greater Arizona Development Authority			
Number of Borrowers and Amount Issued by			
Calendar Year (98-07)			
CY	# of Borrowers	Amount	Total to Date
1998	4	\$13.27M	\$13.27M
1999	0	\$0	\$13.27M
2000	2	\$18.93M	\$32.2M
2001	3	\$5.85M	\$38.05M
2002	3	\$7.64M	\$45.69M
2003	3	\$11.23M	\$56.92M
2004	6	\$23.315M	\$80.235M
2005	13	\$111.795M	\$192.03M
2006	10	\$88.58M	\$280.61M
2007	10	\$40.145M	\$320.755M*

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

Figure 6



ECONOMIC CONDITION AND OUTLOOK

Arizona's economy showed considerable job growth in 2006 — the fastest job growth state in the nation at 5.4 percent. Even with a slowing national economy, Arizona's economy is expected to outpace the nation over the forecast period: 1.4 percent (US) vs. 2.5 percent (AZ) in 2007, and 1.1 percent (US) vs. 1.7 percent (AZ) in 2008.

The current forecast update for 2007-'08 shows Arizona's economy is expected to continue adding jobs over the two year period. This forecast update calls for growth of 113,700 nonfarm jobs, with growth rates of 2.4 percent in 2007 and 1.7 percent in 2008, a slower growth scenario than predicted in previous forecasts. Arizona's economy is nevertheless expected to perform better than the national economy over the two-year period.

CONTACTING THE GREATER ARIZONA DEVELOPMENT AUTHORITY

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