

Arizona Department of Transportation
Maricopa County Regional Area Road Fund

Annual Financial Report

For the Year Ended June 30, 2016

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
For the Year Ended June 30, 2016

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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 (Fund), a special revenue fund of the Arizona Department of Transportation, as of and for the year ended June 30, 2016, 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 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, 2016, and the 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 and the Fund's proportionate share of the net pension liability and contributions on pages 36 and 37 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, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.



CliftonLarsonAllen LLP

Phoenix, Arizona
February 24, 2017

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis
June 30, 2016

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, 2016. 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 \$423,266,140 compared to \$476,326,952 for fiscal year 2015, a decrease of \$53,060,812 (or 11.1 percent). The decrease in assets is due to the use of restricted cash on deposit with the State Treasurer for the construction of projects on State Route 202 (South Mountain Freeway).
- For fiscal year 2016, the Fund distributed \$466,038,115 of capital assets to the Arizona Department of Transportation, compared to \$302,545,400 for fiscal year 2015, an increase of \$163,492,715 (or 54.0 percent). The majority of the increase is attributable to projects on State Route 202.
- Maricopa County Transportation Excise Tax received by the Fund (66.7% of the total collected) was \$262,970,657 compared to \$254,871,190 for fiscal year 2015, an increase of \$8,099,467 (or 3.2 percent). The moderate increase of the transportation excise tax revenues and distributions are largely attributable to growth in retail sales and the restaurant and bar sector.
- Grants and reimbursements totaled \$300,104,995 compared to \$219,136,955 for fiscal year 2015, an increase of \$80,968,040, or 37%. The increase is attributable to Federal aid reimbursements for costs related to projects on State Route 202.

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 long-term assets and obligations. This statement includes all of the Fund's assets, deferred outflows of resources, deferred inflows of resources, and liabilities. The net position is the difference between the Fund's assets, deferred outflows of resources, deferred inflows of resources, and liabilities, and represents one measure of the Fund's financial health.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2016

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.

Fund Financial Statements The Fund's activities are reported as 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 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 funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenses, 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 16 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, 2016.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2016

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

	Governmental Activities	
	2016	2015
Assets:		
Receivables:		
Other, net of allowance for doubtful accounts	\$ 272,622	\$ 1,292,481
Due from other agencies	22,584,082	21,666,594
Due from U.S. Government for reimbursable costs	16,675,354	15,682,948
Restricted cash on deposit with the State Treasurer	383,734,082	437,684,929
Total assets	423,266,140	476,326,952
Deferred outflows of resources:		
Relating to pension	638,354	396,263
Loss on debt refunding	28,659,069	31,843,410
Total Deferred Outflows of Resources	29,297,423	32,239,673
Liabilities:		
Accounts payable	28,457,079	21,638,842
Accrued payroll and other accrued expenses	255,157	270,609
Due to other state agencies	3,601,165	163,986
Long-term obligations	839,199,122	918,710,268
Net pension liability	2,936,413	3,068,463
Total liabilities	874,448,936	943,852,168
Deferred inflows of resources		
Relating to pension	261,885	536,579
Total deferred inflows of resources	261,885	536,579
Net position <deficit>:		
Restricted	390,952,739	447,553,515
Unrestricted	<813,099,997>	<883,375,637>
Net position <deficit>	\$ <422,147,258>	\$ <435,822,122>

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 assets and deferred outflows of resources of the Fund were \$452.6 million, while the liabilities and deferred inflows of resources were \$874.7 million, resulting in deficit net position of <\$422.1> million.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2016

The decrease in negative net position from fiscal year 2015 was due to the repayment and refunding of certain Transportation Excise Tax Revenue Bonds and the payment for construction projects. The Fund distributes all capital assets to the Arizona Department of Transportation when the Fund comes into possession of capital assets. As a result, the net position of the Fund will typically show a deficit whenever there are bonds outstanding.

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	
	2016	2015
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 300,104,995	\$ 219,136,955
General revenues:		
Transportation excise taxes	262,970,657	254,871,190
Interest income	3,467,201	4,416,843
Rental income	1,862,395	1,466,220
Other	22,240	564,568
Total revenues	<u>568,427,488</u>	<u>480,455,776</u>
Expenses:		
Administration	3,360,840	3,494,621
Highway	14,208,965	13,780,231
Distributions to other state agencies	509,923,852	358,523,063
Interest on long-term debt	27,258,967	21,997,075
Bond issuance costs	-	1,544,027
Total expenses	<u>554,752,624</u>	<u>399,339,017</u>
Changes in net position	13,674,864	81,116,759
Net position <deficit> - July 1	<u><435,822,122></u>	<u><516,938,881></u>
Net position <deficit> - June 30	<u>\$ <422,147,258></u>	<u>\$ <435,822,122></u>

The total revenues of the Fund were \$568.4 million, while the expenses were \$554.8 million, resulting in the change in net position of \$13.7 million. The increase in revenues for fiscal year 2016 is the result of federal funding on Maricopa County projects. The decrease in interest income was from a decrease in invested proceeds of the Transportation Excise Tax Revenue Bonds.

The increase in expenses of \$155.4 million (or 38.9 percent) was due to the to construction of the South Mountain Freeway.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2016

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

The Fund's non-current liabilities as of June 30, 2016, amount to \$842.1 million, a decrease of \$79.6 million from the previous fiscal year. The decrease in the Fund's bonded indebtedness was due to the refinancing of older bonds, by the issuance of a Transportation Excise Tax Revenue Refunding Bonds.

	2016	2015
Governmental Activities:		
Transportation excise tax revenue bonds	\$ 717,225,000	\$ 782,810,000
Premium on bonds	99,707,052	113,633,307
Advances and notes payable	22,178,643	22,178,643
Compensated absences	88,427	88,318
Total long-term obligations	839,199,122	918,710,268
Net Pension Liabilities	2,936,413	3,068,463
Total	\$ 842,135,535	\$ 921,778,731

All bonds outstanding as of June 30, 2016 are scheduled to mature on various dates, but not later than July 1, 2025. The bonds are obligations of the Arizona State Transportation Board (Transportation Board) and are not obligations of the State of Arizona.

The Fund'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>.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Statement of Net Position <Deficit>
 June 30, 2016

Assets

Receivables:	
Other	\$ 272,622
Due from other state agencies	22,584,082
Due from U.S. Government for reimbursable costs	16,675,354
Restricted cash on deposit with the State Treasurer	<u>383,734,082</u>
Total assets	<u>423,266,140</u>

Deferred Outflows of Resources

Relating to pensions	638,354
Loss on debt refunding	<u>28,659,069</u>
Total deferred outflows of resources	<u>29,297,423</u>

Liabilities

Accounts payable	28,457,079
Accrued payroll and other accrued expenses	255,157
Due to other State agencies	3,601,165
Long-term obligations (Note 4)	839,199,122
Net pension liability	<u>2,936,413</u>
Total liabilities	<u>874,448,936</u>

Deferred Inflows of Resources

Relating to pensions	<u>261,885</u>
Total deferred inflows of resources	<u>261,885</u>

Net position (deficit)

Restricted	390,952,739
Unrestricted	<u><813,099,997></u>
Net position <deficit>	<u>\$ <422,147,258></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, 2016

Functions/Programs	Expenses	Program Revenues		Program Revenues	Net <Expenses> Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 3,360,840	\$ -	\$ -	\$ -	\$ <3,360,840>
Highway	14,208,965	-	-	300,104,995	285,896,030
Distributions to Arizona counties and cities	509,923,852	-	-	-	<509,923,852>
Interest on long-term debt	27,258,967	-	-	-	<27,258,967>
Total governmental activities	<u>\$ 554,752,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300,104,995</u>	<u><254,647,629></u>
General revenues:					
Transportation excise taxes (Note 6)					262,970,657
Interest Income					3,467,201
Rental income					1,862,395
Other					22,240
Total general revenues					<u>268,322,493</u>
Change in net position					13,674,864
Net position <deficit> - July 1					<u><435,822,122></u>
Net position <deficit> - June 30					<u>\$ <422,147,258></u>

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

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Balance Sheet - Governmental Funds
June 30, 2016

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Assets				
Receivables:				
Other	\$ 272,622	\$ -	\$ -	\$ 272,622
Amount due from other state agencies	22,584,082	-	-	22,584,082
Amounts due from U.S. Government	16,675,354	-	-	16,675,354
Restricted cash on deposit with the State Treasurer	<u>383,637,716</u>	<u>96,366</u>	-	<u>383,734,082</u>
Total assets	<u>\$ 423,169,774</u>	<u>\$ 96,366</u>	<u>\$ -</u>	<u>\$ 423,266,140</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 28,457,079	\$ -	\$ -	\$ 28,457,079
Accrued payroll and other accrued expenditures	255,157	-	-	255,157
Due to Arizona counties and cities	<u>3,601,165</u>	-	-	<u>3,601,165</u>
Total liabilities	<u>32,313,401</u>	<u>-</u>	<u>-</u>	<u>32,313,401</u>
Fund balances:				
Restricted	390,856,373	96,366	-	390,952,739
Total fund balances	<u>390,856,373</u>	<u>96,366</u>	<u>-</u>	<u>390,952,739</u>
Total liabilities and fund balances	<u>\$ 423,169,774</u>	<u>\$ 96,366</u>	<u>\$ -</u>	<u>\$ 423,266,140</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, 2016

Total fund balances - governmental funds (Exhibit 3)	\$	390,952,739
<p>Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:</p>		
Deferred Losses on long-term debt refundings are not available to liquidate liabilities in the current period, and, therefore, are not reported in the funds.		28,659,069
Non-current liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 3 A1).		<839,199,122>
Net pension liability and related deferred outflows and inflows of resources is not due and payable in the current period and, therefore, are not reported in the funds.		<u><2,559,944></u>
Net position of governmental activities (Exhibit 1)	\$	<u><422,147,258></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 Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the fiscal year ended June 30, 2016

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Transportation excise taxes (Note 6)	\$ 262,970,657	\$ -	\$ -	\$ 262,970,657
Federal grants and reimbursements (Note 8)	299,345,147	-	-	299,345,147
Reimbursements from Arizona counties and cities	759,848	-	-	759,848
Interest income	3,130,734	336,467	-	3,467,201
Rental income	1,862,395	-	-	1,862,395
Other	-	11,769	-	11,769
Total revenues	<u>568,068,781</u>	<u>348,236</u>	<u>-</u>	<u>568,417,017</u>
Expenditures:				
Current:				
Administration	3,464,117	25,148	-	3,489,265
Highway	14,729,266	-	-	14,729,266
Distributions to Arizona counties and cities (Note 5)	509,923,852	-	-	509,923,852
Debt Service:				
Principal	-	65,585,000	-	65,585,000
Interest	-	38,000,881	-	38,000,881
Total expenditures	<u>528,117,235</u>	<u>103,611,029</u>	<u>-</u>	<u>631,728,264</u>
Excess <deficiency> of revenues over <under> expenditures	39,951,546	<103,262,793>	-	<63,311,247>
Other financing sources <uses>:				
Transfers in	-	103,296,981	-	103,296,981
Transfers out for debt service	<103,296,981>	-	-	<103,296,981>
Sale of capital assets	10,471	-	-	10,471
Total other financing <uses> sources	<u><103,286,510></u>	<u>103,296,981</u>	<u>-</u>	<u>10,471</u>
Net change in fund balances	<63,334,964>	34,188	-	<63,300,776>
Fund balances - July 1	454,191,337	62,178	-	454,253,515
Fund balances - June 30	<u>\$ 390,856,373</u>	<u>\$ 96,366</u>	<u>\$ -</u>	<u>\$ 390,952,739</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, 2016

Net change in fund balances - total governmental funds (Exhibit 4)	\$ <63,300,776>
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Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

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).	76,326,914
Pension contributions are reported as expenditures in the governmental funds (Note 3 B2).	648,835
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 B3).	<109>
	<109>

Change in net position of governmental activities (Exhibit 2)	\$ <u>13,674,864</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, 2016

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 improvement 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 non-fiduciary assets deferred outflows of resources, deferred inflows of resources and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and is reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted results 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.

Unrestricted consists of those assets which do not meet the definition of the two preceding categories. Unrestricted often are designated to indicate that management does not consider them to be available for general operations. The unrestricted component often has constraints on resources which are imposed by management, but can be removed or modified by management or the Transportation Board.

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 **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,

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2016

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.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2016

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.

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balances

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, 2016, 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 6.11 years while for investment pool 3 it was 2.56 years, and for investment pool 4 it was 3.27 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.

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Notes to Financial Statements (continued)
June 30, 2016

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.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position or fund balance by the department that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources increase net position or fund balance, similar to assets.

Receivables and Payables

Outstanding balances between the Fund, the Department and Arizona counties, cities, and other state agencies are reported as other receivables. The balance due from the U.S. Government is reimbursable costs.

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 completed 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 expensed as incurred. Long-term obligations also include amounts that other governmental entities advanced to the Fund for highway road construction projects.

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Notes to Financial Statements (continued)
June 30, 2016

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

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 multiplied by 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.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position or fund balance that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources decrease net position or fund balance, similar to liabilities.

Net Position

The difference between assets, deferred outflows of resources, deferred inflows of resources and liabilities is "Net Position" on the government-wide statements.

Arizona Department of Transportation
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Notes to Financial Statements (continued)
June 30, 2016

Fund Balances

Fund balances for governmental funds may be reported in classifications that comprise a hierarchy based primarily on the extent to which the Fund is bound to honor constraints on the specific purposes for which amounts in those fund can be spent. Five classifications are available:

Nonspendable fund balance - describes that portion that cannot be spent because of its form (inventories, prepaid amounts, etc.) and are not expected to be converted to cash.

Restricted fund balance - describes that portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions (voter initiatives, court orders, etc.)

Committed fund balance - describes that portion which can be used only for specific purposes pursuant to constraints imposed by a formal action of the Fund's highest level of decision-making authority. This formal action is the passage of law by the Legislature creating, modifying or rescinding fund balance commitments.

Assigned fund balance - describes that portion of that reflects the Fund's intended use of resources for a specific purpose, but are neither restricted nor committed.

Unassigned fund balance - represents net resources in excess of what can properly be classified in one of the other categories.

The Fund's highest level of Authority is the Arizona State Legislature where the legislative appropriations are determined, identifying the uses of funds for specific purposes. The Arizona State Legislature also grants authority to other Boards and Commissions to authorize fund uses.

When an expenditure is incurred for purposes for which restricted, committed and unassigned fund balance is available, the Fund considers restricted, committed and unassigned amounts to have been spent in that order.

E. Revenues and Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., Administration, Highway). Additionally, revenues are classified between program and general revenues. Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenue includes all taxes and income on investments.

In the governmental fund financial statements, revenues are reported by source. Expenditures are reported by function (e.g., Administration, Distributions to Arizona counties and cities, Distributions to other state agencies, Debt service, Capital outlay).

The distributions to Arizona counties and cities and distributions to other state agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to bonds, loans, advances, board funding obligations, and capitalized leases. Capital outlay includes expenditures for real property or infrastructure (i.e., bridges and roads).

Arizona Department of Transportation
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Revenues and expenses of proprietary funds are classified as operating and non-operating and are sub-classified by object (e.g., salaries, equipment rental, depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

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.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets, liabilities, and net assets, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

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—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:

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Notes to Financial Statements (continued)
June 30, 2016

<u>Long-term liabilities</u>	
Debt obligation	\$ <717,225,000>
Premium on debt	<99,707,052>
Compensated absences	<88,427>
Intergovernmental advance	<22,178,643>
	\$ <839,199,122>

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:

Principal repayments:

Transportation Excise Tax Revenue Bonds	\$ 65,585,000
Amortization of premium and discount	13,926,255
Amortization of deferred loss on refunding	<3,184,341>
	\$ 76,326,914

2. Pension contributions are reported as expenditures in the funds in the fiscal year contributed. However, current year contributions are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured a year before the Funds current fiscal year-end financial statements. Pension expense, adjusted for changes in deferred outflows and deferred inflows of resources, is reported in the Statement of Activities.

Pension contributions	\$ 531,815
Pension expense	117,020
	\$ 648,835

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June 30, 2016

3. 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 \$ (109)

NOTE 4–NON-CURRENT LIABILITIES

A. 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 \$782,810,000. During the year no new Transportation Excise Tax Revenue Bonds were issued.

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

OUTSTANDING TRANSPORTATION EXCISE TAX REVENUE BONDS

As of June 30, 2016

Maturity (7/1)	2007 Series		2009 Series		2010 Series		2011 Series		2014 Series	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2017	17,770,000	5.000%	325,000	3.000%	1,685,000	2.000%	10,330,000	5.000%		
2017	2,250,000	4.000%	25,730,000	5.000%	9,405,000	5.000%				
2018			27,355,000	5.000%	1,505,000	3.000%	10,840,000	5.000%	18,480,000	5.000%
2018					10,090,000	5.000%				
2019			6,700,000	4.250%	2,370,000	2.500%	11,385,000	5.000%	19,400,000	5.000%
2019			22,020,000	5.000%	9,775,000	5.000%				
2020			340,000	3.500%	5,250,000	4.000%	11,955,000	5.000%	20,365,000	5.000%
2020			29,765,000	5.250%	7,445,000	5.000%				
2021					13,275,000	5.000%	12,555,000	5.000%	53,065,000	5.000%
2022					13,940,000	5.000%	13,180,000	3.000%	55,720,000	5.000%
2023					14,635,000	5.000%	13,575,000	4.000%	58,505,000	5.000%
2024							14,115,000	4.000%	76,800,000	5.000%
2025			830,000	4.000%	735,000	3.125%	14,685,000	3.000%	63,675,000	5.000%
2025					15,400,000	5.000%				
Totals	<u>\$20,020,000</u>		<u>\$113,065,000</u>		<u>\$105,510,000</u>		<u>\$112,620,000</u>		<u>\$366,010,000</u>	

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Maricopa County Regional Area Road Fund
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Annual debt service requirements to maturity for the Transportation Excise Tax Revenue Bonds are as follows:

Fiscal year ending June 30	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2017	67,495,000	34,802,631	102,297,631
2018	68,270,000	31,507,431	99,777,431
2019	71,650,000	28,124,031	99,774,031
2020	75,120,000	24,651,031	99,771,031
2021	78,895,000	20,878,219	99,773,219
2022-2025	355,795,000	43,294,076	399,089,076
	<u>\$ 717,225,000</u>	<u>\$ 183,257,419</u>	<u>\$ 900,482,419</u>

Bonds aggregating \$208,150,000 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 \$509,075,000 are not subject to redemption.

The Department has pledged a portion of future transportation excise taxes necessary to repay \$717,225,000 in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds are used to pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, and to refund all or part of previous bond issues. 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 \$1.0 billion. Principal and interest paid for the current year and total pledged revenues were \$103.6 million and \$263.0 million, respectively. The annual principal and interest payments on the bonds required 39.4 percent of the pledged revenues.

B. Intergovernmental advances and Notes Payable

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.

The Department's outstanding advances and notes payable as of June 30, 2016, were \$22,178,643 in governmental activities.

Annual debt service requirements to maturity for advances and notes payable are as follows:

Fiscal year ending June 30	Governmental Activities	
	Principal	Interest
2020	\$ 151,430	\$ -
2021	<u>\$ 22,027,213</u>	<u>\$ -</u>
	<u>\$ 22,178,643</u>	<u>\$ -</u>

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2016

C. Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Retirements /Refundings	Balance June 30, 2016	Due Within One Year
Transportation excise tax revenue bonds:					
2007 Series	\$ 39,105,000	\$ -	\$ 19,085,000	\$ 20,020,000	\$ 20,020,000
2009 Series	137,935,000	-	24,870,000	113,065,000	26,055,000
2010 Series	116,080,000	-	10,570,000	105,510,000	11,090,000
2011 Series	122,450,000	-	9,830,000	112,620,000	10,330,000
2014 Series	367,240,000	-	1,230,000	366,010,000	-
Unamortized premium on bonds	113,633,307	-	13,926,255	99,707,052	13,926,255
Intergovernmental advances	22,178,643	-	-	22,178,643	-
Compensated absences	88,318	109	-	88,427	8,671
	<u>\$ 918,710,268</u>	<u>\$ 109</u>	<u>\$ 79,511,255</u>	<u>\$ 839,199,122</u>	<u>\$ 81,429,926</u>

D. Refunded Bonds Deposited with Escrow Agents

In prior fiscal years, the Transportation Board refinanced various bond issues through refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for these legally defeased bonds are not reflected in the financial statements of the Department.

Bonds payable at June 30, 2016 related to the Maricopa County Regional Area Road Fund Arizona Transportation Board Transportation Excise Tax Revenue Bonds are comprised of the following individual issues:

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Notes to Financial Statements (continued)
June 30, 2016

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, 2017.	\$ 20,020,000
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.	113,065,000
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.	105,510,000
2011 Series, issued by the Transportation Board on October 14, 2011, due in varying annual installments plus semiannual interest at rates ranging from 2.0 percent to 5.0 percent, through July 1, 2025.	112,620,000
2014 Series, issued by the Transportation Board on December 18, 2014, due in varying annual installments plus semiannual interest at rates ranging from 3.0 percent to 5.0 percent, through July 1, 2025.	366,010,000
	<u>\$ 717,225,000</u>

Bonds and notes 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 Department's obligations are subject to Internal Revenue Service regulations pertaining to issuance of tax-exempt debt by governmental entities. The Department does not have and has not accrued a liability under these regulations.

NOTE 5—DISTRIBUTIONS

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

Distributions to the Department and other agencies for the year ended June 30, 2016, were as follows:

	<u>2016</u>
Distributions to Arizona Department of Transportation	\$ 466,038,115
Distributions to Arizona counties and cities	34,325,516
Distributions to Regional Public Transit Authority	<u>9,560,221</u>
Total	<u>\$ 509,923,852</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

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(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.

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 \$1,466,349,681 at June 30, 2016.

	Remaining Commitment
Construction contracts:	
Rural roadways	\$ 131,992,229
Small urban roadways	20,656,980
Urban roadways	26,228,190
Large urban roadways	80,577,822
202 Loop/ SM Freeway	890,389,178
General Roadways	125,351,862
Total	1,275,196,261
Capital Asset Replacement and Maintenance	191,153,420
Total	\$ 1,466,349,681

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

Risk Management Insurance Losses

The Department is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the state’s self-insurance program and, in the opinion of the Department’s management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years’ premium payments to the state’s self-insurance program. All estimated

Arizona Department of Transportation

Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

June 30, 2016

losses for unsettled claims and actions of the state are determined on an actuarial basis and are included in the State of Arizona's Comprehensive Annual Financial Report.

Claims

The Department has a variety of claims pending against it that arose during the normal course of its activities. Management of the Department believes, based on the advice of legal counsel, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department.

Grants

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 Department expects such amounts, if any, to be immaterial.

NOTE 9—INTERFUND TRANSFERS

The Special Revenue Fund made transfers of \$103,296,981 to the Debt Service Fund to pay bond debt service.

NOTE 10—ACCOUNTING PRONOUNCEMENTS AND PENSION AND OTHER POSTEMPLOYMENT BENEFITS

A. New Accounting Pronouncements

GASB Statement No. 72, Fair Value Measurement and Application and GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

The Fund implemented the above Government Accounting Standards Board (GASB) statements in fiscal year 2016.

B. Pension and Other Postemployment Benefits

Arizona State Retirement System

Plan Descriptions – Employees of the Department participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB). The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

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Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* Any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* Any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members the survivor benefit is determined by the retirement benefit option chosen. For all other members the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the Department was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for the health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the Department was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the Department in positions that would typically be filled by an employee who contributes to the ASRS. The Fund's contributions to the pension plan for the year ended June 30, 2016, were \$531,815. The Fund's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Year ended June 30	Health Benefit Supplement Fund	Long-Term Disability Fund
2016	\$24,508	\$5,882
2015	10,252	2,085
2014	11,207	4,484

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Notes to Financial Statements (continued)
June 30, 2016

The Fund's total payroll for fiscal year 2016 was \$4.90 million. The System is funded through payroll deductions from employees' gross earnings and amounts contributed by the Fund. Retirement benefits, health care benefits, and long term disability benefits are obligations of the ASRS and not of the Fund. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The contribution requirement for fiscal year 2016 was \$199 thousand each by both the employees and the Fund.

Presentation of Deferred Outflows and Deferred Inflows of Resources

Deferred outflows and inflows of resources are reported in the basic statements of net position in a separate section following assets and liabilities, respectively. The Fund elected the optional statement of net position presentation.

The Fund recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. The deferred outflows of resources are related to the Fund's pension plan.

The Fund recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. The deferred inflows of resources relate to the Fund's pension plan.

Retirement Plans

The Fund contributes to the Arizona State Retirement System plan described below. The plan is a component unit of the State of Arizona. At June 30, 2016 the Fund reported the following amounts related to the pension plan to which it contributes:

Net Pension Liability	\$2,936,413
Deferred outflows of resources	638,354
Deferred inflows of resources	261,885
Pension expense	\$ <648,834>

Also, the Fund reported \$531,815 of pension contributions as expenditures in the Fund related to the pension plan to which it contributes.

Changes in the Fund's net pension liability during the fiscal year ended June 30, 2016 were as follows:

Beginning Balance	\$ 3,068,463
Increases	172,250
Decreases	<304,300>
Ending Balance	<u><u>2,936,413</u></u>

Pension Liability – At June 30, 2016, the Fund reported a liability of \$2,936,413 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015.

The Fund's reported liability at June 30, 2016, decreased by \$132,050 from the prior year liability of \$3,068,463 because of changes in the ASRS' net pension liability and the Fund's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2016

The Fund's proportion of the net pension liability was based on the Fund's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The Fund's proportion measure as of June 30, 2016, was 0.0189 percent, which was a decrease of 0.0018 percent from its proportion measure as of June 30, 2015 of 0.0171 percent.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2016, the Fund recognized pension expense for ASRS of \$(648,834). At June 30, 2016, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$80,127	\$153,884
Net difference between projected and actual earnings on pension plan investments	-	94,095
Changes in proportion and differences between State contributions and proportionate share of contributions RARF contributions subsequent to the measurement date	26,412	13,906
	531,815	-
Total	\$638,354	\$261,885

The \$531,815 reported as deferred outflows of resources related to ASRS pensions resulting from the Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2017	\$(48,328)
2018	(105,682)
2019	(69,269)
2020	67,933

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2012.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2016

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	6.79%
Fixed Income	25%	3.70%
Multi-asset	5%	3.41%
Real estate	10%	4.25%
Commodities	2%	3.93%
Total	100%	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Fund’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Fund’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Fund’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
RARF’s proportionate share of the net pension liability	\$3,847,583	\$2,936,413	\$2,311,838

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910, by calling (602) 240-2000 or (800) 621-3778 or visiting the website at <http://www.azasrs.gov/content/annual-reports>

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2016

NOTE 11—SUBSEQUENT EVENTS

On October 6, 2016, the Department issued \$109,850,000 in Transportation Excise Tax Revenue Bonds. Proceeds from the bonds were used to refund the Transportation Excise Tax Revenue Bonds Series 2009, Series 2010 and Series 2011. The bonds bear an interest rates range from 3.000% to 5.250% over the term of the bonds. The refunding will save the Department \$8,156,379 of debt service interest over the life of the notes and will result in an economic gain of \$7,647,042.

REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DOT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 FOR THE LAST TWO FISCAL YEARS (1)
 JUNE 30, 2016

	Fiscal Year	
	2016	2015
DOT's proportion of the net pension liability	0.0189%	0.0207%
DOT's proportionate share of the net pension liability	\$ 2,936,413	\$ 3,068,463
DOT's covered-employee payroll	\$ 4,901,518	\$ 1,737,713
DOT's proportionate share of the net pension liability as a percentage of its covered-employee payroll	59.91%	176.58%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

(1) The DOT implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DOT PENSION CONTRIBUTIONS
 FOR THE LAST THREE FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2016

	Fiscal Year		
	2016	2015	2014
Statutorily required contribution	\$ 531,815	\$ 189,237	\$ 199,853
DOT's contributions in relation to the statutorily required contribution	531,815	189,237	199,853
DOT's contribution deficiency (excess)	\$ -	\$ -	\$ -
DOT's covered-employee payroll	\$ 4,901,518	\$ 1,737,713	\$ 1,867,788
DOT's contributions as a percentage of covered-employee payroll	10.85%	10.89%	10.70%

(1) The DOT implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Director
Arizona Department of Transportation
Phoenix, Arizona

We have audited, in accordance with the 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, the 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, 2016, and the related notes to the financial statements, which collectively comprise Maricopa County Regional Area Road Fund's basic financial statements, and have issued our report thereon dated February 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Maricopa County Regional Area Road Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Maricopa County Regional Area Road Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Maricopa County Regional Area Road Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Maricopa County Regional Area Road Fund's internal control or on compliance. This 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Phoenix, Arizona
February 24, 2017