

THE INDUSTRIAL DEVELOPMENT AUTHORITY  
OF THE CITY OF TUCSON, ARIZONA

Audited Financial Statements

For the years ended June 30, 2020 and 2019

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THE INDUSTRIAL DEVELOPMENT AUTHORITY  
OF THE CITY OF TUCSON, ARIZONA

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Industrial Development Authority of the City of Tucson, Arizona

We have audited the accompanying financial statements of the business-type activities of The Industrial Development Authority of the City of Tucson, Arizona (the "Authority") as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor's 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.

### ***Basis for Qualified Opinion***

Pursuant to the Authority's request, we did not attempt to confirm the amount of the outstanding bond obligation (conduit debt) disclosed in Note 5 by direct correspondence with the bond trustees. We were unable to satisfy ourselves about the amount of the outstanding bond obligation (conduit debt) through other auditing procedures.

As discussed in Note 5, the conduit debt is not an obligation of the Authority. The unaudited bond obligation represents zero percent of the assets, net position and revenue of the Authority.

To the Board of Directors  
The Industrial Development Authority of the City of Tucson, Arizona

***Qualified Opinion***

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the net position of the business-type activities of the Authority, as of June 30, 2020 and 2019, and the changes in net position and cash flows thereof for the years 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 management's discussion and analysis on pages 3 through 5 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.

*Robert Alexonis Group*

April 16, 2021

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
For the year ended June 30, 2020

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to The Industrial Development Authority of the City of Tucson, Arizona's (the "Authority") basic financial statements. The Authority's basic financial statements include the: 1) Statements of Net Position - Enterprise Funds; 2) Statements of Revenue, Expenses and Changes in Net Position - Enterprise Funds; 3) Statements of Cash Flows - Enterprise Funds; and 4) Notes to Financial Statements.

Statements of Net Position

The Statements of Net Position – Enterprise Funds present information on all of the Authority'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 a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statements of Net Position – Enterprise Funds can be found on page 6 of this report.

Statements of Revenue, Expenses and Changes in Net Position

The Statements of Revenue, Expenses and Changes in Net Position - Enterprise Funds present information showing how the Authority's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The Statements of Revenue, Expenses and Changes in Net Position - Enterprise Funds can be found on page 7 of this report.

Statements of Cash Flows

The Statements of Cash Flows - Enterprise Funds measures the Authority's ability to fund operations and programmatic initiatives from funds generated from operations and investing activities. This measure excludes non-cash gains and losses. The Statements of Cash Flows - Enterprise Funds can be found on page 8 of this report.

Notes to the Financial Statements

The Nature of Activities and Summary of Significant Accounting Policies describes accounting policies, which are the specific accounting principles and the methods of applying those principles, used by the Authority in preparing its financial statements. GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, requires disclosure of all accounting policies where there is a selection from acceptable alternatives. The Nature of Activities and Summary of Significant Accounting Policies can be found on pages 9-12 of this report.

Additional notes to the financial statements provide information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 12-19 of this report.

The Authority as a Whole

The Authority's net position increased 4.4% from the prior year, from \$10,730,705 to \$11,207,117. This increase can be attributed to a spike in operating revenues offset by a decline in nonoperating revenues associated with the operation of two downtown parking lots in Tucson, Arizona. Both the spike and decline were the result of the worldwide COVID-19 pandemic that occurred in the second half of fiscal 2020. Operating revenues increased due to a dramatic increase in the growth in volume of the Pima Tucson Homebuyer Solution Program (the "PTHS Program"), an existing program, with the increased interest in home ownership caused by the COVID-19 pandemic, which was approximately \$30,000 in additional revenue in fiscal 2020. In addition, operating expenses remained consistent between fiscal 2020 and fiscal 2019. The Statements of Net Position and the Statements of Revenue, Expenses and Changes in Net Position report information about the Authority that includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account when earned or incurred, regardless of when cash is received or paid.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), continued  
For the year ended June 30, 2020

Overview of the Financial Statements (Continued)

The Authority as a Whole (Continued)

The following table shows a comparison of assets and liabilities for fiscal years ended June 30, 2020 and 2019:

	2020	2019
Current assets	\$ 5,438,019	\$ 5,677,296
Noncurrent assets	5,842,744	5,129,027
Total assets	11,280,763	10,806,323
Current liabilities	73,646	75,618
Total liabilities	73,646	75,618
Net position	\$ 11,207,117	\$ 10,730,705

The following table shows a comparison of the revenue and expenses for fiscal years ended June 30, 2020 and 2019:

	2020	2019
Operating revenue	\$ 722,161	\$ 692,674
Operating expenses	568,200	556,389
Net operating income	153,961	136,285
Nonoperating revenue	322,451	404,693
Change in net position	476,412	540,978
Net position, beginning of year	10,730,705	10,189,727
Net position, end of year	\$ 11,207,117	\$ 10,730,705

Operating revenue increased during 2020 due to a big increase in growth in the volume of the PTHS Program, caused by the COVID-19 pandemic, a program that allows homebuyers to finance their down payments through the Program. The PTHS Program charges fees to the homebuyers and bundles the financing to sell on the open market. The popularity of the PTHS Program is distinguished from other similar homebuyer programs offered by the Authority that require homebuyers to be first-time homebuyers and have restrictions on future ability to refinance.

Operating expenses remained consistent between fiscal 2020 and fiscal 2019.

Nonoperating revenue decreased during 2020 with decreased revenue earned from the downtown parking lots due to decreased traffic in the downtown area due to the COVID-19 pandemic in the second half of fiscal 2020. Despite a declining economy in the second half of fiscal 2020, the Authority increased net position in fiscal 2020 due to interest rates remaining low compared to its existing mortgage credit certificate programs and the decision to work with the existing capacity under existing mortgage credit certificate programs and the increased interest in home ownership in the Tucson market resulting from the COVID-19 pandemic.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), continued  
For the year ended June 30, 2020

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Overview of the Financial Statements (Continued)

Contacting the Authority's Office

This financial report is designed to provide the residents of Tucson, Arizona, our consultants, and our financial advisors with a general overview of the Authority's finances and to show the Authority's accountability for the revenue it receives. If you have any questions about this report or need additional information, contact the Program Administrator at The Industrial Development Authority of the City of Tucson, Arizona 333 N. Wilmot Road, Suite 227, Tucson, Arizona 85711 or call (520) 882-5591. The website address is [www.tucsonida.org](http://www.tucsonida.org).



THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

STATEMENTS OF NET POSITION - ENTERPRISE FUNDS  
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 2,949,829	\$ 3,158,526
Investments	2,342,634	2,307,536
Accounts receivable	2,761	67,181
Prepaid expense	26,627	21,569
Notes receivable, current portion, net of allowance for loan loss of \$3,021 in 2020 and \$3,125 in 2019	<u>116,168</u>	<u>122,484</u>
Total current assets	5,438,019	5,677,296
Noncurrent assets:		
Program advances and related fees earned, net of withdrawals (see Note 7)	378,854	178,920
Property and equipment, net of accumulated depreciation of \$16,083 in 2020 and \$14,525 in 2019	3,293,289	3,294,846
Notes receivable, long term, net of allowance for loan loss of \$51,256 in 2020 and \$41,562 in 2019	<u>2,170,601</u>	<u>1,655,261</u>
Total noncurrent assets	<u>5,842,744</u>	<u>5,129,027</u>
Total assets	11,280,763	10,806,323
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	67,537	64,920
Deferred revenue	<u>6,109</u>	<u>10,698</u>
Total current liabilities	<u>73,646</u>	<u>75,618</u>
<b>NET POSITION, all unrestricted</b>	<u><u>\$ 11,207,117</u></u>	<u><u>\$ 10,730,705</u></u>

See notes to financial statements.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

STATEMENTS OF REVENUE, EXPENSES AND  
CHANGES IN NET POSITION - ENTERPRISE FUNDS  
For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUE</b>		
Refunding, issuer and administration fees (see Note 7)	\$ 612,811	\$ 589,716
Interest from notes receivable direct loan program	109,350	102,958
Total operating revenue	<u>722,161</u>	<u>692,674</u>
<b>OPERATING EXPENSE</b>		
Administrative fees	169,697	163,142
Legal fees	162,404	186,855
Program costs	59,785	58,835
Lobbying fees	54,600	49,525
Advertising	30,348	22,991
Other	25,880	29,237
Insurance expenses	24,120	21,569
Accounting fees	18,100	18,000
Application fees	12,215	-
Bad debt expense	9,590	3,593
Bank charges	1,461	2,642
Total operating expense	<u>568,200</u>	<u>556,389</u>
Net operating income	153,961	136,285
<b>NON-OPERATING REVENUE (EXPENSE)</b>		
Parking lot income, net of \$157,140 in expenses, including \$1,557 in depreciation in 2020, and \$175,614 in expenses, including \$1,557 in depreciation in 2019	245,979	325,877
North Main property rental income, net of \$9,674 in expenses in 2020, and \$14,077 in expenses in 2020	2,777	(13,627)
Income from investments	73,695	92,443
Total non-operating revenue (expense)	<u>322,451</u>	<u>404,693</u>
Change in net position	476,412	540,978
<b>NET POSITION, unrestricted, beginning of year,</b>	<u>10,730,705</u>	<u>10,189,727</u>
<b>NET POSITION, unrestricted, end of year</b>	<u>\$ 11,207,117</u>	<u>\$ 10,730,705</u>

See notes to financial statements.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

STATEMENTS OF CASH FLOWS - ENTERPRISE FUNDS

For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received for refunding, issuer and administration fees	\$ 472,706	\$ 660,456
Cash received for interest from notes receivable direct loan program	109,350	104,458
Cash paid for operating expenses	<u>(556,488)</u>	<u>(582,747)</u>
Net cash flows from operating activities	25,568	182,167
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends received from investments	73,695	92,443
Investment in certificates of deposit, net of redemptions	(35,098)	(1,907,536)
Advances on notes receivable	(800,000)	(552,750)
Principal collections on notes receivable direct loan program	281,386	346,240
Cash paid for property and equipment	-	(27,772)
Cash received for parking lot income	403,119	501,491
Cash paid for parking lot expenses	(159,404)	(172,278)
Cash received for building rental	12,450	-
Cash paid for building rental expenses	<u>(10,413)</u>	<u>(13,735)</u>
Net cash flows from investing activities	<u>(234,265)</u>	<u>(1,733,897)</u>
<b>NET CHANGE IN CASH AND EQUIVALENTS</b>	(208,697)	(1,551,730)
<b>CASH AND EQUIVALENTS, beginning of year</b>	<u>3,158,526</u>	<u>4,710,256</u>
<b>CASH AND EQUIVALENTS, end of year</b>	<u>\$ 2,949,829</u>	<u>\$ 3,158,526</u>
 <b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 153,961	\$ 136,285
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Allowance for loan loss	9,590	3,593
Changes in operating assets and liabilities		
Accounts receivable	64,420	(46,798)
Accrued interest receivable	-	1,500
Prepaid expenses	(5,058)	-
Program advances and related fees earned, net of withdrawals	(199,936)	112,970
Accounts payable and accrued expenses	7,180	(29,951)
Deferred revenue	<u>(4,589)</u>	<u>4,568</u>
Total adjustments	<u>(128,393)</u>	<u>45,882</u>
Net cash flows from operating activities	<u>\$ 25,568</u>	<u>\$ 182,167</u>

See notes to financial statements.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Industrial Development Authority of the City of Tucson, Arizona (the "Authority"), a political subdivision and instrumentality of the State of Arizona was established in 1979 to issue tax-exempt bonds for the purposes set forth in Arizona Revised Statutes §35-701 onward. Proceeds from bond issues are loaned to various qualifying borrowers. The bonds are not general obligations of the Authority or the City of Tucson, but are special limited obligations of the Authority payable solely from the payments on the loans made to the participating borrowers, from bond proceeds held and invested in trust, from credit enhancement vehicles (such as letters of credit and bond insurance), and from assets specifically pledged by the borrowers for the benefit of the holders of the particular bonds. The third party borrowers of bond proceeds reimburse the Authority for expenses of issuance of the bonds, pay fees of the Authority, and make payments under the loans for the benefit of the holders of the bonds. The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The significant accounting policies of the Authority are described below.

Basis of Presentation

The Authority is a special-purpose, stand-alone government which is a legally separate entity. The Authority is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement. The elected Mayor and Council of the City of Tucson, Arizona appoint the Authority's board members. However, the City of Tucson is not financially accountable for the Authority. In addition, the Authority has no component units as defined in GASB Statement 14. Dark Mountain Development Corporation is a legally separate nonprofit corporation which is governed by the Authority's Board of Directors. The nonprofit corporation is inactive.

The Authority is a special-purpose government engaged only in business-type activities. Accordingly, the basic financial statements do not include separate government-wide financial statements which are followed by fund financial statements. The Authority presents only Enterprise Fund financial statements in accordance with GASB No. 34 paragraph 138. Enterprise Funds are used to account for the Authority's on-going activities which are similar to those found in the private sector. Such activities are typically self-supporting. The measurement focus is upon determination of net income, financial position, and changes in cash flows. Enterprise Fund net position is unrestricted. When an expense is incurred for which both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

The Enterprise Fund Financial Statements include the following elements:

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Statements of Net Position
  - Statements of Revenue, Expenses and Changes in Net Position
  - Statements of Cash Flows
- Notes to Financial Statements

The IDA does not adopt an annual budget and, accordingly, no budget and actual statements are presented.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. The Authority applies all applicable GASB Statements, including GASB 62 and 63 effective for periods beginning after December 15, 2011.

When both restricted and unrestricted resources are available for use, it is the IDA's policy to use restricted resources first, then unrestricted resources as they are needed.

In 2012, the Authority implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance previously contained in various Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements.

Also in 2012, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Accordingly, the accompanying statements of financial position report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure 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 these estimates.

Income Tax Status

As a political subdivision of the State of Arizona, the Authority is exempt from federal and state income taxes.

Cash and Equivalents

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

Investments

GASB Statement No. 31 provides that governmental entities may report all investments at fair value or they may elect to report certain money market investments and participating interest-earned investment contracts at amortized cost. The Authority has elected to report all investments at fair value. The Authority has investments in certificates of deposits with original maturities of more than three months. The fair value of the Authority's investments equals cost.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Property and Equipment

Assets of the Authority are capitalized at historical cost or fair market value at dates of acquisition. Assets are depreciated on a straight-line basis over their estimated useful lives, which range from 5 years for equipment to 15 years for a building. The Authority has adopted a capitalization threshold of \$2,500.

The Authority reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flow expected to be generated by the rental property plus the estimated proceeds from the eventual disposition of the real estate. If the real estate's value is impaired, the impairment to be recognized is the amount by which the carrying amount of the real estate exceeds the fair value of the property. There was no impairment loss recognized in 2020 or 2019.

Allowance for Loan Loss

The Authority adopted a policy for the allowance for loan loss at a level adequate to absorb probable losses. The Authority determines the adequacy of the allowance based on calculating 2% of the outstanding loan balances, plus any specific loans that are identified as doubtful. The Authority charges off loans that are 90 days or more past due.

Deferred Revenue

The Authority recognizes the advanced receipt of refunding and administration fees as deferred revenue until such fees are earned.

Revenue Recognition

The Authority charges the borrower of bond proceeds an initial application fee of \$2,500 for each bond issue, recognized at time of preliminary approval. In addition, an annual administrative fee is charged based on a percentage ranging from .02% to .09% of the outstanding principal balance of the bond issue. There is a continuing policy to charge a fee of \$2,500 for any modification of existing bond issues. These initial administrative fees are not recognized until the actual bond closing has occurred. The annual administrative fees are accrued monthly and billed on the annual anniversary of the bond closing.

Classification of Revenues

The Authority has classified its revenue as either operating or non-operating revenue according to the following criteria:

- A) Operating revenues – Operating revenues include activities that have characteristics of exchange transactions such as fees for services for initiating and monitoring bond issues, interest earned on notes receivable which are part of the direct loan program, and other programs;
- B) Non-operating revenues – Non-operating revenues include activities and revenue resources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34, such as interest, investment income, parking lot income and building rental income.

Advertising Costs

The Authority expenses advertising costs as incurred. The Authority does not participate in direct response advertising which requires the capitalization and amortization of related costs.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Subsequent Events

The Authority has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended June 30, 2020 through April 16, 2021, the date the financial statements were available to be issued. See Note 8.

2. Deposits and Investments

Cash and equivalents on the statements of net position consist of cash on hand with the parking lot management firm, bank demand accounts and money market funds. The bank demand accounts maintained with commercial banking institutions had book values totaling \$508,871 and \$728,085, and bank balances totaling \$715,432 and \$728,217 at June 30, 2020 and 2019, respectively. The difference of \$206,561 and \$132 between book value and bank balance represent deposits in transit and outstanding checks at June 30, 2020 and 2019, respectively.

Additionally, cash and equivalents includes money market mutual funds held by a bank in the amount of \$2,440,958 and \$2,430,441 at June 30, 2020 and 2019, respectively (account balance equals book balance). The money market mutual funds are not covered by FDIC.

Investments on the statements of net position consist of Authority owned non-negotiable certificates of deposit with original maturities of more than three months. These certificates of deposit had bank balances totaling \$2,342,634 and \$2,307,536 at June 30, 2020 and 2019, respectively, which is the same as their fair value. These certificates of deposits are entirely covered by FDIC insurance. All certificates mature in less than one year.

Realized gains and losses – The Authority had no realized net gain or loss on the sale of investments in 2020 or 2019. The calculation of realized gain is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that were 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.

Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the Authority restricts its investments to insured money market funds, short-term US Government and US Government Agency paper and short-term certificates of deposits issued by different institutions, subject to the FDIC limits. The Authority coordinates investment maturity to match anticipated cash flow needs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority does not have a formal policy for custodial credit risk.

Concentration of Credit Risk

The Authority diversifies its investments by type and institution. Investment policies are governed by board decisions. Investments shall be made with the objective of maximizing return while maintaining the safety and security of Authority funds. The recommended investment mix is:

Cash – cash and money market funds (in an amount so it is insured through a financial institution or security broker/dealer) up to 42% of total investment amount;

3 month Certificates of deposit – subject to the FDIC limit, up to 29% of total investment amount;

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2020

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2. Deposits and Investments (continued)

6 month Certificates of deposit – subject to the FDIC limit, up to 29% of total investment amount;

1 year Certificates of deposit – subject to the FDIC limit, as determined by the Board of Directors and Investment advisors;

US Government and US Government Agencies paper – 3 month to 1 year maturity, as determined by the Board of Directors and Investment advisors.

Funds in excess of the specified dollar threshold are to be swept into the money market account.

At year end, more than five percent of the Authority's investments were held in various money market funds and in bank accounts in excess of FDIC insurance. Such concentrations are permitted by the Authority's investment policy.

3. Property and Equipment

Property and equipment consists of the following:

Parking Lots

During 2009, the Authority took possession of three parcels of land. The land is recorded at fair market value on the date it was received. The Authority, through a fee-based management agent, operates parking lots on the land for daily and monthly visitors to downtown. During 2018, the Authority purchased an easement for a cost of \$119,250 that made the land complete for any future potential sale.

Capitalized costs of \$40,443 relate to an archeological assessment on the Block 175 property. The archeological assessment was performed in 2012 and the report indicated several areas of historical significance on the property. The report recommends excavation of the entire area prior to development. The estimated cost of the archeological excavation and data recovery for both Block 175 and the Stone and Council site is in excess of \$1,200,000. This does not include the cost of removing all modern additions to the properties. The Authority has not obtained an estimate for that cost.

450 N. Main

In March 2010, the Authority purchased land and building located at 450 N. Main, Tucson, Arizona. The Authority is holding the property for future mixed use development which is stalled due to right of way and flood zone issues. The property was held for commercial lease in anticipation that future events would allow the property to be used for mixed use / residential purposes. The building was demolished during the year ended June 30, 2019. The net book value of the building and demolition costs were added to the carry value of the land.



THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

3. Property and Equipment (continued)

Property and Equipment consists of the following at June 30, 2020 and 2019, respectively:

	2020	2019
Land and other non-depreciable assets:		
Block 175 (used as a parking lot facility)	\$ 2,359,693	\$ 2,359,693
Stone and Council (used as a parking lot facility)	730,000	730,000
450 N. Main (future location for affordable housing)	202,816	202,816
Total land and other non-depreciable assets	3,292,509	3,292,509
Depreciable assets:		
Building (450 N. Main demolished 2019)	-	-
Equipment (parking lots)	16,862	16,862
Total depreciable assets	16,862	16,862
Subtotal	3,309,371	3,309,371
Less accumulated depreciation	(16,082)	(14,525)
Total	<u>\$ 3,293,289</u>	<u>\$ 3,294,846</u>

4. Notes Receivable

Notes receivable arising from the Authority's direct loan programs consist of the following:

	2020	2019
Alvernon Medical Center LLC	\$ 90,366	\$ 95,411
Avenue Boutique	34,033	36,886
Business Development Finance Corporation	500,000	-
Carly Quinn Designs, Inc.	31,108	33,234
Corbett Brewing	130,473	135,421
Courtney Medical Group PLLC	83,033	84,378
CTEC Properties, LLC	137,726	139,955
Dakota Pro, LLC	34,650	46,115
Desert Horizons	129,995	135,269
Ermanos Craft Beer Depot LLC	161,491	125,000
Gibson's Market, LLC (Note 2 of 2)	95,446	102,776
Grecycle Arizona LLC	85,604	96,284
Individual low income homebuyers	7,609	8,407
Kaelen Harwell Organic Day Spa LLC	33,689	35,782
Kazal Fire Protection, Inc.	-	115,302
Kingan Place, LLC (Note 1 of 2)	235,931	241,219
Kingan Place, LLC (Note 2 of 2)	68,361	-
Kothe Properties, LLC	136,946	-
Pueblo Vida Brewing Co. (Note 1 of 2)	40,759	44,664
Pueblo Vida Brewing Co. (Note 2 of 2)	55,000	-
Seoul Kitchen Corporation	-	70,627
Ten 55 Brewpub, LLC	134,427	144,525
The River 5, LLC	58,440	60,000
Thunder Canyon Brewery, Inc.	2,815	15,321
Wavelab Downtown, LLC	53,144	55,856
Subtotal	2,341,046	1,822,432
Less current portion, net of allowance	(116,168)	(122,484)
Less allowance for loan loss	(54,277)	(44,687)
Notes receivable, long term, net of allowance	<u>\$ 2,170,601</u>	<u>\$ 1,655,261</u>

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2020

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4. Notes Receivable (continued)

Alvernon Medical Center, LLC

In May 2017, the Authority advanced \$105,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to Alvernon Medical Center, LLC, for the purpose of acquiring property in Tucson, Arizona. The note is collateralized by a deed of trust and calls for interest at 6.0% annually, and monthly payments of \$886 until May 2027, at which time the unpaid balance is due.

All M Designs, LLC (dba Avenue Boutique)

In April 2018, the Authority advanced \$40,000 as an 80% owner in a participation loan with the Business Development Financing Corporation to All M Designs, LLC dba Avenue Boutique, for the purpose of working capital. The note is collateralized by a second deed of trust and a security interest in the business assets and calls for interest at 9.25% annually, and monthly payments of \$512 until April 2023, at which time the unpaid balance is due.

Business Development Financing Corporation

In April 2020, the Authority advanced \$500,000 as a loan to Business Development Financing Corporation for the purpose of making loans as part of the United States Small Business Administration's (the SBA) Paycheck Protection Program. The proceeds of the loan can only be used by Business Development Finance Corporation to make Paycheck Protection Program loans to qualified small business and nonprofit organizations. The qualified loans will be reimbursed by the SBA's Paycheck Protection Program Loan Recoveries and calls for interest at 1.0% annually until December, 2022, at which time any unpaid balance is due.

Carly Quinn Designs, Inc.

In April 2017, the Authority advanced \$37,500 as a 50% owner in a participation loan with the Business Development Financing Corporation to Carly Quinn Designs, Inc., for the purpose of making renovations to the building in the downtown area in Tucson, Arizona. The note is collateralized by security interests in business assets and calls for interest at 8.5% annually, and monthly payments of \$465 until April 2022, at which time the unpaid balance is due.

Corbett Brewing

In February 2016, the Authority advanced \$150,000 as a 50% owner in a participation loan with Business Development Financing Corporation to Red 417, LLC dba Corbett Brewing for acquiring machinery and equipment, working capital and the improvement of property in Tucson, Arizona. The note is collateralized by a deed of trust and calls for interest at 6.00% annually and monthly payments of \$1,075 until February 2026 at which time the unpaid balance is due.

Courtney Medical Group PLLC

In July 2018, the Authority advanced \$85,000 as a 42.5% owner in a participation loan with the Business Development Financing Corporation to Courtney Medical Group PLLC, for the purpose of acquiring land and constructing a commercial real estate building. The note is collateralized by a deed of trust and calls for interest at 7.0% annually, and monthly payments of \$601 until July 2043, at which time the unpaid balance is due.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS

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4. Notes Receivable (continued)

CTEC Properties, LLC

In March 2019, the Authority advanced \$140,000 as a 48.28% owner in a participation loan with the Business Development Financing Corporation to CTEC Properties LLC, for the purpose of refinancing debt and working capital. The note is collateralized by a deed of trust and calls for interest at 6.75% annually fixed for the first 5 years, and then adjusted to 10-Year Treasury rate plus 4.00%, amortized over the final 20 years. Initial monthly payments are \$967, to be redetermined March 2024 until March 2044, at which time the unpaid balance is due.

Dakota Pro, LLC

In May 2015, the Authority advanced \$92,000 as a 38.98% owner in a participation loan with Business Development Financing Corporation, to Dakota Pro, LLC for the purpose of acquiring and installing equipment at a location in Tucson, Arizona. The note is collateralized by a deed of trust and calls for interest at 6.75% annually and monthly payments of \$1,377 until April 2022, at which time the unpaid balance is due.

Desert Horizons

In April 2016, the Authority advanced \$150,000 as a 50% owner in a participation loan with Business Development Financing Corporation to CB Real Estate Investments dba Desert Horizons Communities for acquiring machinery and equipment, working capital and the improvement of property in Tucson, Arizona. The note is collateralized by a deed of trust and initially calls for interest at 4.89% annually to be adjusted to 3.00% plus the 10 year U.S Treasury Note on April 2021 and initial monthly payments of \$981, to be redetermined April 2021 until April 2026 at which time the unpaid balance is due.

Ermanos Craft Beer Depot LLC

In October 2019 and June 2019, the Authority advanced \$37,500 and \$125,000, respectively, as a 50% owner in a participation loan with the Business Development Financing Corporation to Ermanos Craft Beer Depot LLC, for the purpose of tenant improvements and to purchase equipment. The note is collateralized by a deed of trust and calls for interest at 7.5% annually fixed for the first 5 years, and then adjusted to the 10-Year Treasury rate plus 4.75%, amortized over the final 5 years. Initial monthly payments are \$1,484, to be redetermined June 2024 until June 2029, at which time the unpaid balance is due.

Gibson's Market, LLC (Note 2 of 2)

In June 2017, the Authority advanced \$121,025 as a 50% owner in a participation loan with the Business Development Financing Corporation to Gibson's Market, LLC (a second note receivable from this business), for the purpose of refinancing existing loans. The note is collateralized by a second deed of trust and a security interest in the business assets and calls for interest at 7.5% annually, and monthly payments of \$1,437 until June 2027, at which time the unpaid balance is due.

Grecycle Arizona LLC

In July 2018, the Authority advanced \$105,250 as a 50% owner in a participation loan with the Business Development Financing Corporation to Kazolt LLC dba Grecycle Arizona LLC, for the purpose of refinancing commercial real estate debt. The note is collateralized by a deed of trust and calls for interest at 6.0% annually, and monthly payments of \$973 until July 2031, at which time the unpaid balance is due.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS

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4. Notes Receivable (continued)

Individual low income homebuyers

During the period October 2005 through December 2005, the Authority made four separate advances of \$11,250 each to four separate qualified low income homebuyers in the form of subordinated second mortgages to assist these low income homebuyers in qualifying for homes that were otherwise unaffordable based on available household income at the time of the home purchases. These four notes are collateralized by second deeds of trust and call for interest at 3.0% annually. However, the first 5 years of interest was being accrued to the outstanding balances. Monthly payments of \$72 began between the months of November 2010 and January 2011 with final payments scheduled between the months of October 2030 and December 2030. During fiscal 2016, one of these notes, with an outstanding balance of \$12,536, was reduced to \$0, due to several months of non-payments. During fiscal 2019, one of the remaining notes was paid in full.

Kaelen Harwell Organic Day Spa, LLC

In July 2018, the Authority advanced \$37,500 as a 50% owner in a participation loan with the Business Development Financing Corporation to Kaelen Harwell Organic Day Spa, LLC, for the purpose of acquiring equipment and working capital. The note is collateralized by a deed of trust and calls for interest at 9.5% annually, and monthly payments of \$485 until July 2023, at which time the unpaid balance is due.

Kazal Fire Protection, Inc.

In October 2012, the Authority advanced \$150,000 as a 50% owner in a participation loan with the Business Development Financing Corporation, to Kazal Fire Protection, Inc. to refinance an industrial building located in the downtown area of Tucson, Arizona. The note is collateralized by a second deed of trust and calls for interest at 3.75% annually and monthly payments of \$969 until October 2022, at which time the unpaid balance is due. The note was paid in full during fiscal 2020.

Kingan Place LLC (Note 1 of 2)

In July 2017, the Authority advanced \$250,000 as a 62.5% owner in a participation loan with the Business Development Financing Corporation to Kingan Place LLC, for the purpose of acquiring machinery and equipment. The note is collateralized by a second deed of trust and calls for interest at 7.5% annually, and monthly payments of \$1,535 until July 2027, at which time the unpaid balance is due.

Kingan Place LLC (Note 2 of 2)

In September 2019, the Authority advanced \$70,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to Kingan Place LLC (a second note receivable to this business), for the purpose of acquiring property. The note is collateralized by a second deed of trust and calls for interest at 5.5% annually, and monthly payments of \$482 until September 2029, at which time the unpaid balance is due.

Kothe Properties LLC

In February 2020, the Authority advanced \$137,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to Kothe Properties LLC, for the purpose of refinancing existing loans. The note is collateralized by a second deed of trust and security interest in the business assets and calls for an initial interest rate of 6.5% annually for the first 5 years, and then adjusted to the 10-Year Treasury rate plus 4.75%, amortized over 25 years with all remaining interest and principal due in 10 years. Initial monthly payments are \$928, to be redetermined February 2025 until February 2030, at which time the unpaid balance is due.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS

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4. Notes Receivable (continued)

Pueblo Vida Brewing Co. (Note 1 of 2)

In June 2017, the Authority advanced \$50,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to Pueblo Vida Brewing Co., for the purpose of acquiring machinery and equipment. The note is collateralized by a security interest in the business assets and calls for interest at 7.5% annually, and monthly payments of \$594 until June 2027, at which time the unpaid balance is due.

Pueblo Vida Brewing Co. (Note 2 of 2)

In May 2020, the Authority advanced \$55,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to Pueblo Vida Brewing Co. (a second note receivable to this business), for the purpose of acquiring machinery and equipment. The note is collateralized by a security interest in the business assets and calls for interest at 7.0% annually, and monthly payments of \$830 until May 2027, at which time the unpaid balance is due.

Seoul Kitchen Corporation

In March 2018, the Authority advanced \$75,000 as a 75% owner in a participation loan with the Business Development Financing Corporation to Seoul Kitchen Corporation, for the purpose of renovations and working capital. The note is collateralized by a second deed of trust and calls for interest at 9.25% annually, and monthly payments of \$960 until March 2023, at which time the unpaid balance is due. This note was paid in full during fiscal 2020.

Ten55 Brewpub LLC

In June 2018, the Authority advanced \$150,000 as a 75% owner in a participation loan with the Business Development Financing Corporation to Ten55 Brewpub LLC, for the purpose of tenant improvements. The note is collateralized by a security interest in the business assets and calls for interest at 9.25% annually, and monthly payments of \$1,920 until June 2023, at which time the unpaid balance is due.

The River 5, LLC

In May 2019, the Authority advanced \$60,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to The River 5, LLC, for the purpose of acquiring commercial real estate in Tucson, Arizona. The note is collateralized by a deed of trust and calls for interest at 6.0% annually, and monthly payments of \$430 until May 2029, at which time the unpaid balance is due.

Thunder Canyon Brewery, Inc.

In June 2012, the Authority advanced \$97,500 as a 50% owner in a participation loan with the Business Development Financing Corporation, to Thunder Canyon Brewery, Inc. to purchase equipment for a real estate location in the downtown area of Tucson, Arizona. The note is collateralized by a second deed of trust and calls for interest at 6.5% annually and monthly payments of \$1,448 until June 2019, at which time the unpaid balance is due; however, the balance was not paid in full during June 2019.

Wavelab Downtown, LLC

In September 2012, the Authority advanced \$70,000 as a 50% owner in a participation loan with the Business Development Financing Corporation, to Wavelab Downtown, LLC to acquire an industrial building located in the downtown area of Tucson, Arizona. The note is collateralized by a second deed of trust and calls for interest at 5.50% annually and monthly payments of \$522 until August 2032, at which time the unpaid balance is due.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

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5. Revenue Bonds (Conduit Debt) (Unaudited)

The Authority has issued limited obligation tax-exempt bonds. Proceeds from bond issues were loaned to qualifying borrowers for development of industry and housing. The outstanding bond obligation was \$33,145,207 and \$41,551,546 as of June 30, 2020 and 2019, respectively. The obligation is to be repaid solely from loan payments made on behalf of or directly by qualifying borrowers and bond proceeds held and invested in trust or other collateral pledged by the qualifying borrowers.

6. Program Advances and Related Fees Earned, Net of Withdrawals

Program advances includes funds held by the fiscal agent for the 2012 Pima Tucson Homebuyers' Solution Program (PTHS) and the Pathway to Purchase Program (P2P). Under the terms of both of these Programs, the Authority has advanced funds to the fiscal agent for the purpose of providing down-payment assistance through program intermediaries to qualifying homebuyers in the Tucson area. After closing, pooled mortgages are securitized and sold on the open market generating both fee income to the Authority and the return of the down payment assistance advanced by the fiscal agent based on the realized spread between prevailing tax-advantaged bond rates and the underlying rate at which mortgages are made.

Fees earned by the Authority under the P2P Program (which restarted in October 2018) were \$84,663 and \$95,480 for the years ended June 30, 2020 and 2019, respectively, and are included in refunding, issuer and administration fees.

Revenue earned by the Authority under the PTHS Program was \$332,153 and \$191,529 for the years ended June 30, 2020 and 2019, respectively, and are included in refunding, issuer and administration fees.

Additionally, the Authority earns a percentage fee based on the spread in interest rates underlying the mortgage pools. These transactions are affected by the investment banker and do not expose the Authority to credit risk. Related fees earned by the Authority were \$109,209 and \$181,288, for the years ended June 30, 2020 and 2019, respectively, and are included in refunding, issuer and administration fees.

7. Prior Period Adjustment

During the year ended June 30, 2019 \$104,770 in fees revenue generated by the Pima Tucson Homebuyers' Solution Program was earned, but not recognized due to an error. The Statements of Net Position – Enterprise Funds at June 30, 2019 and the Statements of Revenue, Expenses and Changes in Net Position – Enterprise Funds for the year ended June 30, 2019 have been restated to correct the error. The effects of this restatement are to increase program advances and related fees earned, net of withdrawals at June 30, 2019 from \$74,150 to \$178,920 and to increase refunding, issuer and administrative fees for the year ended June 30, 2019 from \$484,946 to \$589,716. The correction of this error results in an increase of net position at June 30, 2019 from \$10,625,935 to \$10,730,705.

8. Subsequent Events

In July 2020 the Board of Directors of the Authority approved a commitment to provide up to \$750,000 to fund the Pima Tucson Homebuyers' Solution Program, on an as-needed basis.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

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9. COVID-19 Pandemic

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. In March of 2020 the World Health Organization declared the outbreak to be a pandemic and to constitute a "Public Health Emergency of International Concern". The COVID-19 pandemic is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Authority's operational and financial performance will depend on certain developments, including the duration, severity and spread of the outbreak, all of which are uncertain and cannot be predicted. As of June 30, 2020 the COVID-19 pandemic has caused a significant increase in volume in the Pima Tucson Homebuyers' Solution Program which has resulted in an increase in revenue for the Authority. The extent to which the COVID-19 pandemic may materially impact the financial condition of the Authority or results of operations going forward is uncertain and cannot be reasonably estimated.