# THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
# PHOENIX, ARIZONA

## FINANCIAL STATEMENTS
## YEAR ENDED JUNE 30, 2014

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA**
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CliftonLarsonAllen LLP
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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, 2014, 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. 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.

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

**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, 2014, 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***

The Industrial Development Authority of The City of Phoenix, Arizona has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

CliftonLarsonAllen LLP

Phoenix, Arizona
October 29, 2014

# THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
## STATEMENT OF NET POSITION
## JUNE 30, 2014

### ASSETS

| | | |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ | 933,006 |
| Accounts receivable | | 3,000 |
| Interest receivable | | 34,728 |
| Program receivables | | 1,973,005 |
| Notes receivable, current portion | | 64,513 |
| Prepaid expenses | | 19,368 |
| Total current assets | | 3,027,620 |
| **NONCURRENT ASSETS** | | |
| Investments | | 14,573,920 |
| Investment in land | | 527,933 |
| Long term notes receivable, net | | 220,304 |
| Total noncurrent assets | | 15,322,157 |
| **TOTAL ASSETS** | $ | 18,349,777 |

### LIABILITIES AND NET POSITION

| | | |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ | 192,690 |
| **NET POSITION - UNRESTRICTED** | | 18,157,087 |
| **TOTAL LIABILITIES AND NET POSITION** | $ | 18,349,777 |

*See accompanying Notes to Financial Statements.*

## THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
## YEAR ENDED JUNE 30, 2014

| | |
|---|---|
| **OPERATING REVENUE** | |
| Early bond redemption | $ 146,484 |
| User assessments | 972,698 |
| Down payment assistance program fees | 1,537,040 |
| Fee income | 121,951 |
| Total operating revenue | 2,778,173 |
| **OPERATING EXPENSES** | |
| General and administration | 965,984 |
| Bond administration | 11,667 |
| Other programs | 27,760 |
| Community investment | 311,365 |
| Program and project development | 64,067 |
| Loan portfolio administration | 2,815 |
| Total operating expenses | 1,383,658 |
| Operating income | 1,394,515 |
| **NON-OPERATING REVENUE** | |
| Interest income | 118,413 |
| Total non-operating revenue | 118,413 |
| **INCREASE IN NET POSITION** | 1,512,928 |
| **UNRESTRICTED NET POSITION, BEGINNING OF YEAR** | 16,644,159 |
| **UNRESTRICTED NET POSITION, END OF YEAR** | $ 18,157,087 |

*See accompanying Notes to Financial Statements.*

## THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF PHOENIX, ARIZONA
## STATEMENT OF CASH FLOWS
## YEAR ENDED JUNE 30, 2014

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from customers | $ | 1,226,769 |
| Net cash receipts from down payment assistance program | | 401,598 |
| Cash payments to suppliers for goods or services | | (630,139) |
| Cash payments to employees for services | | (654,731) |
| Net cash provided by operating activities | | 343,497 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from notes receivable | | 299,553 |
| Issuance of notes receivable | | (250,000) |
| Interest income | | 118,413 |
| Proceeds from sale of investments | | 11,237,000 |
| Purchase of investment in land | | (370,433) |
| Purchases of investments | | (13,819,920) |
| Net cash used in investing activities | | (2,785,387) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | (2,441,890) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | | 3,374,896 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ | 933,006 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | |
| Operating income | $ | 1,394,515 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Provision for allowance for doubtful accounts | | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | | (3,000) |
| Interest receivable | | (11,364) |
| Program receivable | | (1,135,442) |
| Deposits | | 10,000 |
| Prepaid expenses | | (1,476) |
| Accounts payable | | 90,264 |
| Net cash provided by operating activities | $ | 343,497 |

*See accompanying Notes to Financial Statements.*

## 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.

### 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.

## 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 and land. All such investments are stated at fair value based upon quoted market prices.

### 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.

## 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, 2014.

### 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 $8,720,000 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, 2014 follows:

| | | |
|---|---|---|
| Cash | $ | 13,717 |
| Cash equivalents, money markets | | 894,289 |
| Cash held in escrow | | 25,000 |
| Cash and cash equivalents | | 933,006 |
| Certificates of deposit | | 14,573,920 |
| Investment in land | | 527,933 |
| Total investments | | 15,101,853 |
| Total cash and investments | $ | 16,034,859 |

The Phoenix IDA held $25,000 in an escrow account as of June 30, 2014, which proceeds are to be used for its down payment assistance program, which assists low-income applicants to purchase a residence.

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, 2014, by contractual maturity, is shown on the following page.

## NOTE 2 CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2014, the Phoenix IDA had investment securities with the following maturities:

| | Credit Quality Rating | Fair Value | Less Than 1 Year | 1-5 Years |
|---|---|---|---|---|
| Certificates of deposit | Non Rated | $14,573,920 | $ 13,832,320 | $741,600 |

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 no realized gains or losses on investments during 2014.

*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, 2014, 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.

## 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 the Certificate of Deposit Account Registry Service (CDARS). This service is comprised of a network of member financial institutions that each issue 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 CDARS member banks that place the funds through 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, 2014, investments in certificates of deposit utilizing CDARS are as follows:

| Financial Institutions | Investment Type | Fair Value |
|---|---|---|
| Alliance Bank | Certificate of deposit account registry service | $ 8,350,324 |
| Kansas State Bank | Certificate of deposit account registry service | 4,010,821 |

Investments through the custodians in the certificate of deposit account registry service program 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. 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.

## NOTE 3 NOTES RECEIVABLE

| Borrower, Terms and Maturity | Purpose | Original Principal | Outstanding Principal Balance |
|---|---|---|---|
| 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 |

## NOTE 3 NOTES RECEIVABLE (CONTINUED)

| Borrower, Terms and Maturity | Purpose | Original Principal | Outstanding Principal Balance |
|---|---|---|---|
| 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 | 58,372 |
| Participation loan with Raza Development Fund, Inc. commencing August 30, 2013, bearing interest at 6%, due October 19, 2019. | Funds used to construct and equip a new health care facility in Mesa. | 250,000 | 226,445 |
| Total notes receivable | | | 1,465,841 |
| Less: reserve for uncollectible accounts | | | (1,181,024) |
| Notes receivable, net | | | $ 284,817 |

## NOTE 3 NOTES RECEIVABLE (CONTINUED)

As of June 30, 2014, current and non-current notes receivable, after applying the reserve for uncollectible accounts, consisted of the following:

| | | |
|---|---|---|
| Current portion | $ | 64,513 |
| Long term | | 220,304 |
| | $ | 284,817 |

## 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, 2014, was $1,526,544,850. 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, 2014, the Phoenix IDA had reimbursed the City of Phoenix approximately $263,000 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 29, 2014, the date the financial statements were available to be issued.