

Annual Financial Report

***Arizona Department of Transportation
Maricopa County Regional Area Road Fund***

Fiscal Year Ended June 30, 2013

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Annual Financial Report
Fiscal Year Ended June 30, 2013

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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 governmental activities and each major fund of the Maricopa County Regional Area Road Fund, a special revenue 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Maricopa County Regional Area Road Fund of the Arizona Department of Transportation as of June 30, 2013, and the respective changes in financial position 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 7 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 Maricopa County Regional Area Road Fund are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities and the major fund of the Arizona Department of Transportation, that is attributable to the Maricopa County Regional Area Road 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 for the year ended in conformity with accounting principles generally accepted in the United States of America.

Predecessor Auditor

The 2012 financial statements of Maricopa County Regional Area Road 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 Maricopa County Regional Area Road 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 Maricopa County Regional Area Road Fund's internal control over financial reporting and compliance.



Phoenix, Arizona
November 25, 2013

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis
June 30, 2013

As management of the Arizona Department of Transportation, Maricopa County Regional Area Road 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 year ended June 30, 2013. 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 at the close of the fiscal year were \$601,542,927, compared to \$684,377,550 for fiscal year 2012, a decrease of \$82,834,623 (or 12.1 percent). The decrease in assets is due to the restriction of cash on deposit with the State Treasurer and aid due from the US Government.
- For fiscal year 2013, the Fund distributed \$387,259,142 of capital assets to the Arizona Department of Transportation, compared to \$388,640,992 for fiscal year 2012, a decrease of \$1,381,850 (or 0.4 percent). The decrease is attributable to the American Recovery and Reinvestment Act (ARRA) construction projects that are nearing completion.
- Maricopa County Transportation Excise Tax collections totaled \$341.6 million, an increase of 5.4 percent compared to fiscal year 2012 and 0.3 percent above the estimate. However, the Transportation Excise Tax distributed to the Fund was \$227,800,355 compared to \$216,280,983 for fiscal year 2012, an increase of \$11,519,372 (or 5.3 percent). The moderate increase of the transportation excise tax revenues and distributions are attributable to growth in retail sales, contracting and the restaurant and bar sector. Even though Maricopa County continues to have persistent high unemployment and slow job growth, the economy has continued to improve but at a slower than normal rate.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Fund's basic financial statements. The Fund's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

Government-wide Financial Statements The government-wide financial statements are designed to present an overall picture of the financial position of the Fund. These statements consist of the statement of net position and the statement of activities and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net position combines and consolidates the Fund's current financial resources with capital assets and long-term obligations. This statement includes all of the Fund's assets and liabilities. The net position is the difference between the Fund's assets and liabilities, and represent one measure of the Fund's financial health.

The statement of activities focuses on both the gross and net cost of various activities; the Fund's general tax and other revenues pay these costs. This statement summarizes the cost of providing specific Fund services, and includes all current year revenues and expenses. The Fund's basic services are reported here. Taxes and federal grants finance most of these activities.

Fund Financial Statements The Fund's activities are reported in governmental funds. Reporting for these funds focuses on how financial resources flow into and out of the funds, and the amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Fund's general governmental

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2013

operations and the basic services it provides. This information should help determine whether there are more or less current financial resources available for the Fund's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The Fund maintains three individual governmental sub-funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the Special Revenue Fund, Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds.

Notes to Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 14 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Fund's financial health. The following tables and analysis discuss the financial position and changes to financial position for the Fund as a whole as of and for the fiscal year ended June 30, 2013.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2013

The following table reflects the statement of net position as of June 30:

	Governmental Activities	
	2013	2012
Assets:		
Receivables:		
Other, net of allowance for doubtful accounts	\$ 579,016	\$ 4,764,310
Due from US Government for reimbursable costs	26,260,050	56,090,676
Deferred charges	4,696,287	5,087,643
Restricted cash on deposit with the State Treasurer	570,007,574	618,434,921
Total assets	<u>601,542,927</u>	<u>684,377,550</u>
Liabilities:		
Accrued payroll and other accrued expenses	47,986	57,708
Contracts and retainage payable	46,493,992	53,931,180
Non-current liabilities:		
Due within one year	65,637,152	62,904,381
Due in more than one year	<u>1,050,688,139</u>	<u>1,064,780,372</u>
Total liabilities	<u>1,162,867,269</u>	<u>1,181,673,641</u>
Net position:		
Unrestricted	<u><561,324,342></u>	<u><497,296,091></u>
Net position	<u>\$ <561,324,342></u>	<u>\$ <497,296,091></u>

The purpose of the Fund is to provide a funding source for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system in Maricopa County. To be able to construct these roads, the Fund collects excise taxes and issues bonds. The total assets of the Fund were \$601.5 million, while the liabilities were \$1.2 billion, resulting in a net position of <\$561.3> million. The decrease in net position from fiscal year 2012 was due to the payment of the liabilities on the Transportation Excise Tax Revenue Bonds and the payment for construction projects. The Fund distributes all capital assets to the Department of Transportation when the Fund comes into possession of capital assets. As a result, the net position of the Fund will typically be a deficit whenever there are bonds outstanding.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2013

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Fund's net position has changed during the year:

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 206,442,657	\$ 256,117,283
General revenues:		
Transportation excise taxes	227,800,355	216,280,983
Income from investments	5,123,732	4,775,319
Rental income	1,089,604	1,241,972
Other	1,179,283	174,157
Total revenues	441,635,631	478,589,714
Expenses:		
Administration	352,918	541,650
Highway	3,016,620	1,871,272
Distributions to other state agencies	461,206,783	453,807,629
Interest on long-term debt	41,087,561	41,494,864
Total expenses	505,663,882	497,715,415
Changes in net position	<64,028,251>	<19,125,701>
Net position - July 1	<497,296,091>	<478,170,390>
Net position - June 30	\$ <561,324,342>	\$ <497,296,091>

The total revenues of the Fund were \$441.6 million, while the expenses were \$505.6 million, resulting in the change in net position of <\$64.0> million. The decrease in revenues in fiscal year 2013 were the result of using federal funding on a smaller percentage of Maricopa County projects, thereby decreasing the capital grants and contributions. The increase in interest on investments was from the investment of the proceeds of the Transportation Excise Tax Revenue Bonds, and stronger consumer spending in the retail, contracting, and the restaurant and bar areas.

The increase in expenses of \$8 million (or 1.6 percent) was due directly to the increase in payments to other state agencies.

Non-Current Liabilities (See Note 4 to the financial statements for additional information):

The Fund's non-current liabilities as of June 30, 2013, amount to \$1.1 billion, an decrease of \$11.4 million from the previous fiscal year. The decrease in the Fund's bonded indebtedness was due to a new Transportation Excise Tax revenue Bond issuance during fiscal year 2013. The increase in advances and

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2013

notes payable in governmental activities was due to advances from the City of Mesa to accelerate projects in the Five-Year Transportation Facilities Construction Program in tandem with the City of Phoenix being repaid for amounts that were due within fiscal year 2013.

	2013	2012
Governmental Activities:		
Bonds:		
Transportation Excise Tax		
Revenue Bonds	\$ 925,975,000	\$ 981,845,000
Premium on bonds	84,301,212	91,326,313
Total bonds	1,010,276,212	1,073,171,313
Compensated absences	233,402	247,701
Advances and notes payable	105,815,677	54,265,739
Total	<u>\$ 1,116,325,291</u>	<u>\$ 1,127,684,753</u>

All bonds outstanding as of June 30, 2013, are scheduled to mature on various dates, but not later than July 1, 2025. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and are not obligations of the State of Arizona.

The Department's Transportation Excise Tax Revenue Bonds are rated AA+/Aa1 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively.

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, Phoenix, Arizona, 85007, or by visiting our web site at: <http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/regional-area-road-fund>.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Statement of Net Position
June 30, 2013

Assets

Receivables:

Other, net of allowance for doubtful accounts	\$ 579,016
Due from U.S. Government for reimbursable costs	26,260,050
Deferred charges	4,696,287
Restricted cash on deposit with the State Treasurer	<u>570,007,574</u>
Total assets	<u>601,542,927</u>

Liabilities

Accrued payroll and other accrued expenses	47,986
Contracts and retainage payable	46,493,992
Non-current liabilities (Note 4):	
Due within one year	65,637,152
Due in more than one year	<u>1,050,688,139</u>
Total liabilities	<u>1,162,867,269</u>

Net position

Unrestricted	<u><561,324,342></u>
Net position	<u>\$ <561,324,342></u>

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Statement of Activities
For the fiscal year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net <Expenses> Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 352,918	\$ -	\$ -	\$ -	\$ <352,918>
Highway	3,016,620	-	-	206,442,657	203,426,037
Distributions to other state agencies	461,206,783	-	-	-	<461,206,783>
Interest on long-term debt	41,087,561	-	-	-	<41,087,561>
Total governmental activities	<u>\$ 505,663,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,442,657</u>	<u><299,221,225></u>
General revenues:					
Transportation excise taxes (Note 6)					227,800,355
Income from investments					5,123,732
Rental income					1,089,604
Other					<u>1,179,283</u>
Total general revenues					<u>235,192,974</u>
Change in net position					<64,028,251>
Net position - July 1					<u><497,296,091></u>
Net position - June 30					<u>\$ <561,324,342></u>

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Balance Sheet - Governmental Funds
June 30, 2013

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Assets				
Receivables:				
Other	\$ 495,216	\$ -	\$ -	\$ 495,216
Amounts due from U.S. Government	26,260,050	-	-	26,260,050
Restricted cash on deposit with the State Treasurer	460,498,542	83,800	109,509,032	570,091,374
Total assets	<u>\$ 487,253,808</u>	<u>\$ 83,800</u>	<u>\$ 109,509,032</u>	<u>\$ 596,846,640</u>
Liabilities and fund balances				
Liabilities:				
Accrued payroll and other accrued expenditures	\$ 47,986	\$ -	\$ -	\$ 47,986
Contracts and retainage payable	46,493,992	-	-	46,493,992
Total liabilities	<u>46,541,978</u>	<u>-</u>	<u>-</u>	<u>46,541,978</u>
Fund balances:				
Restricted	434,011,830	83,800	109,509,032	543,604,662
Committed	6,700,000	-	-	6,700,000
Total fund balances	<u>440,711,830</u>	<u>83,800</u>	<u>109,509,032</u>	<u>550,304,662</u>
Total liabilities and fund balances	<u>\$ 487,253,808</u>	<u>\$ 83,800</u>	<u>\$ 109,509,032</u>	<u>\$ 596,846,640</u>

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2013

Total fund balances - governmental funds (Exhibit 3)	\$ 550,304,662
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Amounts reported for governmental activities in the Statement of Net
Position (Exhibit 1) are different because:

Long-term liabilities, including bonds payable, net of issuance costs are not due and
payable in the current period and, therefore, are not reported in
the funds (Note 3 A1).

<1,111,629,004>

Net position of governmental activities (Exhibit 1)	<u><u>\$ <561,324,342></u></u>
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The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2013

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Transportation excise taxes (Note 6)	\$ 227,800,355	\$ -	\$ -	\$ 227,800,355
Federal grants and reimbursements (Note 8)	210,036,386	-	-	210,036,386
Reimbursements from Arizona counties and cities	<3,593,729>	-	-	<3,593,729>
Income from investments	3,399,558	352,090	1,372,084	5,123,732
Rental income	1,089,604	-	-	1,089,604
Other	1,179,283	-	-	1,179,283
Total revenues	<u>439,911,457</u>	<u>352,090</u>	<u>1,372,084</u>	<u>441,635,631</u>
Expenditures:				
Current:				
Administration	247,442	24,938	94,837	367,217
Highway	1,474,813	-	-	1,474,813
Distributions to other state agencies (Note 5)	344,510,667	-	118,237,923	462,748,590
Debt Service:				
Principal	-	55,870,000	-	55,870,000
Interest	-	47,721,306	-	47,721,306
Bond issuance costs	-	-	-	-
Total expenditures	<u>346,232,922</u>	<u>103,616,244</u>	<u>118,332,760</u>	<u>568,181,926</u>
Excess <deficiency> of revenues over <under> expenditures	93,678,535	<103,264,154>	<116,960,676>	<126,546,295>
Other financing sources <uses>:				
Transfers in	-	103,218,632	-	103,218,632
Transfers out for debt service	<103,218,632>	-	-	<103,218,632>
Debt issuance	51,549,938	-	-	51,549,938
Premium from debt issuance	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing <uses> sources	<u><51,668,694></u>	<u>103,218,632</u>	<u>-</u>	<u>51,549,938</u>
Net change in fund balances	42,009,841	<45,522>	<116,960,676>	<74,996,357>
Fund balances - July 1	<u>398,701,989</u>	<u>129,322</u>	<u>226,469,708</u>	<u>625,301,019</u>
Fund balances - June 30	<u><u>\$ 440,711,830</u></u>	<u><u>\$ 83,800</u></u>	<u><u>\$ 109,509,032</u></u>	<u><u>\$ 550,304,662</u></u>

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the fiscal year ended June 30, 2013

Net change in fund balances - total governmental funds (Exhibit 4)	\$	<74,996,357>
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Amounts reported for governmental activities in the Statement of Activities (Exhibit 2)
are different because:

Bond proceeds provide current financial resources to governmental funds.

However, issuing debt increases long-term liabilities in the statement of net position. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (Note 3 B1).

<51,549,938>

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position (Note 3 B1).

62,503,745

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (Note 3 B2).

14,299

Change in net position of governmental activities (Exhibit 2)	\$	<u><64,028,251></u>
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The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements
June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Maricopa County Regional Area Road Fund (Fund) is a part of the Arizona Department of Transportation (Department) and is not a legally separate entity. The Fund was established under Title 28, Chapter 17, Article 1 of the Arizona Revised Statutes. The Fund 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 of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of state highway routes and approving all highway construction contracts.

The Fund is responsible for funding the construction and distribution of assets to the Department by issuing revenue bonds and by the collection of an excise tax. The Fund cooperates with various governmental entities within Maricopa County in the construction and maintenance of roads.

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. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by federal reimbursement, taxes, and intergovernmental revenues.

The **Statement of Net Position** presents the reporting entity's assets and liabilities, with the difference reported as net position.

Restricted net position result when constraints placed on asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Major individual governmental funds are reported as separate columns in the fund financial statements.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Transportation excise taxes are recognized as revenues in the year they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the fiscal year (e.g. federal revenue reimbursements and transportation excise taxes.) Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable.

Financial Statement Presentation

The Fund reports the following major governmental funds:

The Special Revenue Fund receives a portion of the Maricopa County transportation excise tax monies collected by the Arizona Department of Revenue. These monies are expended for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system, which are included in the Maricopa

County Regional Transportation Plan, after the monthly debt service requirements are fully satisfied.

The Debt Service Fund administers the payment of principal and interest on all bonds outstanding under the bond resolutions.

The Capital Projects Fund administers the use of the net proceeds of any bonds issued pursuant to the bond resolutions. The bond proceeds are applied to the payment of certain bond related expenditures and construction expenditures.

Amounts reported as *program revenues* include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally-dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, the Fund generally expends the restricted resources first, and then unrestricted resources, as they are needed to maintain appropriate cash balances and finance the construction program.

The expenditures 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
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Transportation Board annually approves the Five-Year Transportation Facilities Construction Program for the Special Revenue and Capital Projects Funds. This program lists all planned construction projects for the next five years and the related program budget. Debt service payments are made in accordance with the requirements under the relevant bond resolutions.

D. Assets, Liabilities, and Net Position

Deposits and Investments

The Fund's cash includes bank accounts and deposits with the State Treasurer for pooled investments. 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, the State's investment pool 2, pool 3, and pool 4 were not rated. The weighted average maturity at year end for investment pool 2 was 10.27 years while for investment pool 3 it was 5.46 years, and for investment pool 4 it was 5.60 years.

State statutes require the State Treasurer to maintain separate investment accounts for the portion of the Maricopa Regional Area Road Fund Bond Proceeds relating to the Transportation Excise Tax Revenue Bond issues. These funds may be invested by the State Treasurer in the state's investment pool.

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.

The Fund has restricted cash for payment of capital projects and for future debt service payments.

Receivables and Payables

Outstanding balances between the Fund, the Department and Arizona counties, cities, and other state agencies are reported as other receivables. All balances between the Fund and the US Government are reported as due to/from due.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Notes receivable represents loans made to parties who purchased assets previously owned by the Fund for highway construction purposes.

Restricted Net Position

Proceeds of the Fund's governmental revenue bonds are classified as restricted on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or state statutes. The debt service fund is used to report the resources set aside for payment of future debt service payments. The revenue bonds proceeds are deposited in the capital projects fund for the cost of design, right-of-way purchase, or construction of certain freeways and routes within Maricopa County.

Capital Assets

When the Fund comes into possession of capital assets, the assets are distributed to the Arizona Department of Transportation.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Other long-term obligations also include amounts that other governmental entities advance the Fund for highway road construction projects.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Advances from other governmental entities are recorded as debt issuance in other financing sources.

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 non-current liabilities.

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.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Net Position/Fund Balance

The difference between assets and liabilities is "Net Position" on the government-wide statements and "Fund Balance" on the governmental fund statements.

Fund Balances

Fund balances for governmental funds may be classified as nonspendable, restricted, committed, assigned, or unassigned in the fund financial statements. Nonspendable fund balance describes that portion of fund balance that cannot be spent because of its form; restricted fund balance describes that portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions; committed fund balance describes that portion which has self-imposed limitations; assigned fund balance describes that portion of fund balance that reflects a governments' intended use of resources; and unassigned fund balance represents net resources in excess of what can properly be classified in one of the other categories.

The State applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

E. Revenues and Expenditures/Expenses

Other Financing Sources <Uses>

Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond issuance, sale of capital assets, and transfers from other funds. Other financing uses are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds.

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
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2013

NOTE 3—RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Position

The governmental funds Balance Sheet includes reconciliation between total fund balances – governmental funds and net position of governmental activities as reported on the government-wide Statement of Net Position. The following explanations are necessary to clarify these differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position:

1. Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the current period on the fund statements. The detail for the difference is as follows:

<u>Long-term Liabilities</u>	
Debt obligation	\$ <925,975,000>
Premium on debt	<84,301,212>
Compensated absences	<233,402>
Intergovernmental advance	<105,815,677>
Deferred charges-issuance costs	4,696,287
	<u>\$ <1,111,629,004></u>

B. Explanations of Reconciling Items of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net change in fund balances – total governmental funds and changes in net position of governmental activities as reported on the government-wide Statement of Activities. The following explanations are necessary to clarify these differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

1. The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Also, the government reports the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The details of this difference are as follows:

Debt issued or incurred	
Intergovernmental advances	<u>\$ <51,549,938></u>
Principal repayment	
Transportation Excise Tax Revenue Bonds	\$ 55,870,000
Amortization of premium and discount	7,025,101
Amortization of bond issuance costs	<391,356>
	<u>\$ 62,503,745</u>

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2013

NOTE 3—RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

2. Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. The details are as follows:

Compensated absences	\$ <u><u><14,299></u></u>
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NOTE 4—NON-CURRENT LIABILITIES

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund) issued by the Transportation Board. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$981,845,000.

All Transportation Excise Tax Revenue Bonds mature no later than July 1, 2025. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.0% - 5.25%	\$ 925,975,000

Annual debt service requirements to maturity for the Transportation Excise Tax Revenue Bonds are as follows:

Fiscal year	Transportation Excise Tax Revenue Bonds		
ending June 30	Principal	Interest	Total
2014	\$ 58,600,000	\$ 44,988,107	\$ 103,588,107
2015	61,395,000	42,198,107	103,593,107
2016	64,355,000	39,233,431	103,588,431
2017	67,495,000	36,096,681	103,591,681
2018	70,790,000	32,801,481	103,591,481
2019-2023	410,000,000	107,954,919	517,954,919
2024-2025	193,340,000	13,842,288	207,182,288
	\$ 925,975,000	\$ 317,115,014	\$ 1,243,090,014

Bonds aggregating \$534,885,000 are subject to redemption prior to their maturity dates at the option of the Transportation Board in whole or in part, at any time, on or after July 1, 2017. These bonds may be redeemed at par, plus accrued interest to the date fixed for redemption. Bonds aggregating \$391,090,000 are not subject to redemption.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2013

NOTE 4–NON-CURRENT LIABILITIES (continued)

The Department has pledged future transportation excise taxes to repay \$925,975,000 in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$1.2 billion. Principal and interest paid for the current year and total pledged revenues were \$103.6 million and \$227.9 million, respectively. The annual principal and interest payments on the bonds required 45.5 percent of the pledged revenues.

Intergovernmental advances

Intergovernmental advances represent construction loans (advances) from Arizona counties and cities to advance the construction of certain projects. These advances are recorded as the Fund draws monies from an escrow account, usually held by the State Treasurer, and are evidenced by a Joint Project Agreement (JPA). The advances are payable according to the terms of the JPA and occur as funds become available in the Five-Year Transportation Facilities Construction Program.

Changes in non-current liabilities

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

	Balance July 1, 2012	Additions	Retirements /Refundings	Balance June 30, 2013	Due Within One Year
Transportation Excise Tax					
Revenue Bonds:					
2007 Series	\$ 291,770,000	\$ -	\$ 16,585,000	\$ 275,185,000	\$ 17,385,000
2009 Series	380,560,000	-	21,625,000	358,935,000	22,695,000
2010 Series	160,280,000	-	9,165,000	151,115,000	9,600,000
2011 Series	149,235,000	-	8,495,000	140,740,000	8,920,000
Premium on bonds	91,326,313	-	7,025,101	84,301,212	7,025,101
Intergovernmental advances	54,265,739	51,549,938	-	105,815,677	-
Compensated absences	233,402	-	14,999	218,403	12,051
	<u>\$ 1,127,670,454</u>	<u>\$ 51,549,938</u>	<u>\$ 62,910,100</u>	<u>\$ 1,116,310,292</u>	<u>\$ 65,637,152</u>

Bonds issued by the Fund require compliance with a number of covenants. The Fund believes that it is in compliance with all such covenants. In addition, certain of the Fund's obligations are subject to Internal Revenue Service regulations pertaining to issuance of tax-exempt debt by governmental entities. The Fund does not have and has not accrued a liability under these regulations.

Bonds payable at June 30, 2013, related to the Maricopa County Regional Area Road Fund Arizona Transportation Board Transportation Excise Tax Revenue Bonds are comprised of the following individual issues:

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2013

NOTE 4–NON-CURRENT LIABILITIES (continued)

2007 Series, issued by the Transportation Board on November 1, 2007, due in varying annual installments plus semiannual interest at rates ranging from 4.0 percent to 5.0 percent, through July 1, 2025.	\$ 275,185,000
2009 Series, issued by the Transportation Board on June 23, 2009, due in varying annual installments plus semiannual interest at rates ranging from 2.0 percent to 5.25 percent, through July 1, 2025.	358,935,000
2010 Series, issued by the Transportation Board on October 14, 2010, due in varying annual installments plus semiannual interest at rates ranging from 1.5 percent to 5.0 percent, through July 1, 2025.	151,115,000
2011 Series, issued by the Transportation Board on October 14, 2011, due to varying annual installments plus semiannual interest at rates ranging from 2.0 percent to 5.0 percent, through July 1, 2025.	140,740,000
	<u>\$ 925,975,000</u>

NOTE 5–DISTRIBUTIONS

The distributions to the Department primarily represent the distributions when the Fund comes into possession of capital assets.

Distributions to the Department and other state agencies for the year ended June 30, 2013, were as follows:

	<u>2013</u>
Distribution to Arizona Department of Transportation	\$ 390,821,142
Distributions to Arizona counties and cities	62,644,750
Distribution to Regional Public Transit Authority	<u>9,282,698</u>
Total	<u>\$ 462,748,590</u>

NOTE 6–TRANSPORTATION EXCISE TAX

The Maricopa County Transportation Excise Tax, often referred to as the “1/2 cent sales tax,” is a tax which may equal up to ten percent of the State transaction privilege tax rates. This transportation excise tax is levied upon business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. Under Proposition 300 (passed by the voters in 1985 becoming effective on January 1, 1986), the transportation excise tax revenues are deposited in the Maricopa County Regional Area Road Fund (RARF) which is administered by the Arizona Department of Transportation. The revenues deposited into the RARF account are the principal sources of funding for the Regional Freeway System in Maricopa County and are dedicated by statute to the purchase of right-of-way, design, and construction of controlled access highways. In addition, these revenues were an important source of funding for the Regional Public Transportation Authority and were dedicated through December 31, 2005.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2013

NOTE 6—TRANSPORTATION EXCISE TAX (continued)

In November 2004, Maricopa County's voters approved Proposition 400, Maricopa County Transportation Excise Tax, which became effective January 1, 2006, and extends the "1/2 cent sales tax" for another 20 years through December 31, 2025. The sales tax extension will be used for construction of new freeways and other routes, improvements to existing freeways and other routes, improvements to the arterial street system, regional bus service, and high capacity transit services such as light rail. The collections of the Maricopa County Transportation Excise Tax will be distributed as follows: freeways and other routes 56.2%, public transportation 33.3%, and arterial streets 10.5%. Only the portion of the tax revenues that relate to freeways and other routes, and arterial streets is deposited into the Fund; the remaining portion is sent directly to the Regional Public Transportation Authority.

NOTE 7—COMMITMENTS

The Fund had outstanding commitments, primarily for construction contracts, of \$149,234,968 at June 30, 2013.

	<u>Expenditures To Date</u>	<u>Remaining Commitment</u>
Construction contracts:		
Rural roadways	\$ 1,426,015	\$ 117,042
Small urban roadways	26,049,242	666,320
Urban roadways	212,089,291	85,002,836
Large urban roadways	182,099,556	19,260,742
General roadways	<u>63,806,498</u>	<u>16,567,257</u>
Sub-total	485,470,602	121,614,197
Design contracts	44,717,562	13,259,698
Other commitments	<u>52,108,453</u>	<u>14,361,073</u>
Total	<u>\$ 582,296,617</u>	<u>\$ 149,234,968</u>

No construction in progress is recorded in the Fund. All capital assets are transferred to the Arizona Department of Transportation's General Fund (State Highway Fund).

NOTE 8—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 expenditures which may be disallowed by the grantor cannot be determined at this time although the Fund expects such amounts, if any, to be immaterial.

NOTE 9—INTERFUND TRANSFERS

The Special Revenue Fund made transfers of \$103,218,632 to the Debt Service Fund to pay bond debt service.