Arizona Department of Transportation

Maricopa County Regional Area Road Fund

Annual Financial Report

For the Year Ended June 30, 2017

ADOT
Financial Management Services

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
For the Year Ended June 30, 2017

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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, 2017, 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, 2017, 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 8 and the Fund's proportionate share of the net pension liability and contributions on pages 37 and 38 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 funds 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, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Maricopa County Regional Area Road Fund's 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

CliftonLarsonAllen LLP

Phoenix, Arizona
January 29, 2018

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, 2017. 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 $485,719,743 compared to $423,266,140 for fiscal year 2016, an increase of $62,453,603 (or 14.8 percent). The increase in assets is due to the decreased use of restricted cash on deposit with the State Treasurer for the construction of projects on State Route 202, as well as accrued reimbursable relocation costs due from the Federal Highway Administration, which did not occur in fiscal year 2016.

- For fiscal year 2017, the Fund distributed $379,491,618 of capital assets to the Arizona Department of Transportation, compared to $466,038,115 for fiscal year 2016, a decrease of $86,546,497 (or 18.6 percent). The majority of the decrease is attributable to a shift in funding for the State Route 202 project from the Fund to external sources.

- Maricopa County Transportation Excise Tax received by the Fund (50.4% of the total collected) was $274,552,523 compared to $262,970,657 for fiscal year 2016, an increase of $11,581,866 (or 4.4 percent). The moderate increase of the transportation excise tax revenues and distributions are attributable to growth in retail sales and the restaurant and bar sector.

- Grants and reimbursements totaled $265,142,165 compared to $300,104,995 for fiscal year 2016, a decrease of $34,962,830 (or 11.7 percent). The decrease is attributable to a decrease in 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.

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 18 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, 2017.

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

	Governmental Activities	
	2017	2016
Assets:		
Receivables:		
Other, net of allowance for doubtful accounts	$ 272,616	$ 272,622
Due from other State agencies	23,757,285	22,584,082
Due from U.S. Government for reimbursable costs	48,160,083	16,675,354
Restricted cash on deposit with the State Treasurer	413,529,759	383,734,082
Total assets	485,719,743	423,266,140
Deferred outflows of resources:		
Relating to pensions	5,110,759	638,354
Loss on debt refunding	30,266,200	28,659,069
Total Deferred Outflows of Resources	35,376,959	29,297,423
Liabilities:		
Accounts payable	38,028,522	28,457,079
Accrued payroll and other accrued expenses	194,334	255,157
Due to other state agencies	7,419,308	3,601,165
Long-term obligations	791,224,547	839,199,122
Net pension liability	8,462,851	2,936,413
Net OPEB obligation	377,442	-
Total liabilities	845,707,004	874,448,936
Deferred inflows of resources		
Relating to pensions	1,280,051	261,885
Total deferred inflows of resources	1,280,051	261,885
Net position <deficit>:		
Restricted	451,342,501	390,952,739
Unrestricted	<777,232,854>	<813,099,997>
Net position <deficit>	$ <325,890,353>	$ <422,147,258>

The purpose of the Fund is to fund design, right of way, construction, improvement, maintenance of, and debt service related to, freeways and routes on the state highway system, and improvements to the arterial street system in Maricopa County. The assets and deferred outflows of resources of the Fund were $521.1 million, while the liabilities and deferred inflows of resources were $847.0 million, resulting in deficit net position of <$325.9> million.

The decrease in negative net position from fiscal year 2016 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	
	2017	2016
Revenues:		
Program revenues:		
Capital grants and contributions	$ 265,142,165	$ 300,104,995
General revenues:		
Transportation excise taxes	274,552,523	262,970,657
Interest income	3,610,334	3,467,201
Rental income	1,410,017	1,862,395
Other	244,636	22,240
Total revenues	544,959,675	568,427,488
Expenses:		
Administration	3,064,905	3,360,840
Highway	10,610,031	14,208,965
Distributions to governmental agencies	414,525,326	509,923,852
Interest on long-term debt	19,854,695	27,258,967
Bond issuance costs	647,813	-
Total expenses	448,702,770	554,752,624
Changes in net position	96,256,905	13,674,864
Net position <deficit> - July 1	<422,147,258>	<435,822,122>
Net position <deficit> - June 30	$ <325,890,353>	$ <422,147,258>

The total revenues of the Fund were $545.0 million, while the expenses were $448.7 million, resulting in the change in net position of $96.3 million. The decrease in revenues for fiscal year 2017 is the result of a decrease in federal reimbursements on eligible projects. The modest increase in interest income was a result of an increase in invested cash in the Special Revenue Fund.

The decrease in expenses of $106.0 million (or 19.1 percent) was due mainly to the decrease in Distributions to governmental agencies.

Fund Financial Analysis

The government-wide financial analysis and the fund financial analysis analyze substantially the same financial components, and, therefore, are not duplicated in this section.

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

The Fund's non-current liabilities as of June 30, 2017, amount to $791.2 million, a decrease of $48.0 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 Bond. Relocation costs associated with displacement of certain residents and businesses through the eminent domain process related to the South Mountain Freeway project were accrued for the first time in fiscal year 2017. Additionally, the net pension liability increased due to the Fund's increase in its proportionate share of the Department's net pension liability.

	2017	2016
Governmental Activities:		
Transportation excise tax revenue bonds	$ 643,310,000	$ 717,225,000
Premium on bonds	94,979,988	99,707,052
Advances and notes payable	22,178,643	22,178,643
Accrued relocation costs	30,738,169	-
Compensated absences	17,747	88,427
Total non-current liabilities	$ 791,224,547	$ 839,199,122
Net pension liablity[1]	$ 8,462,851	$ 2,936,413
Net OPEB obligation[2]	$ 377,442	$ -

[1] 2015 was the first year that net pension liability information was captured.

[2] 2017 was the first year that net OPEB obligation information was captured.

All bonds outstanding as of June 30, 2017, 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 collateralized solely by the transportation excise tax revenue collected by the Fund.

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

Exhibit 1

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Statement of Net Position
June 30, 2017

Assets	
Receivables:	
Other, net of allowance for doubtful accounts	$ 272,616
Due from other State agencies	23,757,285
Due from U.S. Government for reimbursable costs	48,160,083
Restricted cash on deposit with the State Treasurer	413,529,759
Total assets	485,719,743
Deferred Outflows of Resources	
Relating to pensions	5,110,759
Loss on debt refunding	30,266,200
Total deferred outflows of resources	35,376,959
Liabilities	
Accounts payable	38,028,522
Accrued payroll and other accrued expenses	194,334
Due to other State agencies	7,419,308
Noncurrent liabilities (Note 4):	
Due within one year	82,485,844
Due in more than one year	708,738,703
Net pension liability	8,462,851
Net OPEB obligation	377,442
Total liabilities	845,707,004
Deferred Inflows of Resources	
Relating to pensions	1,280,051
Total deferred inflows of resources	1,280,051
Net position <deficit>	
Restricted	451,342,501
Unrestricted	<777,232,854>
Net position <deficit>	$ <325,890,353>

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, 2017

		Program Revenues	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Administration	$ 3,064,905	$ -	$ -
Highway	10,610,031	-	-
Distributions to governmental agencies	414,525,326	-	-
Interest on long-term debt	19,854,695	-	-
Bond issuance costs	647,813	-	-
Total governmental activities	$ 448,702,770	$ -	$ -
General revenues:			
Transportation excise taxes (Note 6)			
Interest Income			
Rental income			
Other			
Total general revenues			
Change in net position			
Net position - July 1			
Net position - June 30			

Continued

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, 2017

Functions/Programs	Program Revenues Capital Grants and Contributions	Net <Expenses> Revenues
Governmental Activities:		
Administration	$ -	$ <3,064,905>
Highway	265,142,165	254,532,134
Distributions to governmental agencies	-	<414,525,326>
Interest on long-term debt	-	<19,854,695>
Bond issuance costs	-	<647,813>
Total governmental activities	$ 265,142,165	<183,560,605>
General revenues:		
Transportation excise taxes (Note 6)		274,552,523
Interest Income		3,610,334
Rental income		1,410,017
Other		244,636
Total general revenues		279,817,510
Change in net position		96,256,905
Net position <deficit>- July 1		<422,147,258>
Net position <deficit> - June 30		$ <325,890,353>

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

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Balance Sheet - Governmental Funds
June 30, 2017

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Assets				
Receivables:				
Other, net	$ 272,616	$ -	$ -	$ 272,616
Amount due from other state agencies	23,757,285	-	-	23,757,285
Amounts due from U.S. Government	48,160,083	-	-	48,160,083
Restricted cash on deposit with the State Treasurer	413,395,753	134,006	-	413,529,759
Total assets	$ 485,585,737	$ 134,006	$ -	$ 485,719,743
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	$ 26,763,600	$ -	$ -	$ 26,763,600
Due to Arizona counties and cities	7,419,308	-	-	7,419,308
Accrued payroll and other accrued expenditures	194,334	-	-	194,334
Total liabilities	34,377,242	-	-	34,377,242
Deferred inflows of resources:				
Unavailable revenue	39,608,916	-	-	39,608,916
Fund balances:				
Restricted	411,599,579	134,006	-	411,733,585
Total fund balances	411,599,579	134,006	-	411,733,585
Total liabilities, deferred inflows of resources, and fund balances	$ 485,585,737	$ 134,006	$ -	$ 485,719,743

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

Exhibit 3.1

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, 2017

Total fund balances - governmental funds (Exhibit 3)	$	411,733,585
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:		
Certain receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.		39,608,916
Losses on long-term debt refundings are not available to liquidate liabilities in the current period, and, therefore, are not reported the funds.		30,266,200
Liabilities related to final right-of-way condemnation judgments are not payable from current financial resources and, therefore, are not reported in fhe funds.		<11,264,922>
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).		<791,224,547>
Net OPEB liability is not due and payable in the current period and, therefore, is not reported in the funds.		<377,442>
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.		<4,632,143>
Net positon of governmental activities (Exhibit 1)	$	<325,890,353>

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

Exhibit 4

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, 2017

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Transportation excise taxes (Note 6)	$ 274,552,523	$ -	$ -	$ 274,552,523
Federal grants and reimbursements (Note 8)	223,530,684	-	-	223,530,684
Reimbursements from Arizona counties and cities	2,002,565	-	-	2,002,565
Interest income	3,203,892	406,442	-	3,610,334
Rental income	1,410,017	-	-	1,410,017
Other	244,636	-	-	244,636
Total revenues	504,944,317	406,442	-	505,350,759
Expenditures:				
Current:				
Administration	3,135,340	-	-	3,135,340
Highway	8,160,635	-	-	8,160,635
Distributions to governmental agencies (Note 5)	372,522,235	-	-	372,522,235
Debt Service:				
Principal	-	67,495,000	-	67,495,000
Interest	-	33,256,790	-	33,256,790
Bond issuance costs	-	647,813	-	647,813
Total expenditures	383,818,210	101,399,603	-	485,217,813
Excess <deficiency> of revenues over <under> expenditures	121,126,107	<100,993,161>	-	20,132,946
Other financing sources <uses>:				
Transfers in	-	100,382,901	-	100,382,901
Transfers out for debt service	<100,382,901>	-	-	<100,382,901>
Refunding debt issuance	-	109,850,000	-	109,850,000
Premium from debt issuance	-	23,941,630	-	23,941,630
Payment to refunded bond escrow agent	-	<133,143,730>	-	<133,143,730>
Total other financing <uses> sources	<100,382,901>	101,030,801	-	647,900
Net changes in fund balances	20,743,206	37,640	-	20,780,846
Fund balances - July 1	390,856,373	96,366	-	390,952,739
Fund balances - June 30	$ 411,599,579	$ 134,006	$ -	$ 411,733,585

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, 2017

Net change in fund balances - total governmental funds (Exhibit 4)	$ 20,780,846
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 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).	<164,529,799>
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).	214,040,825
Pension contributions are reported as expenditures in the governmental funds (Note 3 B2).	<2,072,199>
Net OPEB obligation	<377,442>
Some items reported in the statement of activities do not require the use of or provide current financial resources and, therefore, are not reported as expenditures or revenues in the governmental funds (Note 3 B3).	28,414,674
Change in net position of governmental activities (Exhibit 2)	$ 96,256,905

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

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 governmental agencies by issuing revenue bonds and by the collection of an excise tax. The Department and the Maricopa Association of Governments cooperate 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. Because the fund does not report any capital assets, this component of Net Position is excluded from the Fund's government-wide Statement of Net Position.

Restricted net position 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 net position 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, 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.

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 design, right of way and construction projects for the next five years and the related project 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, 2017, 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 5.95 years while for investment pool 3 it was 1.72 years, and for investment pool 4 it was 3.65 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.

All cash in the Fund is restricted 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 receivables. The balance of Due from the U.S. Government is for 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 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, as well as accrued relocation costs, and compensated absences.

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 and Other Post-employment Benefits (OPEB)

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. The fund also records its proportionate share of the Net OPEB Obligation.

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.

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 decision-making authority is the Arizona Transportation Board. The Fund is not subject to legislative appropriation.

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 governmental agencies, Debt service).

The distributions to governmental agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to bonds and loans/advances).

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 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, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance/net position, 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 a 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:

Debt obligation	$	<643,310,000>
Unamoritized premium on debt		<94,979,988>
Compensated absences		<17,747>
Accrued relocation costs		<30,738,169>
Intergovernmental advances		<22,178,643>
	$	<791,224,547>

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:		
Issuance of Transportation Excise Tax Revenue Bonds	$	<109,850,000>
Premium on debt issued		<23,941,630>
Accrued relocation costs		<30,738,169>
		<164,529,799>
Principal repayments:		
Transportation Excise Tax Revenue Bonds	$	67,495,000
Payment to refunded bond escrow agent		133,143,730
Amortization of premium and discount		16,586,436
Amortization of deferred losses on refunding		<3,184,341>
	$	214,040,825

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	$	424,404
Pension expense		(2,496,603)
	$	(2,072,199)

3. Some items reported in the Statement of Activities do not require the use of, or provide current financial resources and therefore, are not reported in the governmental funds. The details are as follows:

Compensated absences	$	70,680
Accrued right-of-way condemnation judgments		(11,264,922)
Accrued right-of-way condemnation reimbursement revenue		10,622,821
Accrued relocation reimbursement revenue		28,986,095
	$	28,414,674

NOTE 4–NON-CURRENT LIABILITIES

A. Arizona Transportation Board Transportation Excise Tax Revenue Bonds and Accrued Relocation Costs

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by a portion of the 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 $717.2 million.

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, 2017

	2009 Series		2010 Series		2011 Series		2014 Series		2016 Series	
Maturity (7/1)	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
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%	$ 29,490,000	5.000%
2020			7,445,000	5.000%						
2021					12,555,000	5.000%	53,065,000	5.000%	12,465,000	5.000%
2022					13,180,000	3.000%	55,720,000	3.000%	13,085,000	5.000%
2023							58,505,000	4.000%	26,135,000	5.000%
2024							76,800,000	4.000%	13,015,000	5.000%
2025					14,685,000	3.000%	63,675,000	5.000%	15,660,000	5.000%
Totals	$ 56,415,000		$ 36,435,000		$ 74,600,000		$ 366,010,000		$ 109,850,000	

Accrued relocation costs represent estimated costs associated with displacement of certain residents and businesses through the eminent domain process related to the South Mountain Freeway project.

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
2018	$ 68,270,000	$ 31,411,000	$ 99,681,000
2019	71,650,000	28,027,600	99,677,600
2020	74,845,000	24,554,600	99,399,600
2021	78,085,000	20,869,950	98,954,950
2022	81,985,000	16,965,700	98,950,700
2023-2025	268,475,000	26,435,400	294,910,400
	$ 643,310,000	$ 148,264,250	$ 791,574,250

Bonds aggregating $91,880,000 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, 2019. These bonds may be redeemed at par, plus accrued interest to the date fixed for redemption. Bonds aggregating $551,430,000 are not subject to redemption.

The Department has pledged a portion of future transportation excise taxes necessary to repay $643,310,000 in outstanding Transportation Excise Tax Revenue Bonds issued since 2009. 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 $791.6 million. Principal and interest paid for the current year and total pledged revenues were $100.8 million and $274.6 million, respectively. The annual principal and interest payments on the bonds required 36.7 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, 2017, were $22,178,643 in governmental activities.

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

Fiscal	Governmental Activities	
Year	Principal	Interest
2020	$ 151,430	$ -
2021	22,027,213	-
	$ 22,178,643	$ -

C. Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Retirements /Refundings	Balance June 30, 2017	Due Within One Year
Transportation excise tax revenue bonds:					
2007 Series	$ 20,020,000	$ -	$ 20,020,000	$ -	$ -
2009 Series	113,065,000	-	56,650,000	56,415,000	27,355,000
2010 Series	105,510,000	-	69,075,000	36,435,000	11,595,000
2011 Series	112,620,000	-	38,020,000	74,600,000	10,840,000
2014 Series	366,010,000	-	-	366,010,000	18,480,000
2016 Series	-	109,850,000	-	109,850,000	-
Unamortized premium on bonds	99,707,052	23,941,630	28,668,694	94,979,988	14,213,118
Accrued relocation costs	-	30,738,169	-	30,738,169	-
Intergovernmental advances	22,178,643	-	-	22,178,643	-
Compensated absences	88,427	7,643	78,323	17,747	2,726
	$ 839,199,122	$ 164,537,442	$ 212,512,017	$ 791,224,547	$ 82,485,844

D. Refunded Bonds Deposited with Escrow Agents

In current and 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. Details of the current year refunding are as follows:

On October 6, 2016, the Transportation Board issued $109.850 million of Transportation Excise Tax Revenue Refunding Bonds, Series 2016, with an interest rate of 5.00% and serial maturities ranging from 2020 to 2025. Net proceeds amounted to $133.144 million, after receipt of $23.942 million of original issue premium, and payment of $648 thousand of Issuance Costs and Underwriter’s Discount. The net proceeds were used to refund, in advance of maturity, portions of the outstanding Series 2009, Series 2010, and Series 2011 Transportation Excise Tax Revenue Bonds. The advance-refunding resulted in a debt service savings of $8.2 million, and a net present value economic gain of $7.6 million (difference between the present values of the old and new debt service payments). The advance-refunding also resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $4.8 million. This difference, reported as a deferred outflow of resources, is being amortized to interest expense on a straight-line basis through fiscal year 2025.

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 TO GOVERNMENTAL AGENCIES

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

Distributions to the Department and other governments or agencies for the year ended June 30, 2017, were as follows:

	Fund-level	Government-wide
	2017	2017
Distributions to Arizona Department of Transportation	$ 337,488,527	$ 379,491,618
Distributions to Arizona counties and cities	25,250,732	25,250,732
Distributions to Regional Public Transit Authority	9,782,976	9,782,976
Totals	$ 372,522,235	$ 414,525,326

The difference between the fund-level and government-wide amounts reflects accrual of relocation costs and right-of-way condemnation final judgments. See Notes 3B1 and 3B3 for more information.

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.

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 $1,163,755,333 at June 30, 2017. In fiscal year 2017, the Department significantly changed its methodology for disclosing commitments. Roadway area designations have been replaced with classifying commitments first by segregating between local government assistance and State Highway construction and related phases commitments, and further classifying commitments by phase of construction, as presented in the following table.

	Remaining Commitment
State highways	
Construction	$ 864,713,587
Design	79,181,240
Right of way	190,275,992
Utilities	18,823,408
Other	10,761,106
Total	$ 1,163,755,333

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 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 $100,382,901 to the Debt Service Fund to pay bond debt service.

NOTE 10–ACCOUNTING PRONOUNCEMENTS AND PENSION AND OTHER POSTEMPLOYMENT BENEFITS

A. New Accounting Pronouncements

For the year ended June 30, 2017, the Fund implemented the provisions of the following Governmental Accounting Standards Board (GASB) pronouncements:

- GASB Statement No. 77, *Tax Abatement Disclosures* – to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time.

- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* – to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – The requirements of this pronouncement did not impact the Department's financial statements.

- GASB Statement No. 82, *Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73* – this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The implementation of the above GASB Statements did not have a material effect on the Fund's financial statements.

B. Pension and Other Postemployment Benefits

Retirement Plans

The Fund contributes to the Arizona Statement Retirement System plan described below. The plan is a component unit of the State of Arizona. At June 30, 2017, the Fund reported the following amounts related to the pension plan to which it contributes:

Net pension liability	$8,462,851
Deferred outflows of resources	5,110,759
Deferred inflows of resources	1,280,051
Pension expense	2,072,199

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 website at www.azasrs.gov.

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, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 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 11.48 percent (10.78 percent for retirement, 0.56 percent for the health insurance premium benefit, and 0.14 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 9.47 percent (9.17 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.09 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, 2017, were $424,404.

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
2017	$ 22,047	$ 5,512
2016	24,508	5,882
2015	10,252	2,085

The Fund's total covered payroll for fiscal year 2017 was $3.90 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 2017 was $424 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 recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. A portion of the deferred outflows of resources is 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 at the government-wide level relate to the Fund's pension plan.

Also, the Fund reported $424,404 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, 2017 were as follows:

Beginning balance	$ 2,936,413
Increases	7,230,893
Decreases	(1,704,455)
	$ 8,462,851

Pension Liability – At June 30, 2017, the Fund reported a liability of $8,462,851 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016.

The Fund's reported liability at June 30, 2017, increased by $5,526,438 from the prior year liability of $2,936,413 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.

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, 2016. The Fund's proportion measure as of June 30, 2017, was 0.0523 percent, which was an increase of 0.0334 percent from its proportion measure as of June 30, 2016 of 0.0189 percent.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017, the Fund recognized pension expense for ASRS of $2,072,199. At June 30, 2017, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	RARF Allocated	
	Deferred Outflows of Resources	Deferred Intflows of Resources
Differences between expected and actual experience	$ 51,475	$ 582,167
Net difference between projected and actual earnings on pension plan investments	916,995	447,762
Change in proportion and differences between ADOT contributions and proportionate share of contributions	3,717,885	250,122
Fund contributions subsequient to the measurement date	424,404	-
Total	$ 5,110,759	$ 1,280,051

The $424,404 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, 2018. 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	
2018	$1,347,498
2019	1,448,728
2020	352,920
2021	257,158

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
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, 2015 valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 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%	3.90%
Fixed income	25%	0.93%
Multi-asset	5%	0.17%
Real estate	10%	0.42%
Commodities	2%	0.08%
Total	100%	5.50%
Inflation		3.25%
Total long-term expected rate of return		8.75%

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 8.75 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	$10,790,982	$8,462,851	$6,595,946

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

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

FOR THE LAST THREE FISCAL YEARS (1)

JUNE 30, 2017

	Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Fund's proportion of the net pension liability	0.0523%	0.0189%	0.0207%
Fund's proportionate share of the net pension liability	$ 8,462,851	$ 2,936,413	$ 3,068,463
Fund's covered-employee payroll	$ 3,936,957	$ 4,901,518	$ 1,737,713
Fund's proportionate share of the net pension liability as a percentage of its covered-employee payroll	214.96%	59.91%	176.58%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%

(1) The Fund 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 FUND PENSION CONTRIBUTIONS
FOR THE LAST FOUR FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2017

	Fiscal Year			
	2017	2016	2015	2014
Statutorily required contribution	$ 424,404	$ 531,815	$ 189,237	$ 199,853
Fund's contributions in relation to the statutorily required contribution	424,404	531,815	189,237	199,853
Fund's contribution deficiency (excess)	$ -	$ -	$ -	$ -
Fund's covered-employee payroll	$ 3,936,957	$ 4,901,518	$ 1,737,713	$ 1,867,788
Fund's contributions as a percentage of covered-employee payroll	10.78%	10.85%	10.89%	10.70%

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

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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, 2017, 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 January 29, 2018.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response that we consider to be a significant deficiency, 2017-001.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
January 29, 2018

Financial Statement Finding

2017-001: Significant Audit Adjustment

Condition: During the course of our audit, we proposed and the Department subsequently recorded a significant adjustment to correct accounts receivable/revenue and accounts payable/expenses. As a result of audit procedures, we noted that 4 transactions were not recorded in the proper period.

Criteria: Internal controls should be in place to provide reasonable assurance that expenses and revenues are recorded in the proper period in accordance with U.S. GAAP.

Context: We proposed and the Department subsequently recorded an adjustment to accrue right-of-way condemnation judgments, which resulted in adjustments to accounts payable and related expenses as well as federal reimbursement receivables and related revenues as a recognizable subsequent event.

Effect: The lack of controls in place over the review of contingent liabilities and subsequent disbursements increases the risk of misstatements or errors occurring and not being detected and corrected.

Cause: The Department has not adopted a policy to review right-of-way transactions for contingent liabilities. As such the Department did not properly accrue right-of-way condemnation judgments. Management is in the process of implementing controls and procedures.

Questioned Costs: None

Recommendation We recommend that the Department implement policies and proper internal control procedures to ensure that expenditures are recorded in the proper period.

Response: The Arizona Department of Transportation (ADOT) concurs with the finding and will address concerns by September 30, 2018 by developing policies and procedures that will provide reasonable, but not absolute, assurance that material unrecorded receivables, liabilities, and related revenues and expenditures are accrued in the proper accounting period, subject to the State’s 60 day availability criteria for reporting liabilities in the governmental fund financial statements. These policies and procedures will also include detailed procedures to ensure proper accrual of material unrecorded receivables, liabilities, and related revenues and expenditures on the full-accrual basis of accounting.

Contact Person: Tim Newton, Controller

Section III – Federal Award Findings

None noted, as the State of Arizona did not identify any of the programs administered by the Arizona Department of Transportation as major.