

Financial Statements

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

Fiscal Years Ended June 30, 2013 and 2012

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Financial Statements
Fiscal years ended June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

Director
Arizona Department of Transportation
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Highway Expansion and Extension Loan Program Fund, an enterprise fund of the Arizona Department of Transportation, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Highway Expansion and Extension Loan Program Fund, an enterprise fund of the Arizona Department of Transportation as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management'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.

Regarding Stand-Alone Report

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 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, 2013, and the changes in its financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

Predecessor Auditor

The 2012 financial statements of Highway Expansion and Extension Loan Program Fund were audited by other auditors whose report dated November 7, 2012, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will issue our report 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 at a future date. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Highway Expansion and Extension Loan Program Fund's internal control over financial reporting and compliance.



Phoenix, Arizona
November 25, 2013

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Management's Discussion and Analysis
June 30, 2013 and 2012

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, 2013 and 2012. 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 \$77,564,143 at the end of fiscal year 2013 as compared to \$76,882,306 at fiscal year end 2012 and \$76,192,180 at fiscal year end 2011. 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 position increased by \$681,837 and \$690,126 for fiscal years 2013 and 2012, respectively.
- There were no loan amounts disbursed for fiscal years 2013 and 2012, respectively.

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, net position, 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, 2013 and 2012

Financial Analysis

In governmental financial statements, net position may serve over time as a useful indicator of a government's financial position. The Fund's net position increased by \$681,837 and \$690,126 by the end of fiscal years 2013 and 2012, respectively.

Table 1
Highway Expansion and Extension Loan Program Fund's Net Position
as of June 30, 2013, 2012, and 2011

	Business-type Activities		
	2013	2012	2011
Current assets	\$ 77,564,143	\$ 76,882,306	\$ 75,698,458
Non-current assets	-	-	530,450
Total assets	<u>77,564,143</u>	<u>76,882,306</u>	<u>76,228,908</u>
Current liabilities	-	-	36,728
Non-current liabilities	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>36,728</u>
Net assets			
Restricted	<u>77,564,143</u>	<u>76,882,306</u>	<u>76,192,180</u>
Net position	<u>\$ 77,564,143</u>	<u>\$ 76,882,306</u>	<u>\$ 76,192,180</u>

All of the Fund's net position is restricted for loans and other financial assistance.

Changes in current assets for fiscal years 2013 and 2012 primarily related to the repayment of Fund loans and a reduction in disbursements made by the Fund.

In fiscal year 2012, non-current assets decreased 100 percent. Because of the State's economic condition and other factors, no new loan amounts were disbursed in fiscal years 2013 or 2012. 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 2013 and 2012, the Fund is able to report a positive balance of net position. The net position of the Fund is restricted for loans and other financial assistance, and is available for future loan activity.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Management's Discussion and Analysis (continued)
June 30, 2013 and 2012

Table 2
Highway Expansion and Extension Loan Program Fund's Revenues, Expenses, and
Changes in Net Position for fiscal years ended June 30, 2013, 2012, and 2011

	Business-type Activities		
	2013	2012	2011
Revenues:			
Operating revenues			
Interest on loans receivables	\$ 5,606	\$ 1,528	\$ 153,589
Non-operating revenues			
Income from investments	722,371	763,520	545,321
Total revenues	727,977	765,048	698,910
Expenses:			
Operating expenses	-	29,520	84,011
Non-operating expenses	46,140	45,402	41,970
Total expenses	46,140	74,922	125,981
Change in net position	681,837	690,126	572,929
Net position - July 1	76,882,306	76,192,180	75,619,251
Net position - June 30	\$ 77,564,143	\$ 76,882,306	\$ 76,192,180

The Fund's interest on loans receivable revenues increased by \$4,078 in fiscal year 2013 and decreased by 99.0 percent in fiscal year 2012. Lower average principal balances outstanding accounted for the decrease in interest on loans in fiscal year 2012.

The Fund's income from investments decreased by \$41,149 for 2013 and increased by \$218,199 for 2012. The Fund has not issued any new loans and received only one loan repayment which increased average cash balances during the year.

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 9 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 17th Avenue, Mail Drop 202B, Phoenix, Arizona, 85007, or by visiting our website at <http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/highway-expansion-and-extension-loan-program>.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Statements of Net Position
June 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Restricted cash on deposit with the State Treasurer (Note 1C)	\$ 77,564,143	\$ 76,349,548
Receivables:		
Accrued interest	-	2,308
Loans (Note 3A)	-	530,450
Total current assets	<u>77,564,143</u>	<u>76,882,306</u>
Total non-current assets	-	-
Total assets	<u>77,564,143</u>	<u>76,882,306</u>
Total current liabilities	-	-
Total liabilities	-	-
Net position		
Restricted for loans and other financial assistance	<u>77,564,143</u>	<u>76,882,306</u>
Net position	<u>\$ 77,564,143</u>	<u>\$ 76,882,306</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
Statements of Revenues, Expenses, and Changes in Net Position
For the fiscal years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Interest on loans receivables	\$ 5,606	\$ 1,528
Total operating revenues	<u>5,606</u>	<u>1,528</u>
Operating expenses:		
Salaries and related benefits	-	16,645
Professional and outside services	-	12,875
Total operating expenses	<u>-</u>	<u>29,520</u>
Operating income <loss>	5,606	<27,992>
Non-operating revenues <expenses>:		
Income from investments	722,371	763,520
Investment expense	<46,140>	<44,902>
Distributions to other state agencies	-	<500>
Total non-operating revenues <expenses>	<u>676,231</u>	<u>718,118</u>
Change in net position	681,837	690,126
Net position - July 1	<u>76,882,306</u>	<u>76,192,180</u>
Net position - June 30	<u><u>\$ 77,564,143</u></u>	<u><u>\$ 76,882,306</u></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
Statements of Cash Flows
For the fiscal years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from customers	\$ 7,914	\$ 110,214
Receipts from Arizona counties and cities (Note 3A)	530,450	3,893,583
Payments to suppliers	-	<12,875>
Payments to employees	-	<22,783>
Payments to Arizona counties and cities	-	<30,590>
Net cash provided <used> by operating activities	<u>538,364</u>	<u>3,937,549</u>
Cash flows from non-capital financing activities:		
Distributions to other state agencies	-	<500>
Net cash provided <used> by non-capital financing activities	<u>-</u>	<u><500></u>
Cash flows from investing activities:		
Income from investments	722,371	763,520
Investment expense	<46,140>	<44,902>
Net cash provided <used> by investing activities	<u>676,231</u>	<u>718,618</u>
 Net increase <decrease> in cash	 1,214,595	 4,655,667
Cash - July 1	<u>76,349,548</u>	<u>71,693,881</u>
Cash - June 30	<u>\$ 77,564,143</u>	<u>\$ 76,349,548</u>
Reconciliation of operating income <loss> to net cash provided <used> by operating activities:		
Operating income <loss>	\$ 5,606	\$ <27,992>
Net changes in assets and liabilities:		
Receivables	532,758	4,002,269
Accrued payroll and other accrued expenses	-	<2,499>
Compensated absences	-	<3,639>
Due to Arizona counties and cities	-	<30,590>
Net cash provided <used> by operating activities	<u>\$ 538,364</u>	<u>\$ 3,937,549</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, 2013, 2012 and 2011

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 (ARS), 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.

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.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Notes to Financial Statements (continued)
June 30, 2013 and 2012

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Position

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 Governmental Accounting Standards Board (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.

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, 2013 and 2012, the State's investment pool 3 was not rated. The weighted average maturity at year end for investment pool 3 was 5.46 years.

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.

Restricted Net Position

Resources of the Fund are classified as restricted on the statement of net position because their use is limited by state statutes.

Net Position

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

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Notes to Financial Statements (continued)
June 30, 2013 and 2012

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3—DETAILED NOTES

A. Loans Receivables

Loans receivables represent loans made pursuant to Loan Repayment Agreements. There are no loans that have balances outstanding or are pending as of June 30, 2013.

PROJECT SPONSOR	LOAN DATE	INTEREST RATE*	AUTHORIZED LOAN AMOUNT	FINAL MATURITY	DRAWS TO DATE	OUTSTANDING LOAN BALANCE	DUE WITHIN ONE YEAR
CITY OF ELOY	11/16/2007	1.49%	\$ 3,200,000	Mar-14	\$ 3,200,000	\$ -	\$ -

The activity for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance July 1, 2012	Additions	Reductions	Ending Balance June 30, 2013	Due Within One Year
Loans receivable	\$ 530,450	\$ -	\$ <530,450>	\$ -	\$ -

Two loans had balances outstanding or were pending as of June 30, 2012, 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 ELOY	11/16/2007	1.49%	\$ 3,200,000	Mar-14	\$ 3,200,000	\$ 530,450	\$ 530,450
TOWN OF PAYSON	3/21/2008	To be determined	1,200,000	May-13	-	-	-
TOTAL			\$ 4,400,000		\$ 3,200,000	\$ 530,450	\$ 530,450

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

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Notes to Financial Statements (continued)
June 30, 2013 and 2012

The activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance July 1, 2011	Additions	Reductions	Ending Balance June 30, 2012	Due Within One Year
Loans receivable	\$ 4,424,033	\$ -	\$ <3,893,583>	\$ 530,450	\$ 530,450

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.