

*Financial Statements*

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

*Fiscal Year Ended June 30, 2019*

*Financial Statements*

**Arizona Department of Transportation  
Highway Expansion and Extension Loan  
Program Fund  
Fiscal Year Ended June 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

Director  
Arizona Department of Transportation  
Phoenix, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Highway Expansion and Extension Loan Program Fund, an enterprise fund of the Arizona Department of Transportation, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the fund's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Highway Expansion and Extension Loan Program Fund, an enterprise fund of the Arizona Department of Transportation as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

*Regarding Stand-Alone Report*

As discussed in Note 1, the financial statements of the Highway Expansion and Extension Loan Program Fund are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the Arizona Department of Transportation, that is attributable to the Highway Expansion and Extension Loan Program Fund. They do not purport to, and do not, present fairly the financial position of the Arizona Department of Transportation, as of June 30, 2019, and the changes in its financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2020 on our consideration of the Highway Expansion and Extension Loan Program Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Highway Expansion and Extension Loan Program 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 the Highway Expansion and Extension Loan Program Fund's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
January 10, 2020

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Management's Discussion and Analysis  
June 30, 2019

As management of the Arizona Department of Transportation, Highway Expansion and Extension Loan Program Fund (the 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, 2019. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements and the accompanying notes to the basic financial statements.

**Financial Highlights**

- The assets of the Fund exceeded its liabilities by \$1,196,071 at the end of fiscal year 2019 as compared to \$30,520,459 at fiscal year-end 2018.
- The Fund's total net position decreased by \$29,324,388 in fiscal year 2019 due to a \$30 million legislative distribution to the State General Fund.
- There were no loan amounts disbursed in fiscal year 2019.

**Fund Financial Statements**

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

**Proprietary funds** - The Fund maintains one type of Proprietary Fund. Enterprise funds are used to report functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). An enterprise fund is used by the Arizona Department of Transportation to account for the Fund's operations.

**Financial Analysis**

In proprietary fund financial statements, net position may serve over time as a useful indicator of an entity's financial position. The Fund's net position decreased by \$29,324,388 in fiscal year 2019.

Arizona Department of Transportation  
 Highway Expansion and Extension Loan Program Fund  
 Management's Discussion and Analysis  
 June 30, 2019

**Table 1**  
**Condensed Statements of Net Position**  
**For the Years Ended June 30,**

	Business-type Activities	
	2019	2018
Current assets	\$ 1,196,071	\$ 30,520,459
Total assets	1,196,071	30,520,459
Net Position		
Unrestricted	1,196,071	30,520,459
Net position	\$ 1,196,071	\$ 30,520,459

The change in the Fund's current assets for fiscal year 2019 is due to interest earned by the Fund and Distributions to other State agencies (State General Fund).

No new loans were initiated, approved or disbursed in fiscal year 2019, and no loans are outstanding.

At the end of fiscal year 2019, the Fund reported a positive net position. Laws 2018, Fifty-third Legislature, Second Regular Session, SB 1529 and SB 1520 eliminates the fiscal year 2019 \$30 million distribution to cities, towns, and counties, and requires the Fund to transfer \$30.0 million to the State General Fund in fiscal year 2019.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Management's Discussion and Analysis  
June 30, 2019

**Table 2**  
**Condensed Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30,**

	Business-type Activities	
	2019	2018
Revenues:		
Non-operating revenues		
Income from investments	\$ 675,612	\$ 569,661
Total revenues	675,612	569,661
Expenses:		
Non-operating expenses		
Distributions to other State agencies	(30,000,000)	-
Distributions to Arizona counties and cities	-	(30,000,000)
Total expenses	(30,000,000)	(30,000,000)
Change in net position	(29,324,388)	(29,430,339)
Net position - July 1	30,520,459	59,950,798
Net position - June 30	\$ 1,196,071	\$ 30,520,459

The Fund's net position decrease was due to a \$30,000,000 legislative distribution to the State General Fund.

**Notes to the financial statements** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found beginning on page 9 of this report.

**Requests for information** This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S 17<sup>th</sup> Avenue, Mail Drop 202B, Phoenix, Arizona, 85007, or by visiting our website at: <https://azdot.gov/about/financial-management-services/transportation-funding/highway-expansion-and-extension-loan>

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Statement of Net Position  
June 30, 2019

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**Assets**

Current assets:

Unrestricted cash on deposit with the State Treasurer (Note 1C)	\$ 1,196,071
Total assets	<u>1,196,071</u>

**Net position**

Unrestricted	1,196,071
Net position	<u>\$ 1,196,071</u>

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



Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2019

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**Non-operating revenues (expenses):**

Income from investments	\$ 675,612
Distributions to other State agencies	<u>(30,000,000)</u>
Total non-operating revenues (expenses)	<u>(29,324,388)</u>
Change in net position	(29,324,388)
Net position - July 1	<u>30,520,459</u>
<b>Net position - June 30</b>	<u><u>\$ 1,196,071</u></u>

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

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Statement of Cash Flows  
For the Year Ended June 30, 2019

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<b>Cash flows from non-capital financing activities:</b>	
Distributions to other State agencies	\$ (30,000,000)
Net cash used by non-capital financing activities	<u>(30,000,000)</u>
<b>Cash flows from investing activities:</b>	
Income from investments	<u>675,612</u>
Net cash provided by investing activities	<u>675,612</u>
Net <decrease> in cash	(29,324,388)
Cash - July 1	<u>30,520,459</u>
<b>Cash - June 30</b>	<u><u>\$ 1,196,071</u></u>

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

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

**A. Reporting Entity**

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

The Fund is administered by the Department, which is charged with reviewing requests for loans and financial assistance, making recommendations to the Arizona State Transportation Board (Transportation Board) and submitting an annual report to the Governor and state legislature.

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

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

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

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

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

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

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

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

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

***Deposits and Investments***

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

The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with ARS §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2019, the State's investment pool 3 was not rated. The weighted average maturity at year end for investment pool 3 was 1.13 years.

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

***Unrestricted Net Position***

The remaining resources as of June 30, 2019 have no external restrictions regarding their use and are, therefore, reported as unrestricted.

***Net Position***

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

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

**D. Revenues and Expenses**

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

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

Senate Bill 1531, Fifty-third Legislature, First Regular Session, Section 8 A-C appropriates \$30 million in fiscal year 2018 from the Highway Expansion and Extension Loan Fund for distribution to counties, cities, and towns. Senate Bill 1529 and Senate Bill 1520 from Fifty-third Legislature - Second Regular Session (2018) requires distributions to the State General Fund instead of the cities, towns and counties. Specifically, Senate Bill 1529 eliminates the FY 2019 distribution to the cities towns and counties and Senate Bill 1520 requires a one-time transfer of \$30 million to the State General Fund.

**NOTE 3—DETAILED NOTES**

**A. Loans Receivables**

Loans receivables represent loans made pursuant to Loan Repayment Agreements. There are no loans that have balances outstanding or are pending as of June 30, 2019.

**NOTE 4—OTHER INFORMATION**

**A. Contingent Liabilities**

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



**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 statement of net position of the Highway Expansion and Extension Loan Program Fund, an enterprise fund of the Arizona Department of Transportation, as of and for the year ended June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Highway Expansion and Extension Loan Program Fund's basic financial statements, and have issued our report thereon dated January 10, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Highway Expansion and Extension Loan Program 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Highway Expansion and Extension Loan Program Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Highway Expansion and Extension Loan Program 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 the Highway Expansion and Extension Loan Program 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 Highway Expansion and Extension Loan Program Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
January 10, 2020