

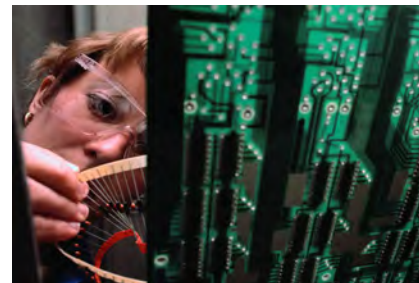


ARIZONA  
COMMERCE  
AUTHORITY

ANNUAL REPORT  
FISCAL YEAR 2012

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# ACA MISSION

To grow and diversify Arizona's economy and create quality jobs for its citizens by supporting and attracting businesses in targeted, high-growth clusters, with an emphasis on base industries throughout Arizona.

## 2012 Annual Report

### Letter from the President & CEO

Now more than ever, Arizona can compete — and can win — in the global business marketplace. With Governor Jan Brewer's visionary leadership and support from the legislature, Arizona is powerfully positioned as one of the most pro-business climates in the country. The Arizona Commerce Authority's charge is to make sure the world is aware of our state's endless opportunities: by attracting the best and brightest to expand and relocate their businesses to our communities; by creating high-quality, high-paying jobs; and by fostering Arizona's innovative entrepreneurial ecosystem — ensuring businesses have the resources to expand and to exceed their own definitions of success. It's a task we don't take lightly.

As with any startup, our first fiscal year presented significant foundational responsibilities, such as developing administrative and operational policies, hiring and training staff, establishing a Board of Directors and identifying committees, locating to new offices and creating a business plan. All the while, we remained focused on our most important job: quality job creation during a critical juncture for Arizona's economy.

The results? Mission accomplished.

We are pleased to provide this summary of the ACA's first fiscal year (July 1, 2011 – June 30, 2012). Information highlighted includes the results of our foundational initiatives; our job creation and capital investment successes through the ACA's Business Attraction, Expansion and Creation teams; the impact of the state's incentive programs; a summary of new ACA programs; and the ACA's audited financial statements.

The ACA's momentum in positioning Arizona as the country's most competitive business climate is reflected in recent national rankings:

- #1 Entrepreneurial State from The Kauffman Foundation's 2012 Index
- #1 Favorable Unemployment Tax & #5 Favorable Property Tax from The Tax Foundation's 2012 Report
- #2 in Workforce Education and Availability from CNBC's Best States for Business in 2012
- #2 in Business Growth Prospects from *Forbes'* 2011 Best States for Business
- A Top 10 State for Business in 2012 by *Chief Executive Magazine*

Further, the 2012 *Business Facilities* Report ranks Arizona as follows:

- #1 Most Business Startups
- #2 Alternate Energy Industry Leader
- #3 Installed Solar Power Capacity Leader
- #3 Biotechnology Strength Emerging Hub
- #5 Aerospace & Defense Industry Leader
- #6 Job Growth Leader

In short, I am pleased to report that the ACA has established a solid foundation for statewide success. We are proud of the incredible achievements of our first fiscal year. And as we set our sights on the days and years ahead, we remain vigilant in executing our mission to further economic prosperity for our state and its citizens.

Sincerely,



Sandra Watson,  
Interim President & CEO, Arizona Commerce Authority

# FOUNDATION

Start up successes include establishing a 31-member Board of Directors, developing administrative and operational policies, and creating a Board-approved business plan.

## 2012 Annual Report

### Board of Directors

The ACA is guided by a 31-member Board of Directors (19 voting members), with Governor Jan Brewer serving as chair and Jerry Colangelo serving as co-chair. The full Board consists of some of the most successful minds in both the public and private sectors, including the state's Senate President, the Honorable Steve Pierce, and the state's House Speaker, the Honorable Andy Tobin, as well as Arizona's three public university presidents. The Board of Directors represents an incredible collection of subject matter expertise and business and policy experience, all leveraged to advance the ACA's mission.

Voting Members:



Governor Jan Brewer, Chair



Jerry Colangelo Co-Chair



Gary Abrams



Richard Adkerson



Craig Barrett



Michael Bidwill



Paul Bonavia



Drew Brown



Don Cardon



Philip Francis



Mike Ingram



Tim Jeffries



Steve Macias



Michael Manson



Mary Peters



Doug Pruitt



Victor Smith



Candace Hunter Wiest



Roy Vallee



# Transparency & Accountability

## Financial Policies and Systems:

In its first year, the ACA successfully implemented its accounting and reporting software systems, established an Audit Committee of the Board of Directors, and developed its Accounting, Procurement & Grants and Travel & Entertainment policies.

## Transparency, Audits and Reviews:

The ACA has integrated its revenue and expenditures into Arizona's transparency website: [www.OpenBooks.az.gov](http://www.OpenBooks.az.gov). Additionally, the ACA was subject to the following audits and reviews during its first year:

- Internal Audit Review – Upon the direction of the Audit Committee, the ACA engaged KPMG LLP to perform an internal audit review of current practices including corporate governance practices, conflict of interest policies and practices, and expenditure and fund distribution practices. The review resulted in no findings and only minor recommendations for process improvements.
- Health Check Review - Upon the direction of the Audit Committee, the ACA engaged CliftonLarsonAllen, LLP to perform a "Health Check" of accounting and financial reporting practices to ensure compliance with all federal and state regulations and reporting requirements. The review resulted in no findings.
- Department of Economic Security Review of Federal Programs – The Department of Economic Security conducted a review of all federal programs administered by the ACA. The review resulted in no findings.
- By statute, the ACA was required to obtain an independent financial audit. Completed by CliftonLarsonAllen, LLP, an independent certified public accounting firm, the ACA's FY2012 Independent Auditor's Report and Report on Internal Control Over Financial Reporting resulted in no instances of material weaknesses in internal control over financial reporting identified. Additionally, the auditor's testing disclosed no instances of non-compliance or other matters that are required to be reported under government auditing standards.

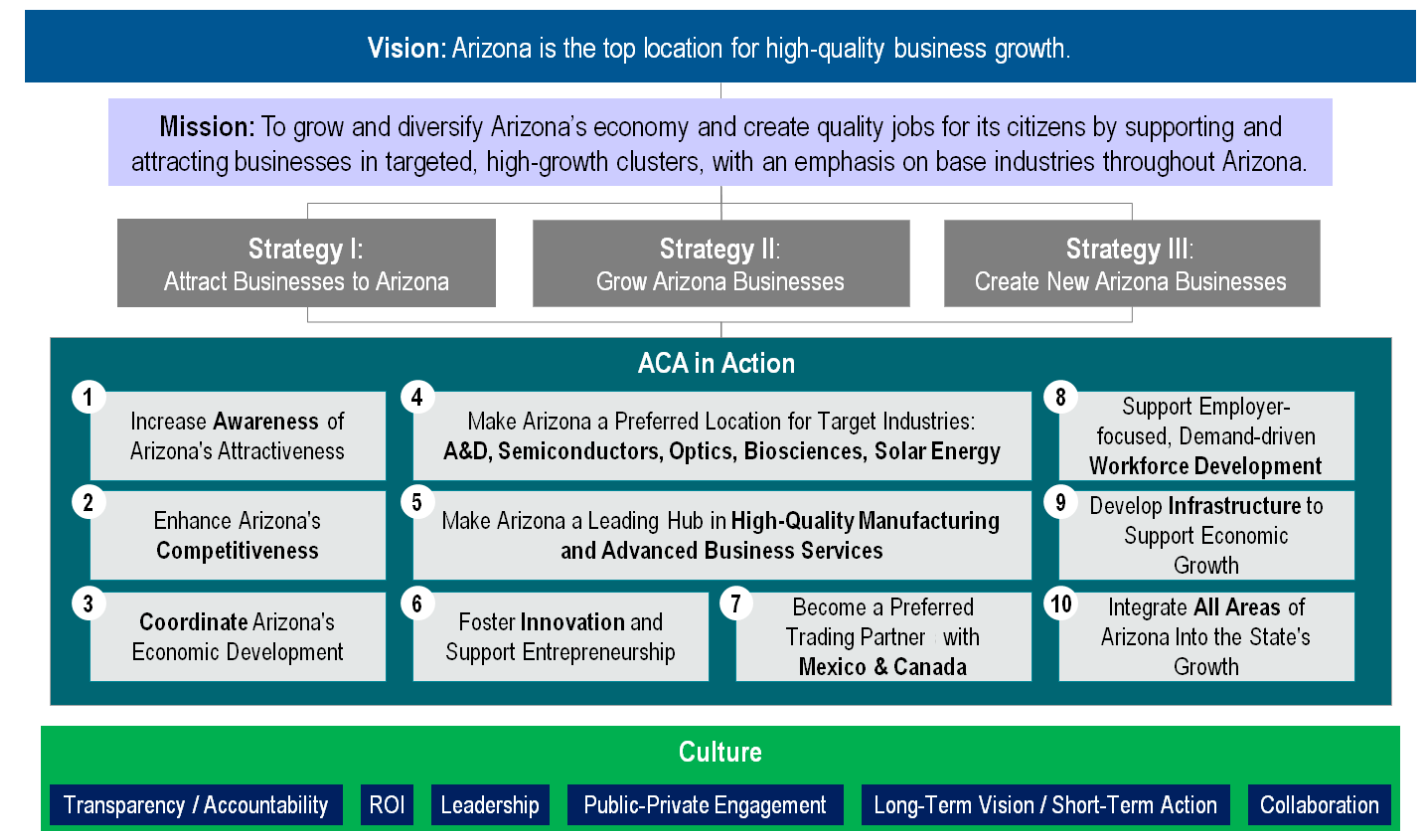
## Ethics Policies:

The ACA has developed and adopted ethics-related policies – namely Ethics, Conflicts of Interests and Gifts – to maintain its commitment to transparency, accountability and integrity. While state laws provide baseline standards for conduct, supplemental provisions in ACA policies create heightened standards for conduct and enhanced procedures for administering the standards. All ACA policies are available on the ACA's website.

# Business Plan

This Arizona Commerce Authority worked with the Board of Directors' Business Plan Committee to develop its five-year, statewide economic development business plan delineating the ACA's goals, strategies and actions. The business plan was created using a data-driven, quantitative process, supplemented by research, input from subject matter experts and working sessions with the ACA staff, advisors and stakeholders. The plan guides primary activities and demonstrates how the ACA is organized to achieve its mission.

The diagram below from the business plan summarizes the ACA's strategic framework:



The business plan establishes the following five-year goals for the ACA:<sup>1</sup>

- Create 75,000 higher wage jobs:
  - Business Attraction: 52,500 jobs
  - Business Expansion: 18,750 jobs
  - Business Creation: 3,750 jobs
- Increase average wages for high-value jobs created:
  - From 150% of Arizona median wage to 175% of median wage
- Increase capital investment to \$6 billion

<sup>1</sup>These are cumulative five-year goals; year-to-year results may vary based on the timing of business projects and cycles.

## Creating Quality Jobs

The ACA's Business Creation, Expansion and Attraction teams work together to strengthen the state's economy through the creation of quality jobs and the infusion of capital investment.

Business Creation supports entrepreneurship and the formation of new business in Arizona, contributing to Arizona's top ranking as the number one state for entrepreneurial activity, according to the 2012 Kauffman Index of Entrepreneurial Activity. Business Expansion connects Arizona-based businesses with programs and services that support their growth. Business Attraction encourages businesses operating outside of the state to relocate or expand in Arizona.

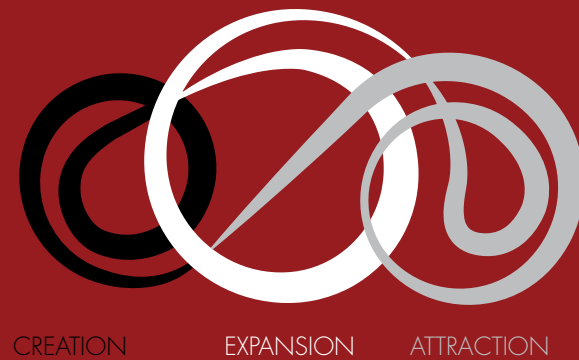
As a result of these efforts, the ACA achieved the following results in FY2012:

- 5,610 quality jobs
- \$401 million capital investment

Based on a third-party economic impact study, these projects will generate substantial economic impact in Arizona over three years:

- 11,718 total jobs (direct and indirect)
- \$2.9 billion in economic impact
- \$583.4 million in wages
- \$58.5 million in state revenue

Further accelerating Arizona's small business success, the ACA's Small Business Services department (SBS) had 99,501 points of contact (among web, phone and in-person services) with Arizona entrepreneurs. The SBS provides resources and information regarding licensing and certification for entrepreneurs interested in starting a business in Arizona.



# QUALITY JOBS

The ACA employs a three-pronged approach to grow and strengthen Arizona's economy: business creation, business expansion and business attraction. The efforts of each work together to facilitate the creation of quality jobs and to infuse capital investment.

Company	Capital Investment	Jobs
Saint-Gobain	\$ 15.00	52
Schletter	\$ 3.00	60
Acquinity Interactive	\$ 1.00	1000
Maxwell Technology	\$ 26.00	150
Clear Energy	\$ 10.00	225
Global Dental Sciences	\$ 5.00	150
Magna	\$ 11.00	150
Dick's Sporting Goods	\$ 55.00	300
TJ Maxx	\$ 100.00	500
SVB	\$ 4.50	220
Ulthera	\$ 1.68	155
Verifications, Inc.	\$ 2.00	200
Healthsouth	\$ 20.00	90
Asurion	\$ -	200
Optum RX	\$ 4.00	400
Florence Hospital	\$ 30.00	250
Calgon Carbon	\$ 25.00	62
Bombardier	\$ 1.00	200
SW Bakery	\$ 2.50	100
Sunora Energy Solutions	\$ 4.00	175
Food for Life	\$ 2.00	100
IML Containers	\$ 1.00	40
Insys	\$ 2.80	84
Bechtel	\$ 6.30	102
Nextfort Ventures	\$ 50.00	45
HotChalk	\$ 2.30	200
Sorenson Communications	\$ 1.00	350
Involta	\$ 15.00	20
Alexis Oil	\$ 0.30	30
	<b>\$ 401.38</b>	<b>5610</b>

# FINANCIAL PROGRAMS

The creation of the ACA accompanied the most significant economic advancement policies in the state's history. These policies ensure Arizona's competitiveness in the global marketplace.

## 2012 Annual Report

### Managing Financial Programs

#### Income Tax Credit, Property Tax Reclassification, Loan, Grant & Bond Program Data

In FY2012, the ACA Incentives team implemented two exciting new incentives programs created by the Arizona legislature: the Arizona Competes Fund and the Quality Jobs Tax Credit Program.

The team also took the significant step of converting its incentives management system to a web-based platform in which client applications and reports are filed and tracked electronically.

Most critically, the team's management of the state's new and existing incentive programs produced the following results<sup>1</sup>:

- Businesses Assisted: 633
- New Jobs: 5,603
- Capital Investment: \$1,831,516,966

Program-by-program results are set forth below.

Active Financial Programs:

Angel Investment Income Tax Credit Program – FY12				
Approved Investor Applications	Unique Investors Receiving Tax Credits	Companies Receiving Accreditation	Investors' Investment in Accredited Companies	Tax Credits Approved
160	133	50	\$8.2 million	\$2,649,800

Note: Companies accredited under the Angel Investment program in FY12 employ 200 FTEs with average annual wages of \$69,909.

Arizona Competes Fund – FY12				
Companies Receiving Grant Commitments	Total Grant Commitments (subject to achievement of performance standards)	Projected New Jobs (3 years)	Projected Average Annual Wages	Projected Capital Investment (3 years)
4	\$5.2 million	956	\$54,550	\$20.2 million

Arizona Innovation Accelerator Fund – FY12				
Approved Loans	Total Loan Amount	AIAF Share of Loan	Projected New Jobs (3 years)	Projected Average Annual Wages
1	\$1,100,000	\$250,000	30	\$36,290

Healthy Forests – FY12		
Companies Receiving Accreditation	TPT Exemptions Received	Capital Investment
5	\$23,160	\$995,000

Job Training Program – FY12						
Approved Applications	Companies Receiving Grant Commitments	Total Grant Commitments (subject to achievement of performance standards)	Aggregate Training Budgets of Grantees	Employees to be Trained	Average Annual Wages of All Employees to be Trained	Capital Investment
56	45	\$10,742,133	\$27,915,305	913 New 5,517 Incumbent	\$49,281	\$208 million

<sup>1</sup>These figures primarily reflect the progress of projects announced prior to FY2012. In contrast, the figures reported in the "Creating Quality Jobs" section represent only new projects announced in FY2012.

## 2012 Annual Report

Military Reuse Zone – FY12		
Companies Receiving Assistance	Incentives Received (TPT Exemptions, Property Tax Reclassification, and Income Tax Credits)	Capital Investment
7	\$1,261,875	\$26.8 million

Note: Companies receiving assistance under the MRZ program in FY12 employ 48 FTEs with average annual wages of \$59,609

Private Activity Bonds – FY12	
Companies Approved for Allocation	Bond Capacity Allocated
5	\$44,725,000

Qualified Energy Conservation Bonds – FY12	
NO ACTIVITY	

Quality Jobs Tax Credit Program – FY12					
Approved Applications	Companies Receiving Tax Credits	Total Tax Credits Approved	New Jobs	Capital Investment*	Average Annual Wages
1	1	\$1,044,000	348	\$5,000,000+	\$117,827

\*By statute, a capital investment of at least \$5 million is required for eligibility in the Quality Jobs Tax Credit Program, but the amount of the actual investment above that threshold is confidential.

Research & Development Tax Credit (Refundable) – FY12		
Companies Receiving Tax Credits	Total Tax Credits Approved	Aggregate R&D Expenditures of Companies Receiving Tax Credits
65	\$4,705,881	\$60,306,966

Note: Companies receiving tax credits under the R&D program in FY12 employ 1,862 FTEs with average annual wages of \$74,487.

Renewable Energy Tax Incentive Program – Calendar Year 2011*				
Applications Receiving Pre-Approval	Projected Tax Credits (subject to achievement of performance standards)	Projected New Jobs	Projected Average Annual Wages	Projected Capital Investment
1	\$2,500,000	341	\$56,422	\$25,000,000

\*By statute, this information can only be published in an annual report. Hence, this information is taken from the calendar year 2011 report.

Commercial/Industrial Solar Energy Tax Credit Program – FY12			
Approved Applications	Unique Companies Receiving Tax Credits	Total Tax Credits Approved	Capital Investment
70	57	\$1,079,894	\$22.7 million

Financial Programs Eliminated by Statute (in Wind-Down Phase - Closed to New Applicants):

Enterprise Zone – Income Tax Credits – FY12 (Preliminary Data)						
Approved Applications	Unique Companies Receiving Tax Credits	Total Tax Credits Approved	New Jobs	Retained Jobs	Average Annual Wages	Capital Investment
206	121	\$6,765,341.00	2,850	4,483	\$50,447	\$1.050 billion

Enterprise Zone – Property Tax Reclassification – FY12		
Accredited Locations	Unique Companies Receiving Accreditation	Capital Investment
86	85	\$237 million

Note: Companies receiving reclassification under the EZ program in FY12 employ 3,179 FTEs with average annual wages of \$35,865.

Motion Picture Tax Credit Program – FY12		
Companies Receiving Tax Credits	Total Tax Credits Approved	Capital Investment
5	\$3,770,785	\$13.3 million

## 2012 Annual Report

Environmental Technology Manufacturer's Assistance – FY12		
Accredited Companies Claiming Incentives	Total Incentives Reported (Tax Credits, TPT and Use Tax Exemptions and Property Tax Reductions)	Capital Investment
5	\$12,728,947	\$73.9 million

ACA Grant Programs:

Arizona Innovation Challenge – FY12		
Companies Receiving Grants	Total Grant Commitments (subject to achievement of performance standards)	Projected Project Costs
6	\$1,400,000	\$19.1 million

Rural Economic Development Grants – FY12				
Companies Receiving Grants	Total Grant Commitments (subject to achievement of performance standards)	New Jobs	Projected Average Annual Wages	Projected Project Costs
14	\$1,200,000	165	\$37,680	\$14.3 million

STEP Grants – FY12	
Companies Receiving Grants	Total Grants
40	\$35,000

Tribal Grants – FY12		
Tribes Receiving Grants	Total Grant Commitments (subject to achievement of performance standards)	Project Costs
8	\$263,000	\$890,000

FAST Grant – FY12	
Companies Receiving Grants	Total Grants
25	\$184,832



# NEW PROGRAMS

The ACA's new programs strengthen Arizona's economy through investment and job creation by supporting entrepreneurship and the expansion of existing businesses.

## 2012 Annual Report

### Launching New Programs

The ACA has devoted incredible attention to developing programs that will strengthen Arizona's innovative businesses:

#### AZ Innovation Challenge (AIC):

The AIC, the country's largest business plan competition of its kind, is designed to select the best entrepreneurial plans and provide \$3 million in annual funding to help launch and grow new technology ventures:

- A strong start-up environment is critical to the state and will provide a robust and relevant talent pool for high-wage jobs, a strong supply chain for companies expanding and relocating to Arizona, attractive employment for university graduates and a long-term quality jobs engine
- 2012's first round of the Arizona Innovation Challenge (AIC) resulted in more than 300 applications, with 25 semi-finalists and ultimately six winners

#### Venture Ready Mentor Program:

*Venture Ready*, the ACA's startup mentor program, assists the Top 25 Innovation Challenge semi-finalists as they take the next steps toward commercialization:

- Venture Ready partners innovative startups with Entrepreneurs in Residence (EIRs), mentors and subject matter experts to refine business plans
- With support from Greater Phoenix Leadership, Venture Ready now has more than 100 volunteer, expert CEOs
- High-quality, panel-driven, four-month process designed to help client companies prepare to raise capital to take their business to the next level

#### Arizona's State Trade and Export Promotion (STEP) Grant:

The ACA secured STEP Grant funding from the U.S. Small Business Administration (SBA). With matching funds contributed by the ACA, the AZ STEP Grant is a new service offering tools for Arizona small businesses to grow globally with sales in international markets:

- 117 companies currently enrolled in AZ STEP
- Aerospace and defense, biotech/health/medical technology, and high tech represent the three largest sectors within AZ STEP enrollees
- Export market targets for the AZ STEP companies rank as follows: Mexico, Canada, Brazil, EU and China



### Arizona Innovation Accelerator Fund (AIAF):

The ACA secured an \$18.2 million grant to establish the AIAF Loan Participation Program in FY2012:

- In collaboration with private finance partners, the AIAF stimulates financing to small businesses to foster business expansion and job creation in Arizona
- Program launched, began reviewing potential deals and closed its first loan in Q3 of FY2012

### AZ Federal and State Technology (FAST) Grant:

The ACA funded and re-launched the AZ FAST Grant program, which enables Arizona-based technology companies to initiate the commercialization process:

- Each grant pays up to \$7,500 to assist companies in securing federal grants to further commercialization
- ACA reintroduced the first round of its AZ Fast in December 2011:
  - Drawing 95 applications
  - Resulting in 25 awards totaling more than \$184,000
  - Over a previous 26-month period, every \$1 granted through the AZ FAST grant resulted in \$19 of federal grant funds for AZ FAST Grant awardees



# AUDITED FINANCIAL STATEMENTS

The Arizona Commerce Authority, a Component Unit of the State of Arizona, Phoenix, Arizona,  
Financial Statements, June 30, 2012.

2012 Annual Report

## Audited Financial Statements



CliftonLarsonAllen LLP  
[www.cliftonlarsonallen.com](http://www.cliftonlarsonallen.com)

### Independent Auditor's Report

The Board of Directors of the  
Arizona Commerce Authority  
Phoenix, Arizona

We have audited the accompanying financial statements of the governmental activities and each major fund of Arizona Commerce Authority (a component unit of the State of Arizona) (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of the Arizona Commerce Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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. However, we did not audit the information and express no opinion on it.

*CliftonLarsonAllen LLP*

Phoenix, Arizona  
September 27, 2012

**ARIZONA COMMERCE AUTHORITY  
(A Component Unit of the State of Arizona)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

The following is a discussion and analysis of the Arizona Commerce Authority's ("Authority") financial performance for the fiscal year ended June 30, 2012. 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, 2011 through June 30, 2012, resulting changes, and known facts. It is important to note that the period July 1, 2011 through June 30, 2012 represents the inaugural fiscal year for the Authority which replaced the now sunset Arizona Department of Commerce on July 1, 2011. Any notations of transferred assets represent balances from the sunset Arizona Department of Commerce which were subsequently transferred to the Authority by legislative action on July 1, 2011 per House Bill 2011, Fiftieth Legislature, Second Special Session.

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 Assets 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 Special Revenue governmental funds are reported as separate columns in the Fund Financial Statements.

**USING THESE FINANCIAL STATEMENTS**

This financial report consists of a series of financial statements. The Balance Sheets – Governmental Funds, Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds, Statement of Net Assets, Statement of Activities, Reconciliation of the Statements of Revenues, Expenditures And Changes In Fund Balances - Governmental Funds To The Statement of Activities, and the Reconciliation of The Balance Sheet of Governmental Funds To The Statement of Net Assets. Accordingly, the financial statements presented 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.

**ARIZONA COMMERCE AUTHORITY**  
**(A Component Unit of the State of Arizona)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 June 30, 2012

**AUTHORITY HIGHLIGHTS**

**Arizona Commerce Authority Job Training Program** – The Authority approved 56 new Job Training applications with a commitment base of \$10,742,133. These commitments will be used by companies to fund the training of both new and incumbent employees, as well as, additional capital investments over the next two years.

**Arizona Competes Fund** – The Authority contractually committed four Arizona Competes Fund grants totaling \$5.2 million. These commitments will be used to produce additional jobs, fund project location decisions, and increase capital investment over the next three years.

**REVENUES**

**Intergovernmental Revenue** – The Authority received \$23,268,335 in Intergovernmental revenue that consists of (a) \$15,990,851 from the Arizona Job Training Fund, (b) \$6,007,393 from the Arizona Innovation Accelerator Fund, (c) \$1,260,091 from the Arizona Department of Economic Security, and (d) \$10,000 from the award of an Arizona Competes Fund application.

**Payments from State of Arizona** – During fiscal year 2012, the Authority received \$41,683,813 in cash and investments and \$66,000 in capital assets on July 1, 2011. The Authority received \$36,635,302 in transferred funds that consist of (a) \$31,500,000 from the Arizona Job Creation Withholdings Clearing Account, (b) \$3,500,000 from the Arizona Lottery Commission, and (c) \$1,635,302 from the Arizona Corporation Commission.

**EXPENSES**

**Aid To Other Organizations** – The Authority awarded \$7,000,090 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 development climate of the State.

**Professional & Outside Services** – The Authority was very successful in securing expert technical and sector advisors to facilitate the execution of mission critical objectives on both a domestic and international front. More specifically, advisors and technical expert contractors were engaged in the areas of Aerospace and Defense, Science and Technology, Innovation and Entrepreneurship, and Renewable Energy. Also, included in this expenditure category was the development and implementation of the Authority's branding and marketing campaigns.

**Salary Structure** – The ability to attract and retain competent personnel requires the Authority to provide a competitive salary structure which is reviewed annually.

**ARIZONA COMMERCE AUTHORITY**  
**(A Component Unit of the State of Arizona)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 June 30, 2012

**STATEMENTS OF NET ASSETS**

The period of July 1, 2011 through June 30, 2012 represents the inaugural fiscal year for the Authority. As a result, there is no prior period financial information and none will be presented for comparison purposes.

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

	<u>June 30,</u>			
	<u>2012</u>	<u>2011</u>	<u>Diff</u>	<u>%</u>
Current assets	\$ 81,927.3	N/A	N/A	N/A
Non-current assets	69.4	N/A	N/A	N/A
Capital assets, net	<u>980.1</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total assets</b>	<b><u>\$ 82,976.8</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>
Current liabilities	\$ <u>2,290.2</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total liabilities</b>	<b><u>2,290.2</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>
Capital, net of related debt	980.1	N/A	N/A	N/A
Restricted	43,874.9	N/A	N/A	N/A
Unrestricted	<u>35,831.6</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total net assets</b>	<b><u>80,686.6</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 82,976.8</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>



**ARIZONA COMMERCE AUTHORITY  
(A Component Unit of the State of Arizona)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**CAPITAL ASSETS**

As of operating year-end, the Authority had \$980,068 invested in a variety of capital assets reflected in the following schedule, which represents a net increase (additions less retirements and depreciation) of \$980,068 during operating year July 1, 2011 to June 30, 2012.

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Equipment	\$ 70,926	\$ -
EDP/computer equipment	69,978	-
Software/website	63,099	-
Leasehold improvements	<u>776,065</u>	<u>-</u>
<b>Invested in capital assets, end of year</b>	<u>\$ 980,068</u>	<u>\$ -</u>

The following reconciliation summarizes the change in Capital Assets for the years ended June 30, 2012 and 2011.

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Beginning balance	\$ -	\$ -
Additions	1,164,247	-
Depreciation	<u>(184,179)</u>	<u>-</u>
<b>Ending balance</b>	<u>\$ 980,068</u>	<u>\$ -</u>

**DEBT OUTSTANDING**

The Authority incurred no debt during the fiscal year July 1, 2011 through June 30, 2012. As a result, the Authority had no debt outstanding at June 30, 2012.

As the period July 1, 2011 through June 30, 2012 represents the inaugural fiscal year for the Authority, there is no prior period debt outstanding for comparison purposes.

**ARIZONA COMMERCE AUTHORITY  
(A Component Unit of the State of Arizona)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

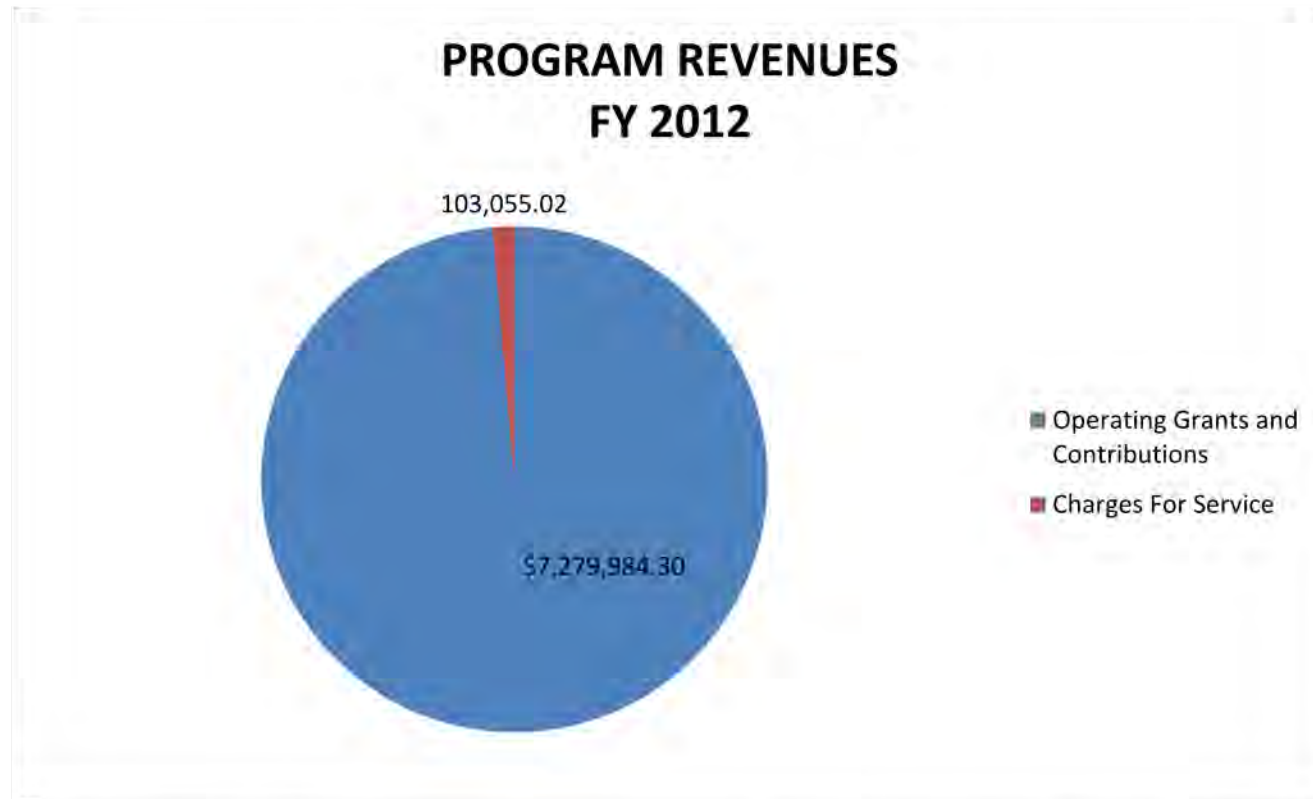
**STATEMENTS OF ACTIVITIES**

The period of July 1, 2011 through June 30, 2012 represents the inaugural fiscal year for the Authority. As a result, there is no prior period financial information and non will be presented for comparison purposes.

	<b>Condensed Statement of Activities (In Thousands)</b>			
	<u>Year Ended June 30,</u>			
	<u>2012</u>	<u>2011</u>	<u>Diff</u>	<u>%</u>
<b>Expenses</b>				
Fund expenses	\$ 21,774.2	N/A	N/A	N/A
<b>Total expenses</b>	<u>21,774.2</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Revenue</b>				
Program Revenue	7,383.0	N/A	N/A	N/A
General Revenue	<u>95,077.8</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total Revenue</b>	<u>102,460.8</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Change in net assets</b>	80,686.6	N/A	N/A	N/A
<b>Net assets, beginning</b>	<u>-</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Net assets, ending</b>	<u>\$ 80,686.6</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

**ARIZONA COMMERCE AUTHORITY  
(A Component Unit of the State of Arizona)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

The following chart depicts the sources of Program Revenues for the fiscal year ended June 30, 2012.

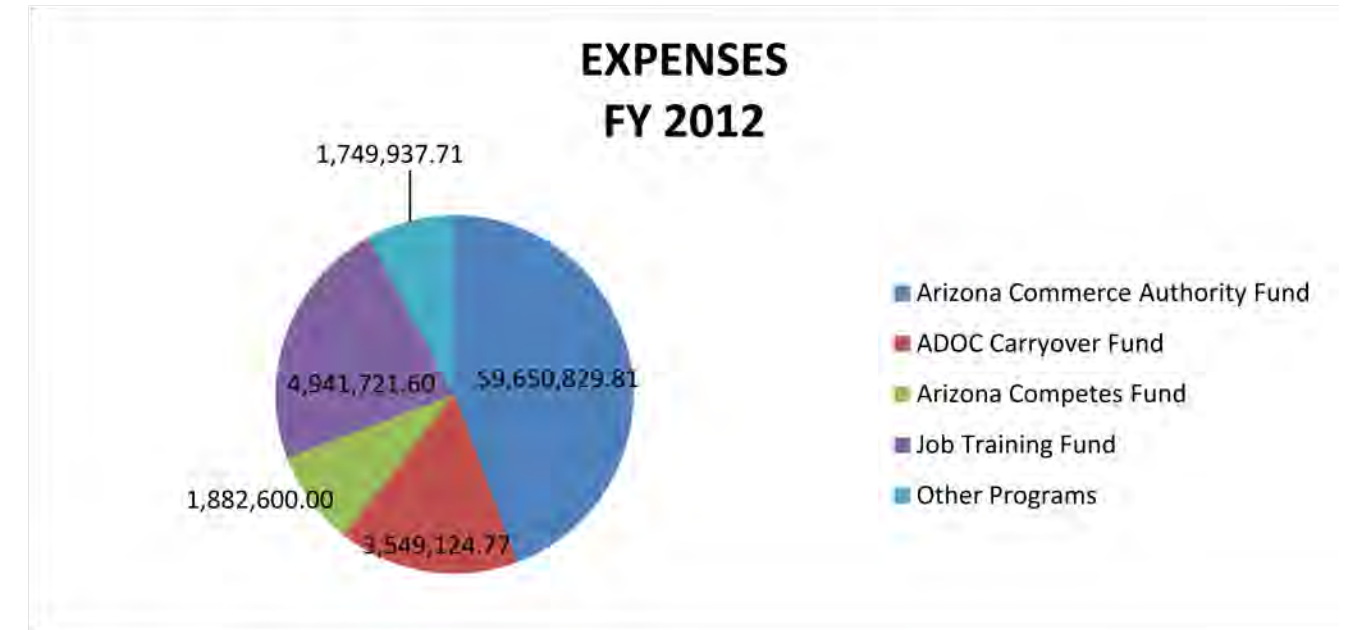


The following chart depicts the sources of General Revenues for the fiscal year ended Jun 30, 2012.



**ARIZONA COMMERCE AUTHORITY  
(A Component Unit of the State of Arizona)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

The following chart depicts the Fund Expenditures for the fiscal period ended June 30, 2012.



**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, 333 N. Central Avenue, Suite 1900, Phoenix, AZ 85004.

**ARIZONA COMMERCE AUTHORITY**  
**(A Component Unit of The State of Arizona)**  
**STATEMENT OF NET ASSETS**  
 June 30, 2012

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 12,402,943
Investments	69,060,962
Notes receivable, current	272,222
Other receivables	191,179
Other assets	6,521
Notes receivable, non-current	62,963
Capital assets, net	<u>980,068</u>
 Total assets	 <u>82,976,858</u>
 <b>LIABILITIES</b>	
Accounts payable	<u>2,290,217</u>
 <b>NET ASSETS</b>	
Capital assets, net of related debt	980,068
Restricted for:	
Job training fund	21,172,107
Arizona competes fund	22,655,584
Bond fund	47,226
Unrestricted	<u>35,831,656</u>
 <b>TOTAL NET ASSETS</b>	 <u>\$ 80,686,641</u>

The accompanying notes are an integral part of the financial statements.  
[azcommerce.com](http://azcommerce.com)

**ARIZONA COMMERCE AUTHORITY**  
**(A Component Unit of The State of Arizona)**  
**STATEMENT OF ACTIVITIES**  
 Year Ended June 30, 2012

	<u>Governmental Activities</u>
<b>EXPENSES</b>	
Arizona Commerce Authority Fund	\$ 9,650,830
ADOC Carryover Fund	3,549,125
Arizona Competes Fund	1,882,600
Job Training Fund	4,941,722
Other programs	<u>1,749,937</u>
 Total expenses	 <u>21,774,214</u>
 <b>PROGRAM REVENUE</b>	
Operating grants and contributions	7,279,984
Charges for services	<u>103,055</u>
 Total program revenue	 <u>7,383,039</u>
 Net expenses	 <u>(14,391,175)</u>
 <b>GENERAL REVENUES</b>	
Interest income	463,388
Contributions	238,657
Job training taxes	15,990,851
Payments from the State of Arizona on July 1, 2011	41,749,618
Payments from the State of Arizona during fiscal 2012	<u>36,635,302</u>
 Total general revenues	 <u>95,077,816</u>
 Change in net assets	 80,686,641
 <b>NET ASSETS, JULY 1, 2011</b>	 <u>-</u>
 <b>NET ASSETS, JUNE 30, 2012</b>	 <u>\$ 80,686,641</u>

The accompanying notes are an integral part of the financial statements.

**ARIZONA COMMERCE AUTHORITY  
(A Component Unit of The State of Arizona)  
BALANCE SHEETS - GOVERNMENTAL FUNDS  
June 30, 2012**

	<u>General Fund</u>	<u>Bond Fund</u>	<u>AIAF Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,704,739	\$ 47,226	\$ 5,650,978	\$ 12,402,943
Investments	69,060,962	-	-	69,060,962
Notes receivables, current	22,222	-	250,000	272,222
Other receivables	191,179	-	-	191,179
<b>TOTAL ASSETS</b>	<u>\$ 75,979,102</u>	<u>\$ 47,226</u>	<u>\$ 5,900,978</u>	<u>\$ 81,927,306</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 2,285,623	\$ -	\$ 4,594	\$ 2,290,217
<b>FUND BALANCES</b>				
Spendable				
Restricted	43,827,692	47,226	-	43,874,918
Committed	-	-	5,900,978	5,900,978
Assigned	28,563,430	-	-	28,563,430
Unassigned	1,302,357	-	(4,594)	1,297,763
Total fund balances	<u>73,693,479</u>	<u>47,226</u>	<u>5,896,384</u>	<u>79,637,089</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 75,979,102</u>	<u>\$ 47,226</u>	<u>\$ 5,900,978</u>	<u>\$ 81,927,306</u>

The accompanying notes are an integral part of the financial statements.

**ARIZONA COMMERCE AUTHORITY  
(A Component Unit of The State of Arizona)  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2012**

Fund balances - total governmental funds balance sheet	\$ 79,637,089
Amounts reported for governmental activities in the statement of net assets are different because:	
Non-current receivables are not due and receivable in the current period and, therefore, are not reported in the governmental funds.	62,963
Non-current assets are expected to be held longer than one year and, therefore, are not reported in the governmental funds.	6,521
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	980,068
Net assets of governmental activities - statement of net assets	<u>\$ 80,686,641</u>

The accompanying notes are an integral part of the financial statements.



**ARIZONA COMMERCE AUTHORITY**  
 (A Component Unit of The State of Arizona)  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Year Ended June 30, 2012

	<u>General Fund</u>	<u>Bond Fund</u>	<u>AIAF Fund</u>	<u>Total</u>
<b>REVENUES</b>				
Intergovernmental revenue	\$ 17,260,942	\$ -	\$ 6,007,393	\$ 23,268,335
Sales and charges for services	293,052	-	2,500	295,552
Other revenue	471,914	40,134	-	512,048
Payments from the State of Arizona on July, 2011	41,713,984	7,092	-	41,721,076
Payments from the State of Arizona	<u>36,635,302</u>	<u>-</u>	<u>-</u>	<u>36,635,302</u>
 Total Operating Revenues	 <u>96,375,194</u>	 <u>47,226</u>	 <u>6,009,893</u>	 <u>102,432,313</u>
<b>EXPENDITURES</b>				
Salary and related benefits	4,789,113	-	85,980	4,875,093
Professional and outside services	5,026,898	-	23,000	5,049,898
General and administrative	<u>12,865,704</u>	<u>-</u>	<u>4,529</u>	<u>12,870,233</u>
 Total operating expenses	 <u>22,681,715</u>	 <u>-</u>	 <u>113,509</u>	 <u>22,795,224</u>
 Net Increase in fund balances	 73,693,479	 47,226	 5,896,384	 79,637,089
 <b>FUND BALANCES, JULY 1, 2011</b>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
<b>FUND BALANCES, JUNE 30, 2012</b>	<u>\$ 73,693,479</u>	<u>\$ 47,226</u>	<u>\$ 5,896,384</u>	<u>\$ 79,637,089</u>

The accompanying notes are an integral part of the financial statements.  
[azcommerce.com](http://azcommerce.com)

**ARIZONA COMMERCE AUTHORITY**  
 (A Component Unit of The State of Arizona)  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$ 79,637,089
 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. This is the amount by which capital acquisitions exceeded depreciation.	 <u>1,049,552</u>
 Change in net assets of governmental activities - statement of activities	 <u>\$ 80,686,641</u>

The accompanying notes are an integral part of the financial statements.



**ARIZONA COMMERCE AUTHORITY**  
**(A Component Unit of the State of Arizona)**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Description of Business**

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. Upon establishment and effective July 1, 2011, the State of Arizona transferred \$41,683,813 in cash and investments and \$66,000 in capital assets to the Authority.

**Government-wide and Fund Financial Statements**

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

The entity-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the entity-wide financial statements using the economic resources measurement focus using the accrual basis of accounting, which includes long-term assets and receivables. The entity-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 entity-wide Statement of Net Assets reports all financial resources of the entity. It is displayed in a format of assets less liabilities equal net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are displayed in three components:

- 1) Invested in capital assets, net of related debt—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 assets—Consists of net assets 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 assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Authority considers the following funds to be major funds:

**ARIZONA COMMERCE AUTHORITY**  
**(A Component Unit of the State of Arizona)**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Government-wide and Fund Financial Statements (Continued)***General Fund*

The general fund is used to account for all financial resources except those required to be accounted for in other funds.

*Bond Fund*

The Bond Fund houses the collection of security deposits for the allocation, expansion of allocations, and for the difference between allocations and principal amounts of federal tax exempt industrial development bonds and student loan bonds authorized by the Authority.

*Arizona Innovation Accelerator Fund (AIAF)*

The Arizona Innovation Accelerator Fund Program is an \$18.2 million loan participation program funded through the United States Department of Treasury's State Small Business Credit Initiative. The goal of the program is to stimulate financing to small businesses and manufacturers, in collaboration with private finance partners, to foster business expansion and job creation in Arizona.

**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 entity-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 entity-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 deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred 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, 2012

**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.

**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 Board of Directors or 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.

**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 negative fund balance.

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

**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.

**ARIZONA COMMERCE AUTHORITY**  
**(A Component Unit of the State of Arizona)**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****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. All such investments are stated at fair value based upon quoted market prices.

**Capital Assets and Depreciation**

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 10 years. The costs of additions and replacements are capitalized. 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.

**Subsequent Events**

Management evaluated subsequent events through September 27, 2012, the date the financial statements were available to be issued.

**ARIZONA COMMERCE AUTHORITY**  
**(A Component Unit of the State of Arizona)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 2 – FUND BALANCES**

Fund balances at June 30, 2012, consist of the following:

	<u>General</u>	<u>Bond Fund</u>	<u>AIAF Fund</u>	<u>Total</u>
Fund Balances				
Spendable				
Restricted for:				
Job Training Fund	\$ 21,172,107	\$ -	\$ -	\$ 21,172,107
Arizona Competes Fund	22,655,585	-	-	22,655,585
Bond Fund	-	47,226	-	47,226
Committed to:				
AIAF Fund	-	-	5,900,978	5,900,978
Assigned to:				
Job Training Fund	19,067,133	-	-	19,067,133
Arizona Competes Fund	3,168,000	-	-	3,168,000
ADOC Fund	6,328,297	-	-	6,328,297
Unassigned	<u>1,302,357</u>	<u>-</u>	<u>(4,594)</u>	<u>1,297,763</u>
<b>Total Fund Balance</b>	<b><u>\$ 73,693,479</u></b>	<b><u>\$ 47,226</u></b>	<b><u>\$ 5,896,384</u></b>	<b><u>\$ 79,637,089</u></b>

**NOTE 3 – 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, 2012, was \$12,402,943 and the bank ledger balance was \$10,281,355.

**Investments**

The Authority's investment policy is to invest with the State of Arizona Treasurer. No policy exists for the following risks: custodial credit risk, credit risk, concentration of credit risk and interest rate risk.

**ARIZONA COMMERCE AUTHORITY**  
**(A Component Unit of the State of Arizona)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 3 – CASH AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

Investments are maintained by the State of 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. The LGIP is not registered with the Securities and Exchange Commission and investments are not subject to custodial credit risk. 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.

The following is a summary of the Authority's cash and investments as of June 30, 2012:

Cash in bank	\$ 12,402,943
Investments in LGIP	<u>69,060,962</u>
<b>Total cash and investments</b>	<b><u>\$ 81,463,905</u></b>

**NOTE 4 – CAPITAL ASSETS**

Capital assets at June 30, 2012, consist of the following:

	<u>Balances</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balances</u> <u>June 30, 2012</u>
Capital assets:				
Furniture and equipment	\$ -	\$ 317,630	\$ -	\$ 317,630
Leasehold improvements	<u>-</u>	<u>846,616</u>	<u>-</u>	<u>846,616</u>
Total depreciable assets	<u>-</u>	<u>1,164,246</u>	<u>-</u>	<u>1,164,246</u>
Less accumulated depreciation:				
Furniture and equipment	-	113,627	-	113,627
Leasehold improvements	<u>-</u>	<u>70,551</u>	<u>-</u>	<u>70,551</u>
Total accumulated depreciation	<u>-</u>	<u>184,178</u>	<u>-</u>	<u>184,178</u>
<b>Capital assets, net of accumulated depreciation</b>	<b><u>\$ -</u></b>	<b><u>\$ 980,068</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 980,068</u></b>



**ARIZONA COMMERCE AUTHORITY  
(A Component Unit of the State of Arizona)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to the Arizona Commerce Authority Fund and ADOC Carryover Fund in the amounts of \$58,024 and \$126,154, respectively.

**NOTE 5 – NOTES RECEIVABLE**

At June 30, 2012, the Authority had current and non-current notes receivables of \$272,222 and \$62,963, respectively.

The composition of the notes receivables is as follows:

1. **Commerce and Economic Development Commission Loan (CEDC).** Held over from the now sunset Arizona Department of Commerce, this loan is a non-interest bearing loan with a monthly payment of \$1,851 and a maturity date of April 10, 2016. The outstanding loan amount was \$85,185 at June 30, 2012.
2. **Arizona Innovation Accelerator Fund Loan (AIAF).** Interest bearing participation loan with a floating interest rate of 4% above the Prime Rate as published by the Wall Street Journal and a floor of 7.25%. The loan, which has a maturity date of June 20, 2012, had an outstanding balance of \$250,000 at June 30, 2012.

<u>Description</u>	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
CEDC Loan	\$ 22,222	\$ 62,963	\$ 85,185
AIAF Loan	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Total	<u>\$ 272,222</u>	<u>\$ 62,963</u>	<u>\$ 335,185</u>

**NOTE 6 – COMMITMENTS**

Grant activity payments were \$7,000,089 for the year ended June 30, 2012. Grant awards totaling approximately \$3,939,243 were not recorded as grants expense and grants payable due to significant conditions that were not satisfied before June 30, 2012. Management expects the conditions to be satisfied in fiscal 2013.

**ARIZONA COMMERCE AUTHORITY  
(A Component Unit of the State of Arizona)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012**

**NOTE 7 – OPERATING LEASES**

The Authority is committed under two operating leases, both of which are in the General Fund for governmental activities. One of these leases is with a related party. Future minimum operating lease commitments are as follows:

	<u>Governmental Activities (Related Party)</u>	<u>Governmental Activities (Non-Related Party)</u>
Year Ending June 30:		
2013	\$ 411,344	\$ 79,623
2014	411,344	81,201
2015	414,730	82,808
2016	443,507	84,453
2017	479,047	86,128
2018-2022	<u>1,437,143</u>	<u>376,820</u>
Total minimum payments required	<u>\$ 3,597,115</u>	<u>\$ 791,033</u>

**NOTE 8 – 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 twenty-one 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 ending June 30, 2012, the Authority contributed \$119,912 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.
5. **Withdrawals.** Participant withdrawals may be made from the Plan upon termination of employment, death, disability, attainment of age 59 1/2, Early Retirement Age, Normal Retirement Age, or in the case of a hardship as defined in the plan description.

This information is an integral parts of the accompanying financial statements.



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**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  
Arizona Commerce Authority

We have audited the financial statements of the governmental activities and each major fund of Arizona Commerce Authority (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 27, 2012. 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.

**Internal Control Over Financial Reporting**

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

Phoenix, Arizona  
September 27, 2012



