



October 30, 2015

Board of Directors
The Industrial Development Authority of The City of Phoenix, Arizona
Phoenix, Arizona

We have audited the financial statements of The Industrial Development Authority of The City of Phoenix, Arizona as of and for the year ended June 30, 2015, and have issued our report thereon dated October 30, 2015. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Industrial Development Authority of The City of Phoenix, Arizona are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the entity during the year for which there was a lack of authoritative guidance or consensus. All significant transactions were recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimate of allowance for doubtful notes receivable balances:

- Management determines the allowance for doubtful notes receivable by identifying troubled accounts as well as evaluating receivables and considering the entity's financial condition, credit history, and current economic conditions. Our conclusion regarding the reasonableness of the estimate for the allowance for doubtful accounts was based primarily on the entity's history of subsequent collections and current period write-offs.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are considered neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that were clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated October 30, 2015.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

* * * *

This communication is intended solely for the information and use of the Board of Directors and management of The Industrial Development Authority of The City of Phoenix, Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.

Attachment

DRAFT

**THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)**

**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Industrial Development Authority of The City of Phoenix, Arizona
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying statement of net position of The Industrial Development Authority of The City of Phoenix, Arizona as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Industrial Development Authority of The City of Phoenix, Arizona, as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of The Industrial Development Authority of The City of Phoenix's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Industrial Development Authority of The City of Phoenix's internal control over financial reporting and compliance.

Phoenix, Arizona
October 30, 2015

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

We, The Industrial Development Authority of The City of Phoenix (Phoenix IDA), are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2015. The Management's Discussion and Analysis (MD&A) is intended to provide an objective and easy to read analysis of the Phoenix IDA's financial activities based on currently known facts, decisions and conditions. This discussion addresses current operational activities, the sources, uses, and changes in resources, service levels, limitations and significant economic factors. When referring to prior year data in this analysis that data is drawn from last year's audited financial report.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the Phoenix IDA exceeded its liabilities at the close of the most recent fiscal year by \$20,420,046 (net position). All of this amount is unrestricted with the exception of \$14,155,000 and may be used to meet the Phoenix IDA's ongoing obligations to citizens and creditors. The Phoenix IDA Board has designated the \$14,155,000 for operating reserves, community development fund awards, and a fund for community investments where a return is expected on those investments.
- ◆ During the fiscal year, net position increased by \$2,262,959 compared to an increase in the previous year of \$1,512,928. As in previous years, sources of revenue included user assessments and other fees. The major revenue source is residential mortgage program income which increased by \$2,049,646 during the fiscal year. This increase is attributable to the fees earned for the Phoenix IDA's participation in the Home in Five Advantage mortgage origination program.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the financial statements for the Phoenix IDA consists of this discussion and analysis and the basic financial statements. The basic financial statements include the fund financial statements and notes to the basic financial statements.

Fund Financial Statements

The fund financial statements focus on major funds of the Phoenix IDA. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Phoenix IDA, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The one fund of Phoenix IDA is a proprietary fund which is explained below.

Proprietary Fund

The Phoenix IDA maintains one type of proprietary fund. *Enterprise funds* are used to report functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Phoenix IDA uses an enterprise fund to account for its operations.

The statement of net position presents information on the Phoenix IDA's assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the Phoenix IDA is improving or deteriorating.

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The statement of revenues, expenses and changes in net position presents information on how the Phoenix IDA's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows in future fiscal periods.

The basic financial statements can be found on pages 8 - 10 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements (pages 11 - 17) provide additional information that is essential to a full understanding of the data provided in the basic financial statements and should be read with the basic financial statements.

Financial Analysis

Net position may serve over time as useful indicators of a government's financial position. The following table reflects the condensed statement of net position of the Phoenix IDA for June 30, 2015 showing that assets exceeded liabilities by \$20,420,046.

The Industrial Development Authority of The City of Phoenix
Net Position
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current Assets	\$ 4,753,843	\$ 2,992,067
Other Assets	15,807,521	15,357,710
Total Assets	20,561,364	18,349,777
LIABILITIES		
Current Liabilities	141,318	192,690
NET POSITION:		
Unrestricted	20,420,046	18,157,087
Total Liabilities and Net Position	\$ 20,561,364	\$ 18,349,777

All of the Phoenix IDA's net position of \$20,420,046 is unrestricted with the exception of \$14,155,000, as discussed above, and may be used to meet the Phoenix IDA's ongoing obligations to citizens and creditors.

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Overall, net position increased by \$2,262,959. Key elements of this increase are as follows:

The Industrial Development Authority of The City of Phoenix
Changes in Net Position
Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
REVENUES		
Early bond redemption	\$ 85,731	\$ 146,484
User assessments	928,973	972,698
Residential mortgage program income	3,586,686	1,537,040
Fee income	221,115	121,951
Total Revenues	4,822,505	2,778,173
EXPENSES		
General and administration	1,022,090	965,984
Bond administration	9,778	11,667
Other programs	34,350	27,760
Community investment	1,512,000	311,365
Program and project development	100,250	64,067
Loan portfolio administration	2,798	2,815
Total Expenses	2,681,266	1,383,658
NON-OPERATING REVENUE		
Interest income	121,720	118,413
Total non-operating revenue	121,720	118,413
CHANGE IN NET POSITION	2,262,959	1,512,928
Net Position - Beginning of Year	18,157,087	16,644,159
NET POSITION - END OF YEAR	\$ 20,420,046	\$ 18,157,087

The Phoenix IDA's major revenue source is residential mortgage program income which increased by \$2,049,646 or 133.4% during the fiscal year. This increase is attributable to the fees earned for the Phoenix IDA's participation in the Home in Five Advantage mortgage origination program.

In 2015, Fee income increased by \$99,164 or 81.3% during the fiscal year. The increase is attributable to fees collected on non-Arizona bond transactions. While User assessments decreased by \$43,725 or 4.5% during the fiscal year, this was attributable to a one-time user assessment received in the prior fiscal year of \$225,000. As user assessments are usually received over the entire time that the bonds are outstanding, the adjusted user assessment totals of \$747,698 in 2014 and \$928,973 in 2015 would reflect an increase of \$181,275 or 23.5%.

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Early bond redemption income is the result of taking advantage of the marketability of outstanding single family bonds that can be redeemed and resold in the secondary markets. Over the past several years, the Phoenix IDA has identified bond issues that would generate a positive return when redeemed. Consequently, the Phoenix IDA has greatly reduced the total outstanding single family bonds, and each year has produced slightly lower income from the decreasing balance of single family bonds. The early bond redemption income in 2015 decreased by \$60,753 or 41.5% as a result.

The operating expenses of the Phoenix IDA for 2015 increased by \$1,297,610 or 93.8%. This increase is mostly attributable to the \$1.2 million increase in community development fund awards made by the Phoenix IDA during the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Arizona's economic growth, as measured by personal income, grew slightly faster than the national average in the second quarter of 2015, with job growth slightly faster than the U.S. average. The state economy continues to expand and growth is likely to continue as long as the nation avoids recession. The forecast calls for state growth to pick up speed during fiscal years 2016-2020, with gains across most indicators far exceeding national results (<http://azeconomy.eller.arizona.edu>).
- The United States Census Bureau reports that the City of Phoenix's population increased by 0.14 percent from July 2013 to July 2014 (www.census.gov). The unemployment rate in the Phoenix MSA in August 2015 was 5.8 percent, which lies between the state and national averages of 6.3 percent and 5.1 percent, respectively (www.workforce.az.gov).
- As reported by the U.S. Census Bureau, City of Phoenix's population increased 9.9 percent from 2000 to 2010, which is higher than the United States' overall population increase of 9.7 percent for the same time period (www.census.gov).

The Phoenix IDA will continue to generate revenue from the Home in Five Advantage mortgage origination program. The program has experienced great success and continues to be a successful tool for homebuyers in Maricopa County, including the city of Phoenix. The current program has provided down payment and closing cost assistance for low to moderate income homebuyers with government backed (FHA, VA and USDA-RH) loans. The program is being expanded in Fiscal Year 2015-16 to provide assistance for similar homebuyers using conventional loans. The program also provides an additional 1% assistance to qualified military homebuyers, which is being expanded in Fiscal Year 2015-16 to include first responders and full-time teachers in K-12.

The Phoenix IDA anticipates continued growth in bond financings, with a focus on health care, education and manufacturing. This growth, offset by the regular redemption of bonds, should result in a modest increase in user assessments in Fiscal Year 2015-16. Application and other fees should be consistent with past years. Investment earnings are difficult to predict, however we expect rates and earnings to be similar during the upcoming fiscal year. It is expected that the final early single family bond redemptions will take place in Fiscal Year 2015-16, producing revenue that is likely to be less than in Fiscal Year 2014-15, bringing the balance of outstanding single family bonds to zero.

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The operating expenses of the Phoenix IDA continue to be managed in a fiscally prudent manner. Expenses will increase in Fiscal Year 2015-16 due to additional staff positions that will focus on increasing economic impact as the Phoenix IDA expands its efforts with its partners for economic and business development purposes. There will be additional community development fund dollars directed by the Phoenix IDA in Fiscal Year 2015-16. These dollars are contingent on operating income of the Phoenix IDA during the fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Phoenix IDA's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Phoenix IDA
251 W. Washington Street, 9th Floor
Phoenix, AZ 85003
(602) 262-7304

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$	4,665,576
Interest receivable		35,451
Notes receivable, current portion		28,799
Deposits		5,000
Prepaid expenses		<u>19,017</u>
Total current assets		<u>4,753,843</u>
 NONCURRENT ASSETS		
Investments		12,510,303
Land sale receivable		157,000
Investment in land		3,038,006
Long term notes receivable, net		<u>102,212</u>
Total noncurrent assets		<u>15,807,521</u>
 TOTAL ASSETS		 <u><u>\$ 20,561,364</u></u>
 LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$	141,318
 NET POSITION - UNRESTRICTED		 <u>20,420,046</u>
 TOTAL LIABILITIES AND NET POSITION		 <u><u>\$ 20,561,364</u></u>

See accompanying Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015

OPERATING REVENUE

Early bond redemption	\$ 85,731
User assessments	928,973
Residential mortgage program income	3,586,686
Fee income	221,115

Total operating revenue	4,822,505
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OPERATING EXPENSES

General and administration	1,022,090
Bond administration	9,778
Other programs	34,350
Community investment	1,512,000
Program and project development	100,250
Loan portfolio administration	2,798

Total operating expenses	2,681,266
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Operating income	2,141,239
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NON-OPERATING REVENUE

Interest income	121,720
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Total non-operating revenue	121,720
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CHANGE IN NET POSITION

2,262,959

UNRESTRICTED NET POSITION, BEGINNING OF YEAR

18,157,087

UNRESTRICTED NET POSITION, END OF YEAR

\$ 20,420,046

See accompanying Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,238,096
Net cash receipts from down payment assistance program	5,559,691
Cash payments to suppliers for goods or services	(1,961,862)
Cash payments to employees for services	(775,425)
	4,060,500
Net cash provided by operating activities	4,060,500

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from notes receivable	253,806
Issuance of notes receivable	(100,000)
Interest income	121,720
Proceeds from sale of investments	13,076,417
Purchase of investment in land	(2,667,073)
Purchases of investments	(11,012,800)
	(327,930)
Net cash used in investing activities	(327,930)

NET INCREASE IN CASH AND CASH EQUIVALENTS

3,732,570

**CASH AND CASH EQUIVALENTS,
BEGINNING OF YEAR**

933,006

**CASH AND CASH EQUIVALENTS,
END OF YEAR**

\$ 4,665,576

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 2,141,239
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	3,000
Interest receivable	(723)
Program receivable	1,973,005
Deposits	(5,000)
Prepaid expenses	351
Accounts payable	(51,372)
	(51,372)
Net cash provided by operating activities	\$ 4,060,500

NONCASH INVESTMENT ACTIVITIES

Sale of investment in land	\$ 157,000
	157,000

See accompanying Notes to Financial Statements.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Industrial Development Authority of the City of Phoenix, Arizona ("Phoenix IDA") is a nonprofit corporation designated a political subdivision of the State of Arizona. The Phoenix IDA was established on July 7, 1981 in order to exercise its broad statutory powers, including the power to issue conduit revenue bonds to finance "projects" as such term is defined by the Arizona Revised Statutes, §35-701(8). All bonds issued by the Phoenix IDA are special, limited obligations of the Phoenix IDA, payable solely from revenues generated by the project being financed, and do not constitute a debt of, a loan of, or credit by, the Phoenix IDA. The Phoenix IDA charges administration fees to bond applicants and uses such fees to cover its administration costs and to support its ongoing community and economic development programs in Arizona. The Phoenix IDA is a special-purpose governmental entity engaged in business type activities. The Phoenix IDA is the primary governmental entity but has no taxing power and is a component unit of the City of Phoenix, Arizona.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Use of Estimates in Preparing Financial Statements

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 at the date of the financial statements. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Phoenix IDA evaluates its estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that its estimates and assumptions are reasonable under the circumstances; however, actual results may differ from those estimates.

Fund Accounting

The Phoenix IDA reports in a manner consistent with proprietary funds for their ongoing operations and activities, which are similar to those often found in the private sector. Enterprise funds are the only type of proprietary funds used by the Phoenix IDA. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

A significant portion of the Phoenix IDA revenue is derived from issuer fees related to its bond issuances activity and includes assessment fees, program fees and application fees. Issuer fees are based on executed Trust Indenture/Loan Financing Agreements and are recognized as revenue when earned. Other significant revenue is derived from fees earned from a down payment assistance program through sales of mortgage backed securities.

Cash and Cash Equivalents

The Phoenix IDA considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments consist primarily of certificates of deposit. All such investments are stated at fair value based upon quoted market prices.

Real Estate Held for Investments

Real estate held for investment consists primarily of land, stated at cost.

Notes Receivable

Notes receivable consist of amounts advanced to projects financed by the Phoenix IDA and other non-profit entities. Interest on notes receivable is recognized as revenue when earned. The Phoenix IDA does not recognize interest income on notes once they are deemed to be impaired or non-performing. A note is considered impaired when, based on current information and events, it is probable that the Phoenix IDA will be unable to ultimately collect all amounts due. Non-performing notes include all notes for which payment of principal and/or interest is more than 90 days past due. Cash receipts are first allocated to interest income, except when such payments are specifically designated by the terms of the note as principal reductions or payment of fees.

Allowance for Notes Receivable

The allowance for notes receivable is established as losses are estimated to have occurred through a provision for doubtful accounts charged to earnings on a monthly basis and is based on risk. Notes receivable losses are charged against the allowance when management believes the uncollectibility of a notes receivable balance is confirmed. 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 upon management's periodic review of the collectability of the notes receivable in light of historical experience, adverse situations that may affect the borrower's ability to repay, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Receivables

Program receivables are stated at the amount management expects to collect under the terms of the contracts and agreements. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction of the related receivables. Management considers all program receivables to be collectible at June 30, 2015.

Unrestricted Net Position

The Phoenix IDA's reported total net position is entirely comprised of unrestricted net position, of which the Board of Directors has designated \$14,155,000 of net position for specific uses.

Tax-Exempt Status

As a political subdivision of the State of Arizona, the Phoenix IDA is exempt from federal and state corporate income taxes. Consequently, no provision for corporate income taxes has been included in the accompanying financial statements.

NOTE 2 CASH AND INVESTMENTS

A summary of the Phoenix IDA's cash and investments at June 30, 2015 follows:

Cash	\$ 60,130
Cash equivalents, money markets	<u>4,605,446</u>
Cash and cash equivalents	<u>4,665,576</u>
Investments	12,510,303
Investment in land	<u>3,038,006</u>
Total investments	<u>15,548,309</u>
Total cash and investments	<u><u>\$ 20,213,885</u></u>

The Phoenix IDA's investment policy, as approved by the Board of Directors, is to match investment maturities with cash requirements. The fair value of investment securities as of June 30, 2015, by contractual maturity, is shown on the following page.

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2015, the Phoenix IDA had investment securities with the following maturities:

	<u>Credit Quality Rating</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>
Certificates of deposit	Non Rated	\$ 12,510,303	\$ 12,014,303	\$ 496,000

The above securities are certificates of deposit with original maturities of twelve months or greater which are not rated, that management intends to reinvest the monies as they mature.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The Phoenix IDA had \$34,212 realized gains on investments during 2015 and is reflected in interest income on the statement of revenues, expenses, and changes in net position.

Custodial Risk – The Phoenix IDA places its cash with high credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the FDIC insurance coverage limit. At June 30, 2015, all of the Phoenix IDA's cash accounts were covered by FDIC insurance.

Interest Rate Risk – It is the Phoenix IDA's policy to hold investments to maturity and avoid any loss on investments resulting from an early sale or retirement of an investment.

Credit Risk – The Phoenix IDA's investment policies mandate the quality of investments allowable for purchase. Specifically, municipal bonds must be rated AAA or better by Moody's or Standard & Poor's, or an equivalent by a second major rating agency. In addition investments in U.S. Government Securities carry an implied AAA rating.

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
(A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The Phoenix IDA's Investment Policy limits unreasonable risks inherent in over-weighting in certain financial institutions. In order to comply with its Investment Policy, whereby maturing principal and interest on certificates of deposit (CDs) in any institution should not exceed the \$250,000 FDIC deposit insurance limit, the Phoenix IDA utilizes three types of accounts, the Insured Cash Sweep (ICS), the Certificate of Deposit Account Registry Service (CDARS), and a managed CD account. The ICS and CDARS services are comprised of a network of member financial institutions that each issue either money market accounts or CDs in increments below the FDIC insurance maximum, thus both principal and interest are FDIC insured. This allows the Phoenix IDA to invest its funds with a wide array of banks by making deposits with ICS and/or CDARS member banks that place the funds through ICS and/or CDARS, while ensuring all of its deposits are federally insured. As a result, the Phoenix IDA has a vastly diverse investment portfolio, and investments in any one banking institution do not exceed 5% of total investments. As of June 30, 2015, investments in these diversified investments through custodians are as follow:

<u>Financial Institutions</u>	<u>Investment Type</u>	<u>Fair Value</u>
Kansas State Bank	Certificate of deposit account registry service	\$ 10,053,429
Kansas State Bank	Insured cash sweep	4,269,381
Mutual of Omaha Bank	Managed certificate of deposit account	994,000

Investments through the custodians in the ICS, CDARS or managed CD account programs are, in actuality, investments made in multiple financial institutions at a level covered by FDIC insurance and, as such, do not individually exceed 5% of total investments.

Investment in Land

In January 2012, the Phoenix IDA entered into an agreement with the City of Phoenix to purchase a 50% stake in the proceeds of the future, mutually agreed upon development or disposition of a parcel of land owned by the City of Phoenix for \$157,500. Similarly, in September 2013, the Phoenix IDA entered into a separate development agreement with the City of Phoenix to purchase a 50% stake in the proceeds of the future, mutually agreed upon development or disposition of a different parcel of land also owned by the City of Phoenix for \$370,433. In January 2015, the Phoenix IDA entered into a third separate development agreement with the City of Phoenix to purchase a 90% stake in the proceeds of the future, mutually agreed upon the development or disposition of another parcel of land also owned by the City of Phoenix for \$2,667,073.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
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NOTE 3 NOTES RECEIVABLE

<u>Borrower, Terms and Maturity</u>	<u>Purpose</u>	<u>Original Principal</u>	<u>Outstanding Principal Balance</u>
Original loan was modified on June 30, 2010, in which \$88,984 of interest was added to principal of \$250,000 and the due date accelerated. Interest only loan at 4%. All principal and interest is due April 7, 2019.	Funds used to assist in the acquisition and construction of an affordable senior housing project, located in the Phoenix metropolitan area.	\$ 338,984	\$ 338,984
Loan commencing July 1, 2002, bearing interest at 4%, interest only payments. Interest and any unpaid principal is due December 20, 2040.	Funds used to assist in the acquisition and construction of an affordable housing project, located in the Phoenix metropolitan area.	250,000	250,000
Original loan was modified on June 30, 2010, in which \$27,040 of interest was added to principal of \$250,000. Interest only loan at 4%. The remaining interest and principal is due October 15, 2021.	Funds used to assist in the acquisition and construction of an affordable housing project, located in the Phoenix metropolitan area.	277,040	277,040
Original loan was modified at June 30, 2010, in which \$65,000 of interest was added to principal of \$250,000 and the due date extended to 2021. Interest bearing loan at 4%. Principal and interest due June 1, 2021.	Funds used to assist in the acquisition and rehabilitation of an affordable housing project, located in the Phoenix metropolitan area.	315,000	315,000
Participation loan with Kansas State Bank commencing July 31, 2012, bearing interest at 4%, due July 6, 2016.	Funds used to complete tenant improvements and furnish the classrooms for expansion of a south Phoenix charter school.	107,500	31,011
Loan to Espiritu Community Development Corporation commencing December 16, 2014, bearing interest at 5.5%, due December 16, 2017.	Funds used to assist in the predevelopment costs associated with construction, improvement, operation and/or equipping of charter school facilities.	<u>100,000</u>	<u>100,000</u>
Total notes receivable			1,312,035
Less: reserve for uncollectible accounts			<u>(1,181,024)</u>
Notes receivable, net			<u>\$ 131,011</u>

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NOTE 3 NOTES RECEIVABLE (CONTINUED)

As of June 30, 2015, current and non-current notes receivable, after applying the reserve for uncollectible accounts, consisted of the following:

Current portion	\$ 28,799
Long term	<u>102,212</u>
	<u>\$ 131,011</u>

NOTE 4 CONDUIT BALANCE

The Phoenix IDA issues Private Activity Revenue Bonds that provide capital financing for third parties that are not part of the Phoenix IDA's reporting entity. The aggregate amount of all conduit balance obligations outstanding at June 30, 2015, was \$1,755,184,191. The Phoenix IDA has no obligation for the repayment by the borrower.

NOTE 5 RELATED PARTY TRANSACTIONS

The City of Phoenix City Council appoints the Board of Directors of the Phoenix IDA. The City of Phoenix also provides certain administrative functions on behalf of the Phoenix IDA. As of June 30, 2015, the Phoenix IDA had reimbursed the City of Phoenix approximately \$282,565 for administrative expenses.

Management believes that the transactions between the Phoenix IDA and the City of Phoenix, Arizona are arm's length transactions.

NOTE 6 CONTINGENCIES

The Phoenix IDA 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 Phoenix IDA, will have a material adverse effect on the financial condition, results of operations, or liquidity of the Phoenix IDA.

NOTE 7 SUBSEQUENT EVENTS

Management evaluated subsequent events through October 30, 2015, the date the financial statements were available to be issued.

In August 2015, The Phoenix IDA purchased a parcel of land with a building for a total cost of \$1,168,664.



**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**

The Board of Directors of the
The Industrial Development Authority of The City of Phoenix

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 and each major fund of The Industrial Development Authority of The City of Phoenix as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise The Industrial Development Authority of The City of Phoenix's basic financial statements and have issued our report thereon dated October 30, 2015.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Industrial Development Authority of The City of Phoenix'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Phoenix, Arizona
October 30, 2015

DRAFT