

*Financial Statements*

***Arizona Department of Transportation  
Highway Expansion and Extension Loan  
Program Fund***

*Fiscal Years Ended June 30, 2011 and 2010*

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Financial Statements  
Fiscal years ended June 30, 2011 and 2010

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HEINFELD, MEECH & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



## INDEPENDENT AUDITORS' REPORT

Director  
Arizona Department of Transportation

We have audited the accompanying basic financial statements of the Highway Expansion and Extension Loan Program Fund (Fund), an enterprise fund of the Arizona Department of Transportation (Department), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the Arizona Department of Transportation. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative totals as of and for the year ended June 30, 2010, presented in the accompanying basic financial statements are included for additional analysis only. Our audit report dated October 28, 2010, expressed an unqualified opinion on these statements; however, we have not performed any auditing procedures on this information since the date of our report.

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 opinion.

As discussed in Note 1, the financial statements of the Highway Expansion and Extension Loan Program Fund are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities and the major fund of the Arizona Department of Transportation that is attributable to the Highway Expansion and Extension Loan Program Fund. They do not purport to, and do not, present fairly the financial position of the Arizona Department of Transportation, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Highway Expansion and Extension Loan Program Fund, an enterprise fund of the Arizona Department of Transportation, as of June 30, 2011, and the respective changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011 on our consideration of the Highway Expansion and Extension Loan Program Fund'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.

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
Certified Public Accountants

October 31, 2011

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Management's Discussion and Analysis  
June 30, 2011 and 2010

As management of the Arizona Department of Transportation, Highway Expansion and Extension Loan Program Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements and the accompanying notes to the basic financial statements.

### **Financial Highlights**

- The assets of the Fund exceeded its liabilities by \$76,192,180 at the end of fiscal year 2011 as compared to \$75,619,251 at fiscal year end 2010 and \$74,702,986 at fiscal year end 2009. All of this amount may be used to meet the Fund's operational needs for loans or other financial assistance.
- The Fund's total net assets increased by \$572,929 and \$916,265 for fiscal years 2011 and 2010, respectively.
- There were no loan amounts disbursed from July 1, 2010 to June 30, 2011. Total loan amounts of \$23.4 thousand were disbursed from July 1, 2009, to June 30, 2010. The \$23.4 thousand disbursed in fiscal year 2010 was disbursed to the City of Goodyear for the I-10 widening project.

### **Fund Financial Statements**

**Fund accounting** The operations of the Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenses. Government resources are allocated and accounted for based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various transactions are accounted for in one fund type as follows:

**Proprietary funds** Enterprise funds, which are part of the Proprietary funds, are used to report the same functions presented as business-type activities in the government-wide financial statements. An enterprise fund is used by the Arizona Department of Transportation to account for the Fund's operations.

The Department's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Management's Discussion and Analysis (continued)  
June 30, 2011 and 2010

**Financial Analysis**

In governmental financial statements, net assets may serve over time as a useful indicator of a government's financial position. The Fund's net assets increased by \$572,929 and \$916,265 by the end of fiscal years 2011 and 2010, respectively.

**Table 1**  
**Highway Expansion and Extension Loan Program Fund's Net Assets**  
**as of June 30, 2011, 2010, and 2009**

	Business-type Activities		
	2011	2010	2009
Current assets	\$ 75,698,458	\$ 71,340,854	\$ 59,092,856
Non-current assets	530,450	4,314,483	15,660,000
Total assets	76,228,908	75,655,337	74,752,856
Current liabilities	36,728	36,086	49,870
Non-current liabilities	-	-	-
Total liabilities	36,728	36,086	49,870
Net assets			
Restricted	76,192,180	75,619,251	74,702,986
Total net assets	\$ 76,192,180	\$ 75,619,251	\$ 74,702,986

All of the Fund's net assets are restricted for loans and other financial assistance.

Changes in current assets for fiscal years 2011 and 2010 primarily related to the repayment of Fund loans and a reduction in disbursements made by the Fund.

In fiscal year 2011, non-current assets decreased by 87.7 percent. In fiscal year 2010, non-current assets decreased by 72.5 percent. Because of the State's economic condition and other factors, no new loan amounts were disbursed in fiscal year 2011 and on only one loan in fiscal year 2010. As a result, loan receivables declined as loan repayments were received from borrowers, but were not offset by any new loan activity.

At the end of fiscal years 2011 and 2010, the Fund is able to report a positive balance of net assets. The net assets of the Fund are restricted for loans and other financial assistance, and are available for future loan activity.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Management's Discussion and Analysis (continued)  
June 30, 2011 and 2010

**Table 2**  
**Highway Expansion and Extension Loan Program Fund's Changes in Net Assets**  
**for fiscal years ended June 30, 2011, 2010, and 2009**

	Business-type Activities		
	2011	2010	2009
Revenues:			
Operating revenues			
Interest on loans receivables	\$ 153,589	\$ 566,186	\$ 1,127,759
Non-operating revenues			
Income from investments	545,321	497,119	1,572,256
Total revenues	<u>698,910</u>	<u>1,063,305</u>	<u>2,700,015</u>
Expenses:			
Operating expenses:			
Interest on Board Funding Obligations	-	-	1,877,425
Other	125,981	147,040	234,650
Total expenses	<u>125,981</u>	<u>147,040</u>	<u>2,112,075</u>
Increase in net assets	572,929	916,265	587,940
Net assets - July 1	75,619,251	74,702,986	74,115,046
Net assets - June 30	<u>\$ 76,192,180</u>	<u>\$ 75,619,251</u>	<u>\$ 74,702,986</u>

The Fund's interest on loans receivable revenues decreased by 72.9 percent in fiscal year 2011 and by 49.8 percent in fiscal year 2010. Lower average principal balances outstanding accounted for the decrease in interest on loans in fiscal years 2011 and 2010.

In fiscal year 2011, income from investments increased by \$48,202 due to the Fund not issuing any new loans and receiving loan repayments which increased average cash balances during the year. In fiscal year 2010, income from investments decreased by \$1,075,137 due to the Fund maintaining a lower average cash balance during the year and by lower average interest rates on invested cash due to prevailing market conditions during the fiscal year.

The Fund's interest expense on BFOs for fiscal year 2009 declined due to the fact that \$50,000,000 of BFOs were outstanding for only part of the fiscal year. During the prior fiscal year, \$50,000,000 of BFOs were outstanding for the entire year. All BFOs were paid off in fiscal year 2009. Other operating expenses decreased by 14.4 percent in fiscal year 2011 and by 37.4 percent in fiscal year 2010. All of these decreases are consistent with the budget constraints that have been implemented throughout the Department. The one exception was in fiscal year 2009 when professional and outside services increased due to outside auditors' fees.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Management's Discussion and Analysis (continued)  
June 30, 2011 and 2010

**Notes to the financial statements** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found beginning on page 10 of this report.

**Requests for information** This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17<sup>th</sup> Avenue, Phoenix, Arizona, 85007, or by visiting our website at [http://www.azdot.gov/Inside\\_ADOT/FMS/PDF/help\\_Statement11.pdf](http://www.azdot.gov/Inside_ADOT/FMS/PDF/help_Statement11.pdf).



Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Statements of Net Assets  
June 30, 2011 and 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Restricted cash on deposit with the State Treasurer (Note 1C)	\$ 71,693,881	\$ 66,819,124
Receivables:		
Accrued interest	110,994	31,730
Loans (Note 3A)	3,893,583	4,490,000
Total current assets	75,698,458	71,340,854
Non-current assets:		
Receivables:		
Loans (Note 3A)	530,450	4,314,483
Total non-current assets	530,450	4,314,483
Total assets	76,228,908	75,655,337
<b>Liabilities</b>		
Current liabilities:		
Accrued payroll and other accrued expenses	2,499	2,355
Compensated absences	3,639	3,141
Due to Arizona counties and cities	30,590	30,590
Total current liabilities	36,728	36,086
Total liabilities	36,728	36,086
<b>Net assets</b>		
Restricted for loans and other financial assistance	76,192,180	75,619,251
Total net assets	\$ 76,192,180	\$ 75,619,251

*The notes to the financial statements are an integral part of this statement.*

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Statements of Activities  
For the fiscal years ended June 30, 2011 and 2010

	2011	2010
<b>Operating revenues:</b>		
Interest on loans receivables	\$ 153,589	\$ 566,186
Total operating revenues	153,589	566,186
<b>Operating expenses:</b>		
Salaries and related benefits	46,057	83,211
Supplies	394	204
Professional and outside services	37,500	32,200
Other	60	-
Total operating expenses	84,011	115,615
Operating income <loss>	69,578	450,571
<b>Non-operating revenues &lt;expenses&gt;:</b>		
Income from investments	545,321	497,119
Investment expense	<41,970>	<31,425>
Total non-operating revenues <expenses>	503,351	465,694
Change in net assets	572,929	916,265
Total net assets - July 1	75,619,251	74,702,986
<b>Total net assets - June 30</b>	<b>\$ 76,192,180</b>	<b>\$ 75,619,251</b>

*The notes to the financial statements are an integral part of this statement.*

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Statements of Cash Flows  
For the fiscal years ended June 30, 2011 and 2010

	2011	2010
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 74,325	\$ 843,804
Receipts from Arizona counties and cities	4,380,450	15,269,699
Payments to suppliers	<37,954>	<32,601>
Payments to employees	<45,415>	<96,797>
Payments to Arizona counties and cities	-	<23,360>
Net cash provided <used> by operating activities	<u>4,371,406</u>	<u>15,960,745</u>
<b>Cash flows from investing activities:</b>		
Income from investments	545,321	669,715
Investment expense	<41,970>	<31,426>
Net cash provided <used> by investing activities	<u>503,351</u>	<u>638,289</u>
Net increase <decrease> in cash	4,874,757	16,599,034
Cash - July 1	<u>66,819,124</u>	<u>50,220,090</u>
<b>Cash - June 30</b>	<u>\$ 71,693,881</u>	<u>\$ 66,819,124</u>
<b>Reconciliation of operating income &lt;loss&gt; to net cash provided &lt;used&gt; by operating activities:</b>		
Operating income <loss>	\$ 69,578	\$ 450,571
Net changes in assets and liabilities:		
Receivables	4,301,186	15,523,958
Accrued payroll and other accrued expenses	144	<4,596>
Compensated absences	498	<9,188>
Net cash provided <used> by operating activities	<u>\$ 4,371,406</u>	<u>\$ 15,960,745</u>

*The notes to the financial statements are an integral part of this statement.*

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Notes to Financial Statements  
June 30, 2011 and 2010

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Arizona Department of Transportation (Department) was authorized in 1996 to administer a State Infrastructure Bank under a cooperative agreement with the Federal Highway Administration (FHWA), pursuant to Section 350 of the National Highway System Designation Act of 1995. The Highway Expansion and Extension Loan Program (HELP) was established as Arizona's State Infrastructure Bank under Arizona Revised Statutes, Title 28, Chapter 21. The HELP Fund (Fund) was initially capitalized with grants from the FHWA and state matching funds.

The Fund is administered by a seven-member advisory committee. The members serve staggered, four-year terms and serve no more than two consecutive terms. The committee is charged with reviewing requests for loans and financial assistance, making recommendations to the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and submitting an annual report to the Governor and State Legislature.

The Transportation Board may make loans or provide other financial assistance to qualified borrowers, including the Department, from monies in the Fund for eligible projects; enter into loan repayment agreements with recipients; and apply for, accept, and administer grants and other financial assistance from the United States and from other public and private sources that are made for deposit in the Fund. Qualified borrowers, which include any political subdivision, the State or its agencies, and Indian tribes, may submit loan applications to HELP for eligible projects. HELP does not increase the Transportation Board's bonding authority.

The Department is a department of the State of Arizona and is not a legally separate entity. The Department has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board, which has responsibility for establishing a complete system of state highway routes and distributing monies for local airport facilities' projects through a grant program.

The financial statements present only the funds comprising the Fund and are not intended to present fairly the financial position or results of operations of the Department. The accounting policies of the Department conform to generally accepted accounting principles in the United States of America (GAAP) as applicable to governmental units.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Notes to Financial Statements (continued)  
June 30, 2011 and 2010

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The economic resources measurement focus and the accrual basis of accounting are followed for reporting purposes. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Federal grants and reimbursements are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Department uses an enterprise fund to account for the Fund and for its loan distribution operation. The Fund can receive monies from the FHWA along with applicable state matching funds, State Transportation Board Funding Obligations, direct state appropriations, and other lawfully available sources. The Transportation Board may use monies in the Fund to make eligible project loans or provide other financial assistance to qualified borrowers, subsidize interest rates, provide other forms and methods of financial assistance, and pay the costs to administer the Fund.

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**C. Assets, Liabilities, and Net Assets**

***Deposits and Investments***

The cash balance is on deposit with the State Treasurer for pooled investment purposes and is not evidenced by securities that exist in physical or book entry form in the Fund's name. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements, obligations of the U.S. Government, and other permitted investments. All investments are carried at fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, classification because they are included in the state's investment pool.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Notes to Financial Statements (continued)  
June 30, 2011 and 2010

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with ARS §35-311. The fair value of investments is measured on a monthly basis. 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 State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2011 and 2010, the State's investment pool 5 was rated AAAF/S1+ by Standard & Poor's Ratings Service and investment pool 7 was not rated. The weighted average maturity at year end for investment pool 5 was twenty-seven days and investment pool 7 was forty-seven days.

The Fund's investments are included in the state investment pool and these investments are not shown in the Fund's name. From the perspective of the Fund, the pool functions as both a cash management pool and a demand deposit account. Therefore, the Fund presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and carries the investments at amortized cost, which approximates fair value.

***Receivables and Payables***

Activities between Departmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/due from. All other outstanding balances between the Fund and Arizona counties and cities are reported as loans receivable.

***Restricted Assets***

Resources of the Fund are classified as restricted assets on the balance sheet because their use is limited by state statutes.

***Compensated Absences***

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits. There is no liability for unpaid accumulated sick leave. All vacation pay is accrued when incurred in the proprietary fund financial statements. A liability for these amounts is reported as current liabilities.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Notes to Financial Statements (continued)  
June 30, 2011 and 2010

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Effective July 1, 1998, state employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours, upon retirement directly from state service. The benefit value is calculated by taking the state hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is \$30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

Employees are allowed to accumulate up to 240 hours of vacation leave (320 hours for uncovered employees) which is paid when vacation is taken or upon termination of employment at the individual's then-current rate of pay. For the proprietary funds, all of the outstanding vacation at June 30 is recorded as a current liability.

*Net Assets*

The difference between assets and liabilities is reported as "Net Assets" on the proprietary fund statements.

**D. Revenues and Expenses**

Revenues and expenses of proprietary funds are classified as operating and non-operating and are sub-classified by object (e.g., salaries, travel, interest on Board Funding Obligations, etc). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

**NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

The expenses of the Fund are not governed by appropriations of the state legislature and therefore are not subject to the limitations of a legally adopted budget.

Arizona Department of Transportation  
 Highway Expansion and Extension Loan Program Fund  
 Notes to Financial Statements (continued)  
 June 30, 2011 and 2010

**NOTE 3—DETAILED NOTES**

**A. Loans Receivables**

Loans receivables represent loans made pursuant to Loan Repayment Agreements. Six loans have balances outstanding or are pending as of June 30, 2011, as follows:

PROJECT SPONSOR	LOAN DATE	INTEREST RATE*	AUTHORIZED LOAN AMOUNT	FINAL MATURITY	DRAWS TO DATE	OUTSTANDING LOAN BALANCE	DUE WITHIN ONE YEAR
CITY OF KINGMAN	9/23/2005	3.11%	2,000,000	Nov-11	2,000,000	350,000	350,000
TOWN OF ORO VALLEY	7/20/2007	3.20%	8,000,000	Aug-12	8,000,000	2,513,133	2,513,133
CITY OF ELOY	11/16/2007	1.49%	3,200,000	Mar-14	3,200,000	1,060,900	530,450
PINAL COUNTY	12/21/2007	2.35%	2,000,000	May-12	2,000,000	500,000	500,000
TOWN OF PAYSON	3/21/2008	To be determined	1,200,000	May-13	-	-	-
MARICOPA COUNTY	3/21/2008	To be determined	25,700,000	Jul-13	-	-	-
<b>TOTAL</b>			<b>\$ 42,100,000</b>		<b>\$ 15,200,000</b>	<b>\$ 4,424,033</b>	<b>\$ 3,893,583</b>

\* Interest Rate will be determined on the date of the first draw.

The activity for the fiscal year ended June 30, 2011, was as follows:

	Beginning Balance July 1, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Loans receivable	\$ 8,804,483	-	\$ <4,380,450>	\$ 4,424,033	\$ 3,893,583

Twelve loans had balances outstanding or were pending as of June 30, 2010, as follows:

PROJECT SPONSOR	LOAN DATE	INTEREST RATE*	AUTHORIZED LOAN AMOUNT	FINAL MATURITY	DRAWS TO DATE	OUTSTANDING LOAN BALANCE	DUE WITHIN ONE YEAR
TOWN OF MARANA	11/19/2004	2.51%	7,000,000	Mar-10	7,000,000	-	-
CITY OF KINGMAN	9/23/2005	3.11%	2,000,000	Nov-11	2,000,000	700,000	350,000
CITY OF TOMBSTONE	11/18/2005	To be determined	150,000	Nov-10	-	-	-
CITY OF GOODYEAR	4/21/2006	3.13%	7,369,000	Jun-10	6,783,964	-	-
MOHAVE COUNTY	4/21/2006	To be determined	8,700,000	Jun-10	-	-	-
CITY OF TUCSON	3/16/2007	1.97%	14,000,000	May-11	13,400,000	-	-
TOWN OF ORO VALLEY	7/20/2007	3.20%	8,000,000	Aug-12	8,000,000	5,513,133	3,000,000
CITY OF BISBEE	9/21/2007	To be determined	2,400,000	Oct-10	-	-	-
CITY OF ELOY	11/16/2007	1.49%	3,200,000	Mar-14	3,200,000	1,591,350	640,000
PINAL COUNTY	12/21/2007	2.35%	2,000,000	May-12	2,000,000	1,000,000	500,000
TOWN OF PAYSON	3/21/2008	To be determined	1,200,000	May-13	-	-	-
MARICOPA COUNTY	3/21/2008	To be determined	25,700,000	Jul-13	-	-	-
<b>TOTAL</b>			<b>\$ 81,719,000</b>		<b>\$ 42,383,964</b>	<b>\$ 8,804,483</b>	<b>\$ 4,490,000</b>

\* Interest Rate will be determined on the date of the first draw.

The activity for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010	Due Within One Year
Loans receivable	\$ 24,050,822	\$ 23,360	\$ <15,269,699>	\$ 8,804,483	\$ 4,490,000



Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Notes to Financial Statements (continued)  
June 30, 2011 and 2010

**NOTE 3—DETAILED NOTES (continued)**

**B. Short-term Debt – Board Funding Obligations**

The Transportation Board had issued Board Funding Obligations (BFOs) to the State Treasurer in accordance with Arizona Revised Statutes §28-7678. The BFOs are nonnegotiable and are authorized by Transportation Board resolution specifying the rate(s) of interest, the date(s) of maturity, the terms of redemption, the form and manner of execution of the funding obligation, any terms necessary to secure credit enhancement or other sources of payment or security, and any other item the Transportation Board determines is necessary. The total principal amount of BFOs at any one time shall not be more than \$200 million and shall mature no later than four calendar years after the delivery. Up to \$60 million of the proceeds shall be deposited into the General Fund (State Highway Fund) and up to \$140 million shall be deposited into the Highway Expansion and Extension Loan Program Fund.

The BFOs are special obligations of the Transportation Board; are not obligations that are general, special or otherwise of the State; are not a legal debt of the State; and are payable and enforceable only from the monies pledged and assigned in the authorizing resolutions of the Transportation Board.

The State Treasurer must provide written notice to the Transportation Board and the Department when the operating monies fall below \$400 million. If operating monies fall below \$200 million, the State Treasurer may call the investment in the BFOs in \$25 million increments up to the amount that the operating monies are below \$200 million. The State Treasurer must give the Transportation Board and the Department at least fifteen days' notice of the call.

There was no activity for fiscal year 2011 and 2010; the activity for the fiscal year ended June 30, 2009, was as follows:

During fiscal year 2009, the State Treasurer called and the Department repaid \$50,000,000 in principal and \$4,047,781 in accrued interest for the Series 2007 BFOs which were called by the State Treasurer as required by Arizona Revised Statutes §35-313(D)(3).

**NOTE 4—OTHER INFORMATION**

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time although the Fund expects any such amounts to be immaterial.