

**REGIONAL TRANSPORTATION
AUTHORITY OF PIMA COUNTY
SINGLE AUDIT REPORTING PACKAGE
FISCAL YEAR ENDED JUNE 30, 2011**

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2011**

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INDEPENDENT AUDITORS' REPORT

Members of the Board
Regional Transportation Authority of Pima County

We have audited the accompanying financial statements of the governmental activities and General Fund of the Regional Transportation Authority (Authority) of Pima County as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of the Regional Transportation Authority of Pima County, as of June 30, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Authority implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued our report dated **Report Date**, on our consideration of the Regional Transportation Authority of Pima County'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

Report Date

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

As management of the Regional Transportation Authority of Pima County, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority as of and for the year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the financial statements and the notes thereto. The discussion that follows emphasizes the Authority's financial activity from the current fiscal year.

Financial Highlights

The financial statements which follow the Management's Discussion and Analysis provide these significant key financial highlights for 2010-11 as follows:

- The Authority's net assets of \$42.6 million at year end was due to assets set aside for unexpended projects.
- General revenues accounted for \$70.5 million in revenue and primarily consisted of excise taxes. Program specific revenue in the form of capital grants and contributions accounted for \$945,263 of total current fiscal year revenues.
- The Authority's total net assets of governmental activities decreased \$18.9 million which represents a 31 percent decrease from the prior fiscal year as a result of the use of prior year assets for current year projects.
- The General Fund had \$88.8 million in project distributions, \$903,535 in bond issuance costs, and \$788,732 in administrative expenses during the year.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) General Fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

The statement of activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the Authority that are principally supported by excise taxes. The governmental activities of the Authority include project distributions and administrative expenses.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund of the Authority is a governmental fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities; however, as there were no adjustments required for the current year's audit, these reconciliations are not included in the basic financial statements.

Notes to the 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 immediately following the basic financial statements.

During the year ended June 30, 2011, the Authority implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosures requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions. Additional information on the fund balance classifications, components of fund balance, and other information related to fund balance can be found in Note 2.

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Financial Analysis of the Authority

Net assets may serve over time as a useful indicator of financial position. In the case of the Authority, assets totaled \$203.8 million and liabilities totaled \$161.2 million as of June 30, 2011. At year end, the entire \$42.6 million of the Authority's net assets were restricted which will be utilized for future project distributions.

	As of June 30, 2011	As of June 30, 2010
Current and other assets	\$ 203,423,061	\$ 74,169,574
Capital assets	334,229	246,686
Total assets, net	<u>203,757,290</u>	<u>74,416,260</u>
Current and other liabilities	17,267,423	12,930,160
Long-term liabilities	143,914,023	
Total liabilities	<u>161,181,446</u>	<u>12,930,160</u>
Net assets:		
Restricted	42,575,844	61,486,100
Total net assets	<u>\$ 42,575,844</u>	<u>\$ 61,486,100</u>

Changes in Net Assets – The Authority's total revenues for the current fiscal year were \$71.4 million. The total cost of all programs and services was \$90.3 million.

The following table presents a summary of the changes in net assets for the current fiscal year.

	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 945,263	\$ 963,880
General revenues:		
Excise taxes	64,759,627	62,657,513
Other local	5,175,060	91,456
Investment income	559,080	1,371,896
Total revenues	<u>71,439,030</u>	<u>65,084,745</u>
Expenses:		
Project distributions	88,831,523	109,751,491
Administrative	788,732	780,582
Depreciation expense	76,547	12,983
Interest on long-term debt	652,484	
Total expenses	<u>90,349,286</u>	<u>110,545,056</u>
Decrease in net assets	(18,910,256)	(45,460,311)
Beginning net assets	61,486,100	106,946,411
Ending net assets	<u>\$ 42,575,844</u>	<u>\$ 61,486,100</u>

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Budgetary Highlights

The adopted budget for fiscal year 2010-11 forecasted excise tax collections in the amount of \$63.0 million. Actual collections were \$1.8 million more than budgeted.

As of year end the RTA had committed over \$161.5 million to various projects approved for funding by the RTA Board. The expenditure budget adopted for the current fiscal year was \$161.5 million. This budget proved to be extremely ambitious, resulting in a \$70.6 million favorable variance caused by delays in the Modern Streetcar program and other projects due to restricted matching funds from the jurisdictions. Expenditure rates are expected to be similar in the next fiscal year as the other RTA Roadway Element projects break ground and the Modern Streetcar moves forward.

Through the end of the fiscal year, 154 RTA projects have been implemented with another 24 projects underway.

Roadway Elements – The budget expected \$72.0 million in expenditures on the 19 Roadway Element projects underway. Actual expenditures were nearly \$41.1 million, \$30.9 million less than budgeted. The variance is largely due to favorable bid outcomes and project construction start delays.

Safety Element – Expenditures in the Safety Element were budgeted at \$21.1 million. The vast majority of this funding was to be expended on intersection improvement projects at the intersections of Campbell/Ft. Lowell, Wilmot/Park Place, Starr Pass/Mission, Pima Mine/Rancho Sahuarita, Camino Verde/Valencia, Alvernon/Los Reales, and Wilmot/Golf Links. Actual expenditures were \$14.3 million.

Environmental and Economic Vitality Element – The budget anticipated the expenditure of \$7.0 million on projects. Actual expenditures amounted to \$2.8 million, primarily for bike paths/lanes and sidewalks.

Transit Element – Transit Element expenditures were budgeted to not exceed \$54.0 million. Operations related expenses were in line with budget expectations; however, capital improvement project expenditures lagged. RTA reimbursements on the Modern Streetcar didn't materialize until the end of the fiscal year and the bus storage and maintenance facility were low as the City of Tucson elected to utilize federal funds as a major source of funding for work performed on those projects. Transit expenditures amounted to \$30.8 million during the fiscal year.

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Capital Assets and Debt Administration

Capital Assets. During the year ended June 30, 2011, the Authority purchased capital assets including two sun shuttle circulator buses.

Debt Administration. The Authority may issue special obligation revenue bonds payable from and secured by Transportation Excise Tax collections for the purposes authorized in Section 42-6106 of the Arizona Revised Statutes. On April 7, 2011 the Authority adopted a resolution to issue \$136,480,000 in Series 2011 Transportation Excise Tax Revenue Bonds dated May 24, 2011. At year end \$136,480,000 of the bonds were outstanding, with \$7.0 million due within one year. The revenue bonds have been rated AA by Standard & Poor's Ratings Services, and Aa3 by Moody's Investors Service. Additional information on the Authority's long-term debt can be found in Notes 5 and 6.

Economic Factors and Next Year's Budget

The proposed budget for fiscal year 2011-12 was prepared using conservative revenue projections and expenditure assumptions based upon cash flow projections provided by the jurisdictions.

The following table represents the estimated revenue amounts for fiscal years 2010-11 and 2011-12 (the amounts are in the thousands).

<u>Industry Sector</u>	<u>FY11</u>	<u>%</u>	<u>FY12</u>	<u>%</u>
Communications & Utilities	\$ 9,100	15%	\$ 8,600	13%
Restaurants & Bars	7,000	11%	6,800	10%
Real & Personal Property Rentals	5,800	9%	5,800	9%
Contracting/Construction	6,300	10%	8,100	12%
Retail	32,300	51%	33,900	51%
Hotel/Motel	1,500	3%	1,600	3%
All Other	1,000	1%	1,100	2%
Total	<u>\$ 63,000</u>	<u>100%</u>	<u>\$ 65,900</u>	<u>100%</u>

RTA is projecting that \$65.9 million will be collected during the period July 1, 2011, through June 30, 2012. Retail trade is predicted to contribute \$33.9 million or 51%, while Communications and Utilities, and Restaurants and Bars are expected to generate \$8.6 million and \$6.8 million, respectively. Contracting/Construction is forecasted to increase, comprising 12% of total sales tax revenues, or \$8.1 million. The industry projections are consistent with current economic trends.

Approximately \$2.2 million in interest earnings is expected to be generated from the RTA's idle cash investments. This assumes a declining cash balance ending the year with an ending balance of \$96.6 million. The budget anticipates bonding to finance the RTA's expenditure levels for 2011-12. The interest rate on cash balances was conservatively estimated to be 2.0%.

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens and benefactors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Regional Transportation Authority, 177 N. Church Ave., Suite 405, Tucson, AZ 85701.

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2011

	General Fund	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 189,986,859		\$ 189,986,859
Excise tax receivable	10,923,689		10,923,689
Due from federal government	119,435		119,435
Due from other governments	1,476,793		1,476,793
Other assets	12,750		12,750
Total current assets	202,519,526		202,519,526
Noncurrent assets:			
Deferred charges		903,535	903,535
Capital assets, depreciable, net		334,229	334,229
Total noncurrent assets		1,237,764	1,237,764
Total assets	202,519,526	1,237,764	203,757,290
<u>LIABILITIES</u>			
Current liabilities:			
Project distributions payable	6,736,755		6,736,755
Accrued liabilities	3,061,329		3,061,329
Accrued interest expense		484,339	484,339
Revenue bonds payable		6,985,000	6,985,000
Total current liabilities	9,798,084	7,469,339	17,267,423
Noncurrent liabilities:			
Deferred bond premium		14,418,023	14,418,023
Revenue bonds payable		129,495,000	129,495,000
Total noncurrent liabilities		143,913,023	143,913,023
Total liabilities	9,798,084	151,382,362	161,180,446
<u>FUND BALANCES/NET ASSETS</u>			
Fund balances:			
Restricted	192,721,442	192,721,442	
Total fund balances	192,721,442	192,721,442	
Total liabilities and fund balances	\$ 202,519,526		
Net assets:			
Restricted		42,576,844	42,576,844
Total net assets		\$ 42,576,844	\$ 42,576,844

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Regional transportation projects - project distributions	\$ 88,831,523		\$ 88,831,523
Regional transportation projects - administrative	788,732		788,732
Capital expenditures	164,090	(164,090)	
Depreciation expense		76,547	76,547
Interest and fiscal charges	168,145	484,339	652,484
Bond issuance costs	903,535	(903,535)	
Total expenditures/expenses	<u>90,856,025</u>	<u>(506,739)</u>	<u>90,349,286</u>
Program revenues			
Capital grants and contributions	945,263		945,263
Total program revenues	<u>945,263</u>		<u>945,263</u>
General revenues			
Excise taxes	64,759,627		64,759,627
Other local	5,175,060		5,175,060
Investment income	559,080		559,080
Total general revenues	<u>70,493,767</u>		<u>70,493,767</u>
Other financing sources			
Issuance of revenue bonds	136,480,000	(136,480,000)	
Premium on sale of revenue bonds	14,419,023	(14,419,023)	
Total other financing sources	<u>150,899,023</u>	<u>(150,899,023)</u>	
Excess (deficiency) of revenues over expenditures	131,482,028	(131,482,028)	
Change in net assets		(18,910,256)	(18,910,256)
Fund balance/net assets:			
Beginning of year	61,239,414	246,686	61,486,100
End of year	<u>\$ 192,721,442</u>	<u>\$ (150,145,598)</u>	<u>\$ 42,575,844</u>

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Excise tax deposits	\$ 63,000,000	\$ 64,759,627	\$ 1,759,627
Federal grants and aid		945,263	945,263
Other local		5,175,060	5,175,060
Interest earnings	1,828,000	559,080	(1,268,920)
Other financing sources	100,000,000	150,899,023	50,899,023
Total Revenues	<u>164,828,000</u>	<u>222,338,053</u>	<u>57,510,053</u>
Expenditures:			
Roadway Elements	72,000,000	41,082,730	30,917,270
Safety Elements			
Intersections	9,000,000	10,091,360	(1,091,360)
Elderly & Pedestrian	2,000,000	775,965	1,224,035
Transit Corridor Bus Pullouts	7,000,000	2,011,221	4,988,779
At-grade Railroad & Bridge Deficiencies	2,500,000	761,017	1,738,983
Signal Technology	550,000	641,608	(91,608)
Total Safety Elements	<u>21,050,000</u>	<u>14,281,171</u>	<u>6,768,829</u>
Environmental & Economic Vitality Elements	7,000,000	2,804,915	4,195,085
Transit Elements	<u>54,000,000</u>	<u>30,826,797</u>	<u>23,173,203</u>
Subtotal	154,050,000	88,995,613	65,054,387
Investment/Trustee Fees	6,739,000	30,089	6,708,911
Statutory Distributions	715,000	758,643	(43,643)
Interest and fiscal charges		168,145	(168,145)
Bond issuance costs		<u>903,535</u>	<u>(903,535)</u>
Total expenditures	161,504,000	90,856,025	70,647,975
Changes in fund balance	3,324,000	131,482,028	(128,158,028)
Fund balance, beginning of year	60,000,000	61,239,414	(1,239,414)
Fund balance, end of year	<u>\$ 63,324,000</u>	<u>\$ 192,721,442</u>	<u>\$ (129,397,442)</u>

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Regional Transportation Authority of Pima County (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2011, the Authority implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosures requirements, for fund balance classifications of the governmental funds, and clarifies existing governmental fund type definitions.

The more significant of the Authority's accounting principles are described below.

A. Reporting Entity

The Authority was established on August 25, 2004, as a political subdivision of the State of Arizona, to develop a 20 year multi-modal plan with roadway improvements, safety improvements, and environmental and economic vitality improvements within Pima County, Arizona. The Authority formally commenced financial operations on May 16, 2006.

Under State law, the Authority is authorized to levy a ½-cent excise tax collected over the next 20 years for purposes of implementing the 20 year multi-modal plan as approved by voters on May 16, 2006. The Authority is not authorized to levy property taxes. The Authority may issue bonds backed by excise taxes. The Authority is not subject to federal income taxes.

The Authority is governed by a nine-member board consisting of representatives from the Town of Marana, City of South Tucson, City of Tucson, Pima County, Town of Oro Valley, Town of Sahuarita, Pascua Yaqui Tribe, Tohono O'odham Nation, and the Arizona State Transportation Board. Under existing statutes, the Board's duties and powers include, but are not limited to, the implementation of the 20 year multi-modal plan. The Board also has broad financial responsibilities, including the approval of the annual budget, and the establishment of a system of accounting and budgetary controls.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Authority is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Consequently, the Authority's financial statements include the funds of those organizational entities for which its elected governing body is financially accountable. The Authority is not included as a part of another governmental reporting entity.

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Government-Wide and Fund Financial Statements

The financial statements combine the presentation of the government-wide financial statements (i.e., the statement of net assets and the statement of activities) and the fund financial statements. The fund financial statements currently only include the General Fund. Since the fund financial statements are presented on a different basis than the government-wide financial statements, the adjustments column is presented to demonstrate the conversion of the fund financial statements to the government wide financial statements. A description of the adjustments posted is provided in Note 3. The reported information includes all of the nonfiduciary activities of the Authority and its component units. These statements are to distinguish between the governmental and business-type activities of the Authority. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Authority does not operate any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Excise taxes, investment income and other items not included among program revenues are reported instead as general revenues.

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

Government-Wide Financial Statements – 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 a liability is incurred, regardless of the timing of related cash flows. Excise taxes are recognized as revenues in the year for which they are collected by the fiscal agent. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule the effect of internal activity has been eliminated from the government-wide financial statements; however, the effect of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fund Financial Statements – 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 Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

Excise taxes and investment income associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues also arise when resources are received by the Authority before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

All receivables are shown net of an allowance for uncollectibles. Receivables that will not be collected within the available period have also been reported as deferred revenue on the governmental fund financial statements.

The Authority reports the following major governmental fund:

General Fund – The General Fund accounts for all resources used to finance Authority operations.

D. Investments

Investments are reported at fair market value. Securities traded on national or international exchanges are valued at the last reported market price at current exchange rates. Investments that do not have an established market price are reported at estimated fair market value.

E. Investment Income

Investment income is composed of interest and net changes in the fair market value of applicable investments.

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

F. Capital Assets

Capital assets include vehicles, which are reported in the government-wide financial statements.

Capital assets are defined by the Authority as assets with an initial, individual cost in excess of \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets are depreciated using the straight-line method over the estimated useful life of five years.

G. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – FUND BALANCE CLASSIFICATIONS

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications. Although the Authority does not use all of the fund balance classifications, a description of each classification follows.

Nonspendable. The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – FUND BALANCE CLASSIFICATIONS (Cont'd)

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those accounts.

Assigned. Amounts in the assigned fund balance classification are intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or a management official delegated that authority by the formal Board action.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had be restricted, committed, or assigned.

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

NOTE 3 – GOVERNMENT-WIDE ADJUSTMENTS

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. The government-wide adjustments column is necessary to convert the fund financial statements to the government-wide financial statements. The adjustments presented were made to include consideration for capital asset activity and convert the fund balance of the fund financial statements to net assets for consistency with the government-wide basis of accounting.

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Authority's deposits may not be returned to the Authority. The Authority does not have a deposit policy for custodial credit risk; however, the Authority's cash management practices eliminate the need for said policy. At year end, the carrying amount of the Authority's deposits was \$2,422,881 and the bank balance was \$2,433,722. At year end, \$250,000 of the Authority's deposits was covered by Federal depository insurance and \$2,183,722 was covered by collateral held by the pledging financial institution in the Authority's name.

Arizona Revised Statutes (A.R.S.) authorize the Authority to invest and reinvest public monies in securities and deposits with a maximum maturity of five years. All public monies shall be invested in eligible investments. Eligible investments are the State Treasurer's local government investment pools, interest-bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona counties, cities, towns, school districts and special districts as specified by statute.

At year end the Authority's investments included the following.

Investment Type	Fair Market Value	Investment Maturities (in Years)		Concentration of Credit Risk
		Less than 1	1-5	
Money market – U.S. Treasuries	\$ 84,795,272	\$ 84,795,200	\$	45%
U.S. Agencies:				
Federal Deposit Insurance Corporation	22,474,199	22,474,199		12%
Federal Home Loan Mortgage Corporation	16,435,381	11,144,375	5,291,006	9%
Federal Home Loan Bank	33,973,361	11,989,332	21,984,029	18%
Federal National Mortgage Association	15,622,700	11,410,696	4,212,004	8%
Corporate Securities:				
New York Community Bancorp, Inc.	8,590,477	8,590,477		5%
		<u>\$ 150,404,279</u>	<u>\$ 31,487,039</u>	
State Treasurer's investment pool 7	<u>5,672,588</u>	30 days average maturities		3%
Total	<u>\$ 187,563,978</u>			

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 – CASH AND INVESTMENTS (Concl'd)

Interest Rate Risk. The Authority's investment policy limits investment maturities to 5 years as a means of managing its exposure to fair market value losses arising from increasing interest rates.

Credit Risk. The Authority's investments in U.S. Agencies and Corporate Securities were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's. The State Treasurer's investment pool 7 was unrated at year end.

Concentration of Credit Risk. The Authority places no limit on the amount the Authority may invest in any one issuer.

Custodial Credit Risk – Investments. To control custodial credit risk, A.R.S. and the Authority's investment policy requires all securities and collateral to be held by an independent third party custodian in the Authority's name. The custodian provides the Authority with monthly market values along with original safekeeping receipts. The Authority's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the Authority's portion is not identified with specific investments and is not subject to custodial risk.

NOTE 5 – REVENUE BONDS PAYABLE

Transportation Excise Tax Revenue Bonds provide the Authority with funds for design, right-of-way purchase, construction, operation, maintenance and contiguous open space preservation purchase compatible with local environmental ordinance of, and within the expenditure limits for, each element of the regional transportation plan, all as provided in Section 42-6106 of Arizona Revised Statutes. The bonds are payable from excise tax collections.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Outstanding Principal June 30, 2011</u>	<u>Due Within One Year</u>
Excise tax revenue bonds					
Series 2011	\$136,480,000	3.00-5.00%	6/1/26	\$ 136,480,000	\$6,985,000
Total				<u>\$ 136,480,000</u>	<u>\$6,985,000</u>

The Authority has pledged future excise taxes to repay \$136,480,000 in outstanding Transportation Excise Tax Revenue Bonds issued on May 24, 2011. The bonds are payable solely from excise taxes and are payable through 2026. There were no scheduled principal or interest payments during the current year. Total revenues pledged in fiscal year 2011 amounted to \$64,759,627.

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – REVENUE BONDS PAYABLE (Concl'd)

Annual debt service requirements to maturity on the revenue bonds and deferred premium are summarized as follows.

<u>Year ending June 30:</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 6,985,000	\$ 6,038,284	\$ 13,023,284
2013	6,860,000	6,159,728	13,019,728
2014	7,065,000	5,953,928	13,018,928
2015	7,340,000	5,683,028	13,023,028
2016	7,630,000	5,389,926	13,019,926
2017-21	44,225,000	21,685,463	65,910,463
2022-26	56,375,000	8,730,325	65,105,325
Total	<u>\$136,480,000</u>	<u>\$59,640,682</u>	<u>\$196,120,682</u>

NOTE 6 – LONG-TERM LIABILITIES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Revenue bonds payable	\$	\$136,480,000	\$	\$ 136,480,000	\$ 6,985,000
Deferred bond premium		14,419,023		14,419,023	
Governmental activity long-term liabilities	<u>\$</u>	<u>\$150,899,023</u>	<u>\$</u>	<u>\$ 150,899,023</u>	<u>\$ 6,985,000</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

The members of the Authority's board consist of the members of the Pima Association of Government's (PAG) Regional Council. As board members, these individuals influence the financial activities of the Authority through voting authority. In addition, pursuant to an executed memorandum of understanding, PAG provides professional and administrative staff and resources to the Authority in order for it to accomplish the responsibilities. In consideration, PAG receives an annual amount of \$300,000, adjusted annually for inflation. For the current year, the Authority remitted \$326,628 to PAG.

REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – RELATED PARTY TRANSACTIONS (Concl'd)

Certain member governments received reimbursement distributions for eligible project costs.

<u>Member Governments</u>	<u>Services billed for during the fiscal year</u>	<u>Amount included in distributions payable at year end</u>
City of Tucson	\$ 59,060,461	\$ 2,841,078
Pima County	32,158,883	3,229,870
Town of Marana	5,591,931	
City of South Tucson	11,550	
Town of Sahuarita	727,758	
Tohono O'odham Nation	44,564	
Town of Oro Valley	303,762	46,469
Totals	<u>\$ 97,898,909</u>	<u>\$ 6,117,417</u>

NOTE 8 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees and natural disasters. The Authority carries commercial insurance maintained by PAG for all risks of loss, including property and liability, workers' compensation and employee health and accident insurance. There were no claims resulting from these risks during the fiscal year.

NOTE 9 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Authority is prepared on the modified accrual basis of accounting.

SINGLE AUDIT SECTION

**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**

Members of the Board
Regional Transportation Authority of Pima County

We have audited the financial statements of the governmental activities and General Fund of the Regional Transportation Authority of Pima County as of and for the year ended June 30, 2011, which collectively comprise Regional Transportation Authority of Pima County's basic financial statements and have issued our report thereon dated **Report Date**, which was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. 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.

Internal Control Over Financial Reporting

Management of Regional Transportation Authority of Pima County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Regional Transportation Authority of Pima County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Regional Transportation Authority of Pima County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Regional Transportation Authority of Pima County's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Regional Transportation Authority of Pima County's financial statements are free of 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*.

This report is intended solely for the information and use of management, the members of the Board of the Regional Transportation Authority of Pima County, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

Report Date

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditors' Report

Members of the Board
Regional Transportation Authority of Pima County

Compliance

We have audited Regional Transportation Authority of Pima County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Regional Transportation Authority of Pima County's major federal programs for the year ended June 30, 2011. Regional Transportation Authority of Pima County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Regional Transportation Authority of Pima County's management. Our responsibility is to express an opinion on Regional Transportation Authority of Pima County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Regional Transportation Authority of Pima County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Regional Transportation Authority of Pima County's compliance with those requirements.

In our opinion, Regional Transportation Authority of Pima County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Regional Transportation Authority of Pima County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Regional Transportation Authority of Pima County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Regional Transportation Authority of Pima County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and General Fund of the Regional Transportation Authority of Pima County as of and for the year ended June 30, 2011, and have issued our report thereon dated **Report Date**, which was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Regional Transportation Authority of Pima County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Members of the Board, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

Report Date

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>			
Passed through Arizona Department of Transportation:			
Formula Grants for Other than Urbanized Areas	20.509	AZ-86-X001-01	\$ 883,482
Formula Grants for Other than Urbanized Areas, Recovery Act	20.509 - ARRA	AZ-86-X001-01	<u>24,400</u>
Total U.S. Department of Transportation			<u>907,882</u>
 Total Expenditures of Federal Awards			 <u><u>\$ 907,882</u></u>

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Regional Transportation Authority of Pima County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2011 *Catalog of Federal Domestic Assistance*.

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.509	Formula Grants for Other than Urbanized Areas
20.509 - ARRA	Formula Grants for Other than Urbanized Areas, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

None reported.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None reported.

**REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Status of Federal Award Findings and Questioned Costs

The Authority had no findings or questioned costs related to federal awards noted in prior audits that require a status.

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