

**THE ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2022**



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**THE ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Arizona Commerce Authority  
Phoenix, Arizona

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of The Arizona Commerce Authority (a Component Unit of the State of Arizona), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise The Arizona Commerce Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of The Arizona Commerce Authority, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Arizona Commerce Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arizona Commerce Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Arizona Commerce Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arizona Commerce Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2022, on our consideration of The Arizona Commerce Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of The Arizona Commerce Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arizona Commerce Authority's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
October 21, 2022

**THE ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

The following is a discussion and analysis of the Arizona Commerce Authority's (Authority) financial performance for the fiscal year ended June 30, 2022. This discussion is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, and (c) identify changes in the Authority's financial position.

The Management's Discussion and Analysis (MD&A) focuses on the fiscal year activities from July 1, 2021 through June 30, 2022, resulting changes, and known facts.

This MD&A is an introduction to the basic financial statements of the Authority, which are comprised of three components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

The Government-wide financial statements (Statement of Net Position and Statement of Activities) report on the Authority as a whole using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables.

The Fund Financial Statements provide detailed information about the individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to keep track of specific sources of revenues and disbursements for specific purposes. The governmental funds are reported as separate columns in the Fund Financial Statements.

The Fiduciary Fund Financial Statement is used to account for resources held for the benefit of parties outside the Authority. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Authority's own programs.

### **USING THIS FINANCIAL REPORT**

This financial report consists of a series of financial statements: the Statement of Net Position, Statement of Activities, Balance Sheet – Governmental Funds, Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position, Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balances - Governmental Funds to the Statement of Activities, Statement of Fiduciary Fund Net Position, and Statement of Changes in Fiduciary Fund Net Position. Accordingly, the financial statements presented in this Annual Report are the required basic financial statements in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended.

### **AUTHORITY HIGHLIGHTS**

**Arizona Commerce Authority Job Training Program** – Funding for the Job Training Program ended on December 31, 2015. Pursuant to HB2539 (53rd legislative, 1st session), the Program termination date was extended to December 31, 2020, after which time no new grants could be issued. Unencumbered funds as of June 30, 2022, in the amount of \$12,362,580 plus any additional interest earned, will be returned to the State General Fund. The Authority recorded a reversion expense and liability of \$12,362,580 payable to the State of Arizona as of June 30, 2022.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**Arizona Competes Fund** – The Authority contractually committed Arizona Competes Fund grants totaling \$3,735,000 in the following two different grant programs: \$1,600,000 in attracting, expanding, or retaining Arizona basic enterprise, and \$2,135,000 in supporting and advancing programs for small businesses. These commitments will be used to produce additional jobs, fund project location decisions, increase capital investment, and support small businesses currently and over the next five years.

**Arizona Coronavirus Relief Fund (Fiduciary Fund)** – Within a few days after Governor Doug Ducey's Executive Order declaring a Public Health State of Emergency, the Authority established the Arizona Coronavirus Relief Fund. This fund provides financial support to organizations working to mitigate the impacts of COVID-19 in Arizona. The fund received over \$10.2 million in donations from private individuals and organizations. In Fiscal Year 2022 and Fiscal Year 2021, \$517,385 and \$9,723,976, respectively was awarded to nonprofit and government entities to aid in the response and recovery efforts related to the COVID-19 pandemic. This fund was closed in January 2022.

## **REVENUES**

**Operating Grants and Contributions** – The Authority received \$8,614,211 in intergovernmental revenue that consists of (a) \$3,241,792 from federally awarded grants, and (b) \$5,372,419 from cooperative agreements with other state agencies.

**Appropriations** – The Authority received \$82,425,000 in transferred funds that consist of (a) \$15,500,000 from the Arizona Job Creation Withholdings Clearing Account, (b) \$3,500,000 from the Arizona Lottery Commission, (c) \$500,000 from the State General Fund for the operation of three trade offices in Mexico, (d) \$175,000 from the State General Fund for the operation of a trade office in Israel, (e) \$250,000 from the State General Fund to establish and the operate a new trade office in Frankfurt Germany (f) \$5,000,000 from the State General Fund to support applied research related to blockchain and wearable technology, (g) \$7,500,000 from the State General Fund to support hosting of major events in Arizona, and (h) \$50,000,000 from the State General Fund as an additional deposit into the Arizona Competes Fund.

## **EXPENSES**

**Aid To Other Organizations** – The Authority awarded \$13,779,149 to organizations based upon their achievement of program performance standards and incentive guidelines. The awarding of these grant dollars will allow companies to hire, train, and attract workers, as well as make significant capital investments which will directly improve the economic vitality of the State, advance nascent industries in our state through research and development, and enhance the quality of our workforce.

**Bad Debt Expense** – The Arizona Innovation Accelerator Fund Program (AIAF) was created in 2012 and funded by the federal government's State Small Business Credit Initiative as part of the Small Business Jobs Act of 2010. The AIAF Program was launched to spur lending to small businesses through loan participation. The Authority ceased efforts to solicit new loans under the AIAF program in FY2018 and continues to service and wind down the existing loan portfolio. The Authority recorded no losses against the allowance for doubtful accounts in Fiscal Year 2022. The Authority decreased its allowance for bad debt in Fiscal Year 2022 due to the decreased size of the loan portfolio with one remaining loan.

**THE ARIZONA COMMERCE AUTHORITY  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**Professional and Outside Services** – The Authority contracts with industry specialists to provide professional assistance with marketing, communications, information technology, client service, workforce development, business development, and business attraction efforts.

**Salary Structure** – The Authority provides a competitive salary structure to attract and retain competent personnel. The salary structure is reviewed annually.

**STATEMENT OF NET POSITION**

The Authority's overall financial position and operations for the past two fiscal years are summarized, as follows, based on the information included in the Government-wide Financial Statements.

**Condensed Statement of Net Position  
(In Thousands)**

	<b>June 30,</b>			
	<b>2022</b>	<b>2021</b>	<b>Diff</b>	<b>Percent</b>
Current Assets	\$ 163,161	\$ 104,351	\$ 58,810	56.4
Noncurrent Assets	224	276	(52)	(18.8)
Right to Use Assets, Net	2,576	-	2,576	100.0
Capital Assets, Net	467	717	(250)	(34.9)
<b>Total Assets</b>	<b>\$ 166,428</b>	<b>\$ 105,344</b>	<b>\$ 61,084</b>	<b>58.0</b>
Current Liabilities	\$ 14,378	\$ 2,565	\$ 11,813	
Noncurrent Liabilities	2,646	-	2,646	100.0
<b>Total Liabilities</b>	<b>17,024</b>	<b>2,565</b>	<b>14,459</b>	<b>563.7</b>
Investment in Capital Assets	467	717	(250)	(34.9)
Restricted	97,699	35,334	62,365	176.5
Unrestricted	51,238	66,728	(15,490)	(23.2)
<b>Total Net Position</b>	<b>149,404</b>	<b>102,779</b>	<b>46,625</b>	<b>45.4</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 166,428</b>	<b>\$ 105,344</b>	<b>\$ 61,084</b>	<b>58.0</b>

The Authority's total assets increased to \$166.4 million in Fiscal Year 2022 compared to \$105.3 million at the end of Fiscal Year 2021. This \$61.1 million increase was primarily the result of the implementation of the GASB Statement No. 87 and the resulting right to use asset, and an increase in funds held in cash and local government investment pools awaiting distribution through the various programs managed by the Authority.

The Authority's total liabilities increased from \$2.6 million at the end of Fiscal Year 2021 to \$17.0 million at the end of Fiscal Year 2022 due primarily to a implementation of the GASB Statement No. 87 and the resulting lease liability, offset by a decrease in accounts payable, refundable application fees balances, and accrued wages at fiscal year-end.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

The Authority's total net position increased to \$149.4 million in Fiscal Year 2022 as compared to \$102.8 million at the end of Fiscal Year 2021. This increase was primarily due to a one-time increase in funding for the Arizona Competes Fund in Fiscal Year 2022.

**CAPITAL ASSETS AND RIGHT TO USE ASSETS**

As of June 30, 2022, the Authority had capital assets recorded at \$466,590, net of accumulated depreciation as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of \$250,232 during operating year July 1, 2021 to June 30, 2022.

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Equipment	\$ 26,056	\$ 51,191
EDP/Computer Equipment	36,317	52,916
Furniture	74,346	146,276
Leasehold Improvements	329,871	466,439
<b>Capital Assets, Net</b>	<b>\$ 466,590</b>	<b>\$ 716,822</b>

The following reconciliation summarizes the change in Capital Assets, Net for the years ended June 30, 2022 and 2021:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Beginning Balance	\$ 716,822	\$ 944,638
Additions	-	69,129
Depreciation	(250,232)	(296,945)
<b>Ending Balance</b>	<b>\$ 466,590</b>	<b>\$ 716,822</b>

As of June 30, 2022, the Authority had right to use assets recorded at \$2,575,643, net of accumulated amortization as reflected in the following schedule:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Building	\$ 2,575,643	-
<b>Right to Use Assets, Net</b>	<b>\$ 2,575,643</b>	<b>\$ -</b>

The following reconciliation summarizes the change in Right to Use Assets, Net for the years ended June 30, 2022 and 2021:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Beginning Balance	\$ -	\$ -
Additions	3,458,721	-
Amortization	(883,078)	-
<b>Ending Balance</b>	<b>\$ 2,575,643</b>	<b>\$ -</b>

**THE ARIZONA COMMERCE AUTHORITY  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**DEBT OUTSTANDING**

In the current year, the Authority implemented GASB Statement No. 87, *Leases*. The following schedule shows the long-term obligations of the Authority as of June 30, 2022 and 2021.

	Governmental Activities	
	2022	2021
Facility Lease	<u>\$ 2,645,930</u>	<u>\$ -</u>

**STATEMENTS OF ACTIVITIES**

The Authority's overall financial position and operations for the past two fiscal years are summarized, as follows, based on the information included in the Government-Wide Financial Statements.

	Condensed Statement of Activities (In Thousands) June 30,			
	2022	2021	Diff	Percent
	<u>2022</u>	<u>2021</u>	<u>Diff</u>	<u>Percent</u>
<b>Expenses</b>				
Expenses	\$ 48,484	\$ 39,078	\$ 9,406	24.1
<b>Total Expenses and Other Financing Uses</b>	<u>48,484</u>	<u>39,078</u>	<u>9,406</u>	24.1
<b>Revenue</b>				
Program Revenue	11,863	14,103	(2,240)	(15.9)
General Revenue	83,246	20,391	62,855	308.2
<b>Total Revenue</b>	<u>95,109</u>	<u>34,494</u>	<u>60,615</u>	175.7
<b>Transfers Out</b>	<u>-</u>	<u>(673)</u>	<u>673</u>	(100.0)
<b>Change in Net Position</b>	46,625	(5,257)	51,882	(986.9)
<b>Net Position, Beginning</b>	<u>102,779</u>	<u>108,036</u>	<u>(5,257)</u>	(4.9)
<b>Net Position, Ending</b>	<u>\$ 149,404</u>	<u>\$ 102,779</u>	<u>\$ 46,625</u>	45.4

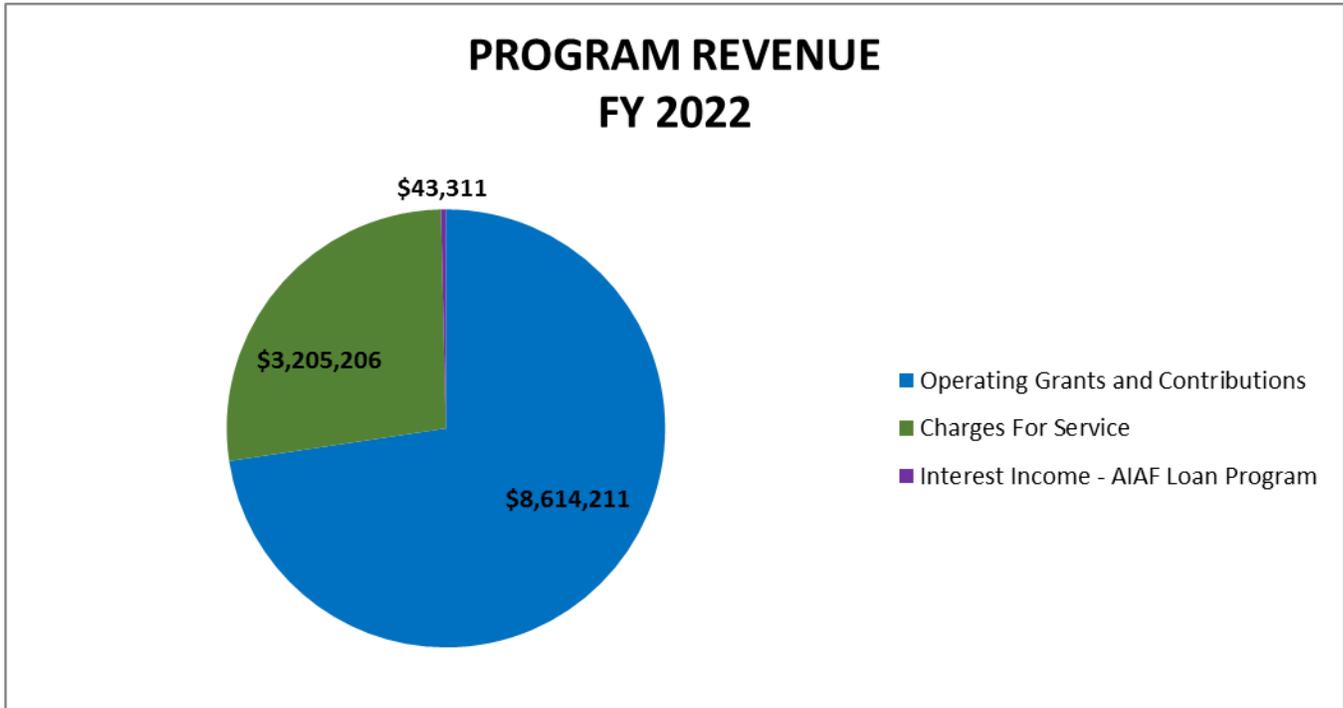
The Authority's expenses increased by \$9.4 million in Fiscal Year 2022 as compared to Fiscal Year 2021. The expense increase was primarily tied to a \$12.4M reversion expense offset by a \$2.7 million decrease in grant payments, specifically Job Training grants as the program wound down.

The Authority had no transfers to the State of Arizona during Fiscal Year 2022.

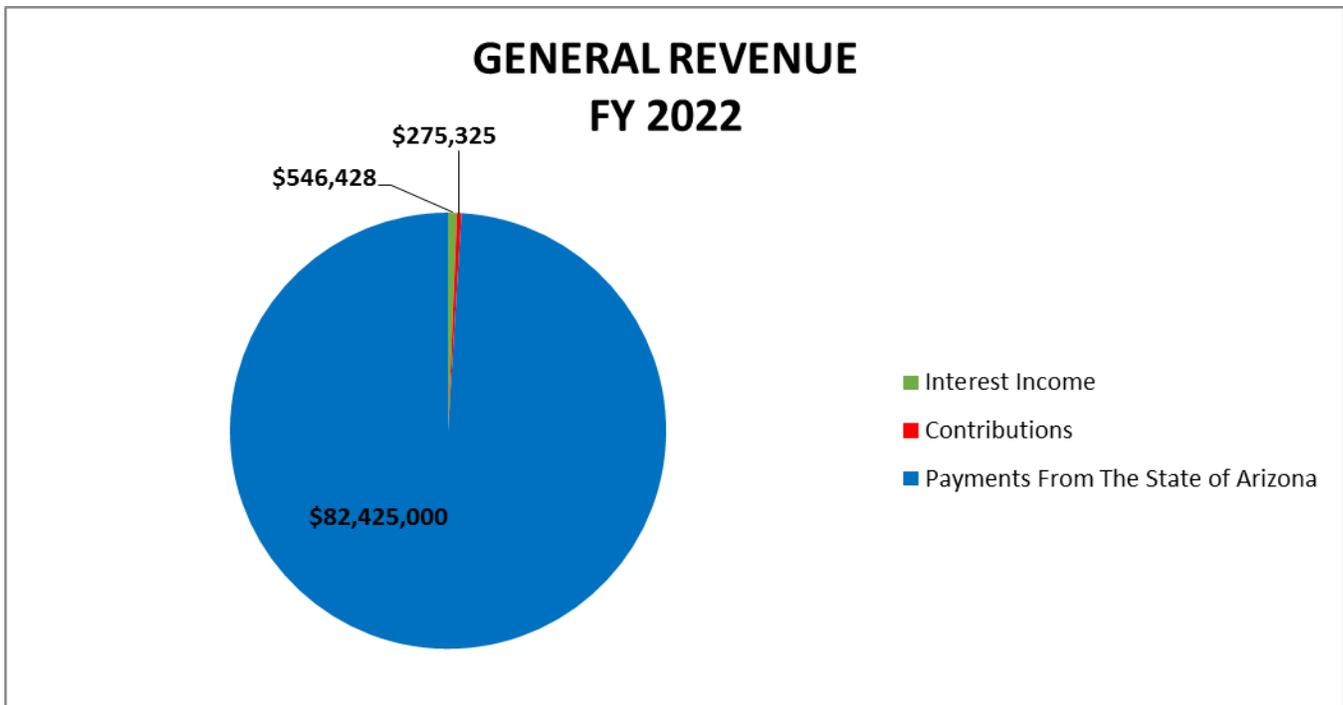
The Authority's total revenues increased by \$60.6 million in Fiscal Year 2022 as compared to Fiscal Year 2021 due mainly to additional appropriations including \$50.0 million one-time addition to the Arizona Competes Fund, \$7.5 million for the Major Events Fund, and \$5.0 million for applied research center grants.

**THE ARIZONA COMMERCE AUTHORITY  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

The following chart depicts the sources of Program Revenue for the fiscal year ended June 30, 2022.

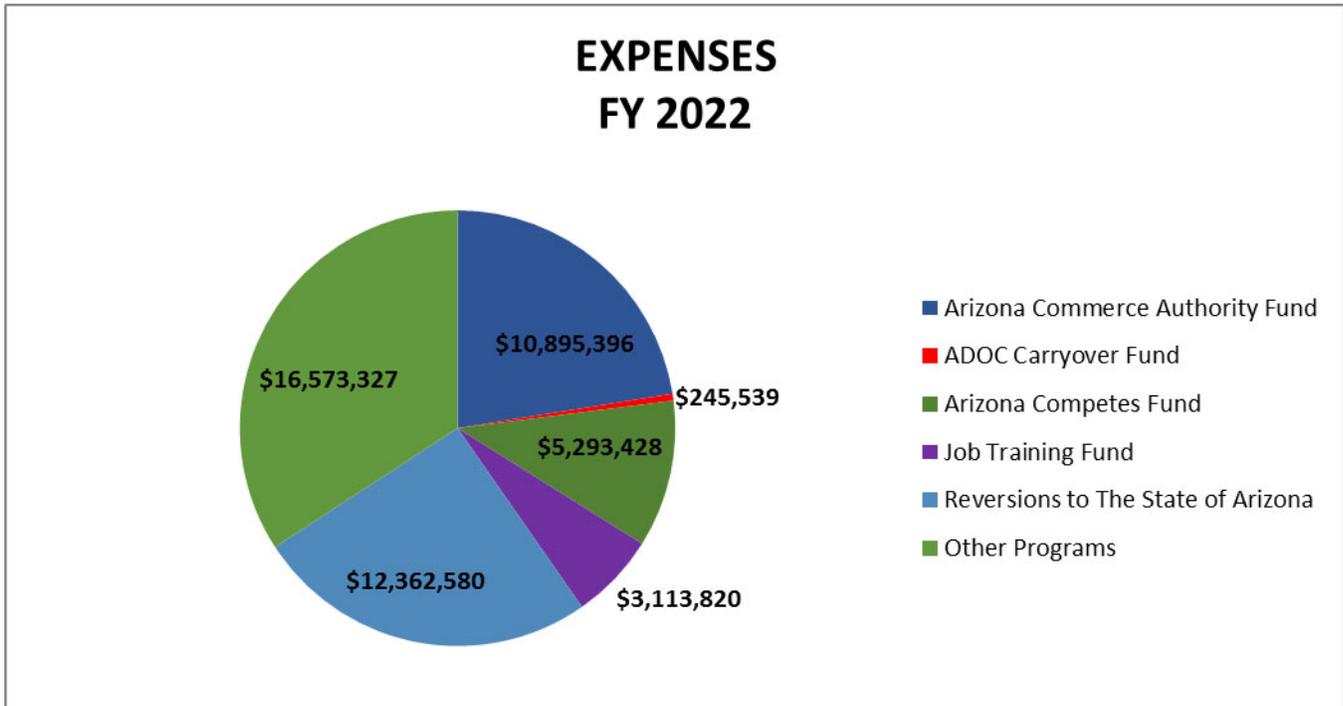


The following chart depicts the sources of General Revenue for the fiscal year ended June 30, 2022.



**THE ARIZONA COMMERCE AUTHORITY  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

The following chart depicts the Expenses for the fiscal period ended June 30, 2022.



**ECONOMIC OUTLOOK**

Arizona Revised Statutes § 43-409 provides \$10,000,000 to the Arizona Commerce Authority Fund (ACA Fund) and \$5,500,000 to the Arizona Competes Fund (ACF) from the Arizona Job Creation Withholdings Clearing Account for Fiscal Year (FY) 2023. These allocations remain unchanged from the prior year. In addition, Arizona Revised Statutes § 5-572(F) provides \$3,500,000 funding for the ACF from the Arizona Lottery Fund.

Economic forecasts predict that Arizona will continue to see growth in both personal income and employment through 2023. After another year of rapid growth in FY 2022, State revenues are projected to decline next fiscal year before resuming growth again in FY 2024. (See below.) While appropriations from the State are always subject to economic and political pressure, the Authority does not anticipate a reduction in the ACA Fund in FY 2023 or FY 2024. The ACF allocation will see a decrease in FY2023, returning to the level prior to the one-time increase in FY2022.

According to Arizona State University’s September 2021 Western Blue Chip Economic Forecast, the state of Arizona is expected to see positive personal income growth of 4.0 percent in calendar year 2022 and growth of 5.5 percent in calendar year 2023. The Western Blue Chip is a consensus forecast based on projections from prominent banks, universities, government organizations and firms in the region. The Western Blue Chip Forecast expects Arizona’s wage and salary employment to increase by 3.2 percent in 2022 and increase by 3.2 percent in 2023.

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Furthermore, the Fiscal Year 2023 Appropriations Report from the State of Arizona Joint Legislative Budget Committee (JLBC) projects revenue growth of 15.1 percent in fiscal year FY 2023, negative 8.1 percent growth in FY 2024, negative 2.8 percent growth in FY 2025 and 2.4 percent growth in FY 2026. The JLBC forecast draws on projections by panelists from prominent public and private organizations as well as JLBC staff.

To assess national economic conditions, the Arizona Office of Economic Opportunity provided the most recent IHS Markit projections. IHS Markit is a global information firm that provides national macroeconomic forecasts. The September 2022 IHS Markit baseline projections indicate U.S. real gross domestic product will increase in 2023 and increase each of the following years, through 2026.

**REQUEST FOR FINANCIAL INFORMATION**

The information contained in the Management's Discussion and Analysis is intended to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Arizona Commerce Authority, 100 North 7th Avenue, Suite 400, Phoenix, AZ 85007.

**THE ARIZONA COMMERCE AUTHORITY  
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STATEMENT OF NET POSITION  
JUNE 30, 2022**

	Governmental Activities
<b>ASSETS</b>	
Current:	
Cash and Cash Equivalents	\$ 18,133,096
Investments	141,756,180
Notes Receivable	24,106
Other Receivables	3,086,479
Other Assets, Current	161,043
Total Current	163,160,904
Noncurrent:	
Notes Receivable, Net	224,873
Right to Use Assets, Net	2,575,643
Capital Assets, Net	466,590
Total Noncurrent	3,267,106
Total Assets	166,428,010
<b>LIABILITIES</b>	
Current:	
Accounts Payable	570,516
Accrued Liabilities	166,118
Payable to The State of Arizona	12,362,580
Unearned Fees	1,278,865
Total Current	14,378,079
Noncurrent:	
Lease Liability Due Within One Year	862,567
Lease Liability Due in More than One Year	1,783,363
Total Noncurrent	2,645,930
Total Liabilities	17,024,009
<b>NET POSITION</b>	
Investment in Capital Assets	466,590
Restricted for:	
Arizona Competes Fund	87,448,875
Major Events Fund	7,500,000
Applied Research Center Fund	2,750,000
Broadband Development Fund	550
Unrestricted	51,237,986
Total Net Position	\$ 149,404,001

See accompanying Notes to Financial Statements.

**THE ARIZONA COMMERCE AUTHORITY  
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STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2022**

	<u>Governmental Activities</u>
<b>EXPENSES</b>	
Economic Development:	
Arizona Commerce Authority Fund	\$ 10,895,396
ADOC Carryover Fund	245,539
Arizona Competes Fund	5,293,428
Job Training Fund	3,113,820
Other Development Programs	16,573,327
Reversions to The State of Arizona	12,362,580
Total Expenses	<u>48,484,090</u>
 <b>PROGRAM REVENUE</b>	
Operating Grants and Contributions	8,614,211
Charges for Services	3,205,206
Interest Income - AIAF Loan Program	43,311
Total Program Revenue	<u>11,862,728</u>
 Net Expenses	 (36,621,362)
 <b>GENERAL REVENUE</b>	
Interest Income	546,428
Contributions	275,325
Appropriations From The State of Arizona	82,425,000
Total General Revenue	<u>83,246,753</u>
 <b>EXCESS OF EXPENSES OVER REVENUE</b>	 <u>46,625,391</u>
 <b>CHANGE IN NET POSITION</b>	 46,625,391
Net Position - July 1, 2021	<u>102,778,610</u>
 <b>NET POSITION - JUNE 30, 2022</b>	 <u><u>\$ 149,404,001</u></u>

See accompanying Notes to Financial Statements.

**THE ARIZONA COMMERCE AUTHORITY  
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BALANCE SHEET—GOVERNMENTAL FUNDS  
JUNE 30, 2022**

	General Fund
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 18,133,096
Investments	141,756,180
Notes Receivable, Net	248,979
Other Receivables	3,086,479
Other Assets	161,043
Total Assets	\$ 163,385,777
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 570,516
Accrued Liabilities	166,118
Payable to The State of Arizona	12,362,580
Unearned Fees	1,278,865
Total Liabilities	14,378,079
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable Revenue	240,589
<b>FUND BALANCES</b>	
Restricted	97,699,425
Assigned	44,504,015
Unassigned	6,563,669
Total Fund Balances	148,767,109
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 163,385,777

See accompanying Notes to Financial Statements.

**THE ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
RECONCILIATION OF THE BALANCE SHEET—GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2022**

<b>Total Fund Balances - Governmental Funds</b>	\$ 148,767,109
Amounts reported for governmental activities in the statement of net position are different because:	
Notes receivable, that are not due and receivable in the current period, do not constitute a current financial resource and, therefore, are not reported in the governmental funds.	240,589
Right to use assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	2,575,643
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	466,590
Long-Term Liabilities that pertain to governmental funds, including lease liabilities, are not due and payable in the current period and, therefore, are not reported as fund liabilities.	<u>(2,645,930)</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 149,404,001</u></u>

See accompanying Notes to Financial Statements.

**THE ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES—GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2022**

	<u>General Fund</u>
<b>REVENUES</b>	
Intergovernmental Revenue	\$ 8,614,211
Charges for Services	3,205,206
Interest Income	589,739
Other Revenue	275,325
AIAF Revenue	193,513
Appropriations From The State of Arizona	82,425,000
Total Revenues	<u>95,302,994</u>
<b>EXPENDITURES</b>	
Salary and Related Benefits	9,436,179
Professional and Outside Services	6,555,444
Aid to Other Organizations	13,779,149
General and Administrative	6,030,219
Reversions to The State of Arizona	12,362,580
Total Expenditures	<u>48,163,571</u>
<b>EXCESS OF EXPENDITURES OVER REVENUE</b>	<u>47,139,423</u>
<b>NET CHANGE IN FUND BALANCE</b>	47,139,423
Fund Balances - July 1, 2021	<u>101,627,686</u>
<b>FUND BALANCE - JUNE 30, 2022</b>	<u><u>\$ 148,767,109</u></u>

See accompanying Notes to Financial Statements.

**THE ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2022**

<b>Net Change in Fund Balances</b>	<b>\$ 47,139,423</b>
 Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. The extent to which depreciation expense exceeded capital outlay expenditures represents a reconciling item between both statements.	(250,232)
Governmental funds recognize the issuance of notes receivable, noncurrent, as expenditures when made, and their repayment as revenues when received. Conversely, long-term notes receivable are reflected as assets in the statement of net position. The extent to which repayments of the notes exceeded issuances represents a reconciling adjustment between both statements.	(193,513)
Governmental funds report lease payments as expenditures. However, in the statement of activities, the costs of those right to us assets is allocated over their estimated useful lives as general government expense. The amortization expense represents a reconciling item between both statements.	(883,078)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to the governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The issuance of long-term debt increases long-term liabilities on the statement of net position and the repayment of principal on long-term debt reduces long-term debt on the statement of net position.	
Principal Payments on Lease Liabilities	910,782
Interest Expense	(97,991)
	910,782
<b>Change in Net Position</b>	<b>\$ 46,625,391</b>

See accompanying Notes to Financial Statements.

**THE ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
STATEMENT OF FIDUCIARY FUND NET POSITION  
YEAR ENDED JUNE 30, 2022**

	<u>Custodial Fund</u>
<b>ASSETS</b>	
Cash and Investments	\$ -
<b>LIABILITIES</b>	
Accounts Payable	<u>-</u>
<b>NET POSITION</b>	
Unrestricted	<u><u>\$ -</u></u>

See accompanying Notes to Financial Statements.

**THE ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
YEAR ENDED JUNE 30, 2022**

	Custodial Fund
<b>ADDITIONS</b>	
Contributions	\$ 7,000
<b>DEDUCTIONS</b>	
Grants Issued	554,885
Administrative Expense	210
Total Program Expenses	555,095
<b>NET DECREASE IN FIDUCIARY NET POSITION</b>	(548,095)
Fiduciary Net Position - July 1, 2021	548,095
<b>FIDUCIARY NET POSITION - JUNE 30, 2022</b>	\$ -

See accompanying Notes to Financial Statements.

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Arizona Commerce Authority (a Component Unit of the State of Arizona) (the Authority) was established through House Bill 2001 (Fiftieth Legislature, Second Special Session, 2011), and is charged with the following responsibilities: job creation and expansion of capital investment through business attraction, expansion and retention, including business incubation and entrepreneurship; creation, monitoring, and execution of a comprehensive economic and workforce strategy; management and administration of economic development and workforce programs; providing statewide marketing leadership; utilization of all means necessary, prudent and practical to integrate private sector-based innovation, flexibility, focus and responsiveness; and advancement of public policy to meet the state of Arizona's economic development objectives.

**Government-Wide, Governmental Fund, and Fiduciary Fund Financial Statements**

The basic financial statements include the government-wide financial statements, governmental fund financial statements, fiduciary fund financial statements, and the accompanying notes to these financial statements.

The government-wide financial statements (statement of net position and statement of activities) report information on all of the nonfiduciary activities of the primary government. All activities are reported in the government-wide and fiduciary fund financial statements using the economic resources measurement focus using the accrual basis of accounting, which includes long-term assets and long-term liabilities. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal year.

The government-wide statement of net position reports all financial resources of the entity. It is displayed in a format of assets less liabilities equal net position, with the assets and liabilities shown in order of their relative liquidity. Net position is displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, if any, that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on the use either by (a) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – All other net position that does not meet the definition of “restricted net position” or “net investment in capital assets.”

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide, Governmental Fund, and Fiduciary Fund Financial Statements  
(Continued)**

Separate financial statements are provided for governmental funds and the fiduciary fund even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Authority considers the following fund to be a major fund:

The *General Fund* is the primary operating fund and is used to account for all financial resources except those required to be accounted for in other funds.

Additionally, the District reports the following fiduciary fund type:

The *Custodial Fund* is custodial in nature and is described as follows:

The Arizona Coronavirus Relief Fund accounts for donations received to aid in the response and recovery efforts related to the COVID-19 pandemic but held by the Authority as a custodian.

**Basis of Accounting**

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred. Since the governmental fund financial statements are presented on a different basis than the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the government-wide financial statements.

Intergovernmental aids and grants are recognized as revenues in the period the Authority is entitled to the resources and the amounts are available. Amounts owed to the Authority which are not available are recorded as receivables and unavailable revenues. Amounts received prior to the entitlement period are recorded as unearned revenues.

Revenues susceptible to accrual include charges for services. Other general revenues such as fees and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balances**

Fund balances are classified as Nonspendable, Restricted, Committed, Assigned and Unassigned based on the extent to which the Authority is bound to observe constraints imposed on the use of resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. The Authority has no fund balances classified as nonspendable as of June 30, 2022.

Restricted – The fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors through debt covenants, grantors, contributors, or laws or regulation of other governments or it’s imposed by law through enabling legislation.

Committed – The committed fund balance includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Authority’s Chief Executive Officer. Those committed amounts cannot be used for other purposes unless the committing party removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Authority has no fund balances classified as committed as of June 30, 2022.

Assigned – Amounts in the assigned fund balance are intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by Authority Management.

Unassigned – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and does not have a specific purpose. In the governmental funds, other than the general fund, if expenditures incurred exceeded the amounts restricted, committed, or assigned, the fund may report a fund deficit.

Generally, the Authority would first apply restricted resources and then assigned and unassigned resources when an expenditure is incurred for purposes for which more than one classification of fund balance is available.

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgetary Information**

The Authority uses a budget process that culminates in the adoption of a formal annual budget by the board of directors. The budget is a planning and control device; it is not legally binding in the sense of appropriations commonly required in municipal governments. However, certain budget changes require board approval per certain Authority board policies and organizational policies and procedures.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Authority treats short-term temporary cash investments with original maturities, when purchased, of three months or less as cash equivalents.

**Investments**

The Authority places all of its investments with the Arizona Treasurer within the Local Government Investment Pool (LGIP). The Arizona State Treasurer's Office operates this pool to provide professional short-term investment services to a wide array of public entities. By investing in the LGIP, participants are able to benefit from the substantial aggregate buying power of the state portfolio as well as a pool of monies from other participants. All such investments are stated at fair value based upon quoted market prices. The State Board of Investment conducts monthly reviews of investment activity and performance. LGIP amounts are carried at fair value. Participant shares are purchased and sold based on the net asset value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding.

**Notes Receivable and Allowance for Credit Losses**

Notes receivable consist of participation loans with banks made to small businesses through the Arizona Innovation Accelerator Fund loan programs. The Authority will participate up to 49% of the entire loan. Notes receivable are stated at the amount the Authority expects to collect. Provisions for credit losses on notes receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, and current economic conditions. Subsequent recoveries, if any, are credited to the allowance.

The allowance for notes receivable is evaluated on a regular basis by management and is based on risk. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Based on prior year loss history and an evaluation of the current loan portfolio, the Authority has established an allowance for credit losses totaling \$27,664 at June 30, 2022.

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Notes Receivable and Allowance for Credit Losses (Continued)**

Specific allowances for credit losses are established for impaired notes on an individual basis. A note is considered impaired when, based on current information, events, and adverse situations that may affect the borrower's ability to repay, it is probable that the Authority will be unable to collect the scheduled payments when due according to the contractual terms of the promissory note.

The specific allowances established for these loans are based on a thorough analysis of payment history, including timeliness of payments and knowledge of the borrower's circumstances. Notes receivable credit losses are charged against the allowance when management believes the uncollectibility of a note receivable balance is determined. Nonperforming notes include all notes for which payment of principal and/or interest is more than 90 days past due. All nonperforming notes receivable are placed on a nonaccrual status. There were no identified impaired or nonperforming notes receivable, and no loans were on a nonaccrual status at June 30, 2022.

**Capital Assets and Depreciation**

The Authority capitalizes assets with a purchase cost greater than \$5,000. Capital assets are initially recorded at original cost and carried net of accumulated depreciation. Depreciation is provided on the straight-line method based on the estimated useful lives of the property items, which range from 3 to 40 years. The costs of additions and replacements are capitalized. Contributed assets are recorded at acquisition value as of the date received. Repairs and maintenance are charged to expense as incurred. Retirements, sales, and disposals are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in general revenues within the statement of activities. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

**Right to Use Asset**

Associated with the facility lease, the Authority records a right of use asset recorded as the lease liability plus initial direct costs plus prepayments less any lease incentives. The right of use asset is amortized over the lesser of the useful life of the asset, or the term of the lease.

**Deferred Inflows of Resources**

Deferred inflows of resources recorded on the fund financial statements represent resources that are not available to the Authority as of June 30, 2022 or within 60 days of fiscal year-end. The deferred inflows of resources represent a reconciling item between the fund financial statements and the government-wide financial statements.

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Adoption of New Accounting Standards:**

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, Leases. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Entity adopted the requirements of the guidance effective July 1, 2021 and has applied the provisions of this standard to the beginning of the period of adoption. As of July 1, 2021 the Authority recorded a right to use asset and a lease liability of \$3,458,721(See Note 4 & Note 7).

**NOTE 2 CASH AND INVESTMENTS**

**Deposits**

Cash deposits are subject to custodial risk. Custodial risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority's deposits during the year and at fiscal year-end were entirely covered by federal depository insurance or by collateral. The carrying amount of the Authority's deposits at June 30, 2022, was \$18,133,096 and the bank ledger balance was \$19,487,863. The Authority adheres to Arizona State Law (A.R.S. §35-1202 et seq.) that requires any public deposit to be secured with collateral with a qualified administrator (State Treasurer). The required collateral level is set at 102% of the total depository amount, and must be certified by the State Treasurer.

**Investments**

The Authority's investment policy is to invest with the state of Arizona Treasurer, in the State Agency Pool, which is not rated and there are no restrictions on withdrawals. No policy exists for the following risks: custodial credit risk, credit risk, concentration of credit risk and interest rate risk.

Investments in the State Treasurer's investment pools are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and willing seller. Investments are valued based on published market prices and securities pricing services.

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

The following is a summary of the Authority's cash and investments as of June 30, 2022:

Cash in Bank	\$ 18,133,096
Investments in LGIP	141,756,180
Total Deposits and Investments	<u>159,889,276</u>
Less: Fiduciary Fund	-
Total Cash, Cash Equivalents, and Investments	<u><u>\$ 159,889,276</u></u>

**NOTE 3 NOTES RECEIVABLE**

As of June 30, 2022, current and noncurrent notes receivable, after applying the allowance for doubtful accounts, consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
AIAF Loans	<u>\$ 24,106</u>	<u>\$ 224,873</u>	<u>\$ 248,979</u>

The following table provides a summary of changes in total notes receivable for the year ended June 30, 2022:

	<u>Balances June 30, 2021</u>	<u>Note Issuances</u>	<u>Write Offs</u>	<u>Payments Received</u>	<u>Balances June 30, 2022</u>
AIAF Loans	<u>\$ 507,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (231,009)</u>	<u>\$ 276,643</u>

The lines of credit are typically renewed upon their renewal date. As part of the Arizona Innovation Accelerator Fund Loan Program, the Authority renewed no lines of credit in the fiscal year and closed out two loans in fiscal year 2022.

The following is a composition of the notes receivable as of June 30, 2022.

<u>Borrower, Terms, and Maturity</u>	<u>Original Principal</u>	<u>Outstanding Principal</u>
Arizona Innovation Accelerator Fund Loan (AIAF). Interest bearing participation loan with an interest rate of 5.50%. The loan had a maturity date of December 1, 2020. The loan repayment terms were modified, and the Authority has been receiving monthly payments based on revised schedule.	\$ 1,750,000	<u>\$ 276,643</u>
Total		276,643
Allowance for Doubtful Accounts		<u>(27,664)</u>
Notes Receivable, Net		<u><u>\$ 248,979</u></u>

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 4 CAPITAL ASSETS AND RIGHT TO USE ASSETS**

Capital assets and right to use assets at June 30, 2022, consist of the following:

	<u>Balances June 30, 2021</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balances June 30, 2022</u>
Capital Assets:				
Furniture and Equipment	\$ 1,015,938	\$ -	\$ -	\$ 1,015,938
Leasehold Improvements	780,710	-	-	780,710
Total Depreciable Assets	<u>1,796,648</u>	<u>-</u>	<u>-</u>	<u>1,796,648</u>
Less Accumulated Depreciation:				
Furniture and Equipment	(765,555)	(113,663)	-	(879,218)
Leasehold Improvements	<u>(314,271)</u>	<u>(136,569)</u>	<u>-</u>	<u>(450,840)</u>
Total Accumulated Depreciation	<u>(1,079,826)</u>	<u>(250,232)</u>	<u>-</u>	<u>(1,330,058)</u>
Capital Assets, Net	<u>\$ 716,822</u>	<u>\$ (250,232)</u>	<u>\$ -</u>	<u>\$ 466,590</u>
Right to Use Assets:				
Building	\$ -	\$ 3,458,721	\$ -	\$ 3,458,721
Less: Accumulated Amortization:				
Building	<u>-</u>	<u>(883,078)</u>	<u>-</u>	<u>(883,078)</u>
Right to Use Assets, Net	<u>\$ -</u>	<u>\$ 2,575,643</u>	<u>\$ -</u>	<u>\$ 2,575,643</u>

Depreciation expense of \$250,232 and amortization expense of \$883,078 was charged to the Arizona Commerce Authority for the year ended June 30, 2022.

**NOTE 5 FUND BALANCES**

Fund balances at June 30, 2022, consist of the following:

	<u>General</u>
Fund Balances	
Restricted for:	
Arizona Competes Fund	\$ 87,448,875
Major Events Fund	7,500,000
Applied Research Center Fund	2,750,000
Broadband Development Fund	550
Assigned to:	
Arizona Competes Fund	25,982,652
AIAF Fund	18,521,363
Unassigned	6,563,669
Total Fund Balances	<u>\$ 148,767,109</u>

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 6 COMMITMENTS**

Grant activity payments were \$9,203,649 for the year ended June 30, 2022. Grant award commitments totaling approximately \$25,982,652 remain unpaid at June 30, 2022. These unpaid commitments were not recorded as grants expense and grants payable due to significant conditions that were not satisfied on or before June 30, 2022. Payments on these commitments will be made as conditions are met. If the conditions for a commitment are not met, the remaining balance on that commitment will be released.

**NOTE 7 LEASE**

The Authority is committed for its operating facility under a long-term, noncancelable lease agreement. The lease requires escalating payments through May 2025. The Authority has determined the present value of the lease liability using 3.25% discount rate.

The future minimum lease payments under the agreement as follows:

<u>Year Ending June 30.</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 862,567	\$ 70,729	\$ 933,296
2024	908,821	41,963	950,784
2025	874,542	11,893	886,435
Total Minimum Payments Required	<u>\$ 2,645,930</u>	<u>\$ 124,585</u>	<u>\$ 2,770,515</u>

Changes in long-term obligations for the year ended June 30, 2022 are as follows:

	<u>Balances June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances June 30, 2022</u>	<u>Due Within One Year</u>
Facility Lease	<u>\$ -</u>	<u>\$ 3,458,720</u>	<u>\$ (812,790)</u>	<u>\$ 2,645,930</u>	<u>\$ 862,567</u>

Right to use assets acquired through the outstanding lease is shown below.

	<u>Governmental Activities</u>
Right to Use Assets:	
Building	\$ 3,458,721
Less: Accumulated Amortization	(883,078)
Right to Use Assets, Net	<u>\$ 2,575,643</u>

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 8 RELATED PARTY TRANSACTIONS**

The Arizona Commerce Authority's primary facility in Phoenix is shared space with the Office of Economic Opportunity (OEO), Arizona Office of Tourism (AOT), Arizona Mexico Commission (AMC), and Water Infrastructure Finance Authority (WIFA). Each entity pays a proportional share of rent to the Authority based on their respective staffing levels. The interagency service agreements are short-term (12 months), and cancellable upon 60 days written notice, and may be extended upon mutual agreement and written amendment. The proportional share may change over the lease term and currently accounts for 49% of the total rental cost. The Authority also provides management and research services for OEO during the year. Rental share, management services, and research payments from OEO, AOT, AMC, and WIFA were approximately \$827,428 that was recognized as revenue and expense during the year.

Funding for the Job Training Program ended on December 31, 2015. Pursuant to HB2539 (53rd legislative, 1st session), the Program termination date was extended to December 31, 2020, after which time no new grants could be issued. Unencumbered funds as of June 30, 2022, in the amount of \$12,362,580 is to be reverted to the State General Fund. The Authority recorded a reversion expense and liability of \$12,362,580 payable to the State of Arizona as of June 30, 2022.

**NOTE 9 RETIREMENT PLAN**

1. **General.** The plan is a 401(k) Safe Harbor defined contribution plan covering all full-time employees of the Authority who are age 21 or older. Eligibility to participate in the plan occurs on the first day of the first payroll period immediately following the date the participant completes the eligibility requirements. It is subject to the provisions of the Employee Retirement Income Security Act of 1976 (ERISA).
2. **Contributions.** Each year, participants may contribute up to the amount allowed by the Internal Revenue Code. In addition, participants over the age of 50 are permitted to make additional catch-up contributions. The Authority contributes a matching contribution equal to 100% of deferral contributions up to, but not exceeding, 4% of compensation. For the period ended June 30, 2022, the Authority contributed \$261,898 in contributions to the retirement plan.
3. **Participant Accounts.** Each participant's account is credited with (a) participant's contribution, (b) the Authority's contribution, (c) plan earnings (losses), and charged with an allocation of administrative expenses. Allocations are based upon participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. **Vesting.** Participants are immediately 100% vested in (a) their contributions, (b) the Authority's matching contribution, and (c) earnings thereon.

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**NOTE 9 RETIREMENT PLAN (CONTINUED)**

5. **Withdrawals.** Participant withdrawals may be made from the plan upon termination of employment, death, disability, attainment of age 59½, Early Retirement Age, Normal Retirement Age, or in the case of a hardship as defined in the plan description.
6. On July 1, 2021 the 401(k) plan was frozen and a new combination 457(b)/401(a) plan was implemented. The new plans will function similarly to the previous plan with the same eligibility requirements, contribution match, and 100% vesting.

**NOTE 10 RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a participant in the state's self-insurance program and, in the opinion of the Authority's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Authority has no risk of loss beyond adjustments to future years' premium payments to the state's self-insurance program. All estimated losses for unsettled claims and actions of the state are determined on an actuarial basis and are included in the state of Arizona's Annual Comprehensive Financial Report.

**NOTE 11 CONTINGENCIES**

The Authority participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, the Authority's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although the Authority's management expects such amounts, if any, to be immaterial.

The Authority is periodically involved in various claims arising in the ordinary course of business, none of which, in the opinion of management, if determined adversely against the Authority, will have a material adverse effect on the financial condition, results of operations, or liquidity of the Authority.



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

Board of Directors  
The Arizona Commerce Authority  
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of The Arizona Commerce Authority (a Component Unit of the State of Arizona) (Authority) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 21, 2022.

**Report on Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2022-001 that we consider to be a significant deficiency.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Arizona Commerce Authority's financial statements are free from 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 financial statements. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of finding and response as item 2022-001.

### **The Arizona Commerce Authority's Response to Findings**

*Government Auditing Standards* require the auditor to perform limited procedures on The Arizona Commerce Authority's response to the finding identified in our audit and described in the accompanying schedule of finding and response. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
October 21, 2022

**ARIZONA COMMERCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF ARIZONA)  
SCHEDULE OF FINDING AND RESPONSE  
JUNE 30, 2022**

**SECTION I – FINANCIAL STATEMENT FINDING AND RESPONSE**

**2022-001: Significant Deficiency – Nonexchange Transactions**

**Condition/Criteria:** The Authority improperly recognized grant revenue as of June 30, 2022. Per GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, specifically voluntary nonexchange revenues should be recognized when all eligibility criteria have been met.

**Context:** An audit adjustment was proposed, and subsequently recorded by management.

**Effect:** Internal control weakness as an audit adjustment was proposed and subsequently recorded by management to properly state the financial statements in accordance with governmental generally accepted accounting principles.

**Cause:** The Authority's determination and reporting of revenue incorporated an error that resulted in an adjustment in the financial statements. The Authority did not have sufficient review procedures in place to identify the error.

**Recommendation:** We recommend the Authority evaluate its internal control processes over year-end closing procedures to ensure revenues from nonexchange transactions are properly recorded at year-end.

**Response:** The Authority concurs with this recommendation and will review its year-end closeout process and procedures to ensure activity is properly reported.

**Contact Person:** Ken Burns, Chief Financial Officer/Chief Operating Officer



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