

Annual Financial Report

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

Fiscal Year Ended June 30, 2004

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Annual Financial Report
Fiscal Year Ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

The Honorable Janet Napolitano
Governor of the State of Arizona, and
Members of the Legislature

We have audited the accompanying financial statements of the governmental activities and each major fund of the Arizona Department of Transportation Maricopa Regional Area Road Fund (the "Fund") as of and for the year ended June 30, 2004, which collectively comprise the Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Arizona Department of Transportation's (the "Department") management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

As discussed in Note 1A, the financial statements of the Fund of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund information of the Department that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2004 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund information for the Fund as of June 30, 2004 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Department's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLP

October 29, 2004

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis
June 30, 2004 and 2003

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, 2004. 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 \$136,131,434, compared to \$102,236,264 for fiscal year 2003, an increase of \$33,895,170 (or 33.2 percent). The liabilities exceeded the assets because, when the Fund comes into possession of capital assets, they are distributed to the Arizona Department of Transportation's general fund.
- For fiscal year 2004, the Fund distributed \$56,611,136 of cash and capital assets to the Arizona Department of Transportation compared to \$196,116,508 for fiscal year 2003, a decrease of \$139,505,372 (or 71.1 percent). The decrease is attributable to less construction projects being completed, resulting in less transfers of assets.
- The Transportation Excise taxes collected in fiscal year 2004 were \$288,599,800, compared to \$268,720,901 for fiscal year 2003, an increase of \$19,878,899 (or 7.4 percent).

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis
June 30, 2004 and 2003

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

Fund Financial Statements. The Fund's activities are reported in governmental funds. Reporting for these funds focuses on how financial resources flow in to and out of the funds, and 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 two individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the Special Revenue Fund, and Debt Service Fund, 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 12 of this report.

Government-wide Financial Analysis

As noted earlier, net assets 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, 2004.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Management's Discussion and Analysis
 June 30, 2004 and 2003

The following table reflects the condensed Statement of Net Assets as of June 30:

| | Governmental Activities | |
|-----------------------------------|-------------------------|------------------|
| | 2004 | 2003 |
| Assets: | | |
| Current and other assets | \$ 136,131,434 | \$ 102,236,264 |
| Total assets | 136,131,434 | 102,236,264 |
| Liabilities: | | |
| Long-term liabilities outstanding | 291,847,162 | 501,425,997 |
| Other liabilities | 21,360,982 | 7,706,441 |
| Total liabilities | 313,208,144 | 509,132,438 |
| Net assets: | | |
| Restricted | 114,770,452 | 94,529,823 |
| Unrestricted | <291,847,162> | <501,425,997> |
| Total net assets | \$ <177,076,710> | \$ <406,896,174> |

The total assets of the Fund were \$136.1 million, while the liabilities were \$313.2 million, resulting in net assets of <\$177.1> million. The deficit was due to capital assets being distributed to the Arizona Department of Transportation while the Fund retained the debt related to the assets. The purpose of the Fund is highway construction to benefit the Arizona Department of Transportation. To be able to construct highways, the Fund collects excise tax and issues bonds.

The Fund's bonded indebtedness decreased by 41 percent for fiscal year 2004. This decrease was primarily due to bonded debt that was retired. The repayment schedule for these bonds are as follows:

| Fiscal Year year ending June 30, | Transportation Excise Tax Revenue Bonds | |
|---|--|---------------|
| | Principal | Interest |
| 2005 | \$ 208,625,000 | \$ 14,318,152 |
| 2006 | 80,375,000 | 1,566,542 |
| | \$ 289,000,000 | \$ 15,884,694 |

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Management's Discussion and Analysis
 June 30, 2004 and 2003

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

| | Governmental Activities | |
|---------------------------------------|-------------------------|------------------|
| | 2004 | 2003 |
| Revenues: | | |
| Program revenues: | | |
| Capital grants and contributions | \$ 13,226,684 | \$ 34,847,848 |
| General revenues: | | |
| Transportation excise taxes | 288,599,800 | 268,720,901 |
| Interest on investments | 2,407,468 | 4,490,708 |
| Sale of land held for resale | 12,324,217 | 5,514,666 |
| Rental income | 375,103 | 447,243 |
| Total revenues | 316,933,272 | 314,021,366 |
| Expenses: | | |
| Distributions to other state agencies | 64,198,927 | 203,618,565 |
| Interest on long-term debt | 21,650,505 | 29,968,014 |
| Other | 1,264,376 | 1,051,612 |
| Total expenses | 87,113,808 | 234,638,191 |
| Changes in net assets | 229,819,464 | 79,383,175 |
| Net assets - July 1 | <406,896,174> | <486,279,349> |
| Net assets - June 30 | \$ <177,076,710> | \$ <406,896,174> |

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 request 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/fms/rarlink.htm>.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Statement of Net Assets
 June 30, 2004

ASSETS

Receivables:

| | |
|--|--------------------|
| Accrued interest | \$ 80,828 |
| Other | 3,566,620 |
| Notes and loans (Note 5) | 1,791,012 |
| Deferred charges | 317,791 |
| Due from U.S. Government for reimbursable construction costs | 883 |
| Restricted cash on deposit with the State Treasurer | <u>130,374,300</u> |
| Total assets | <u>136,131,434</u> |

LIABILITIES

| | |
|--|--------------------|
| Accounts payable and other current liabilities | 30 |
| Accrued payroll and other accrued expenses | 94,043 |
| Contracts and retainage payable | 21,266,909 |
| Non-current liabilities (Note 3): | |
| Due within one year | 210,772,501 |
| Due in more than one year | <u>81,074,661</u> |
| Total liabilities | <u>313,208,144</u> |

NET ASSETS

| | |
|---------------------------------|------------------------------|
| Restricted for capital projects | 114,770,452 |
| Unrestricted | <u><291,847,162></u> |
| Total Net Assets | <u>\$<291,847,162></u> |

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Statement of Activities
 For the fiscal year ended June 30, 2004

| Functions/Programs | Expenses | Program Revenues | | | Net <Expenses> Revenues |
|---|----------------------|-------------------------|--|-------------------------------------|-------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| Highway | \$ - | \$ - | \$ - | \$ 13,226,684 | \$ 13,226,684 |
| Other | 1,264,376 | - | - | - | <1,264,376> |
| Distributions to other state agencies (Note 4) | 64,198,927 | - | - | - | <64,198,927> |
| Interest on long-term debt | 21,650,505 | - | - | - | <21,650,505> |
| Total governmental activities | <u>\$ 87,113,808</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,226,684</u> | <u><73,887,124></u> |
| General revenues: | | | | | |
| Transportation excise taxes | | | | | 288,599,800 |
| Interest on investments | | | | | 2,407,468 |
| Sale of land | | | | | 12,324,217 |
| Rental income | | | | | 375,103 |
| Total general revenues | | | | | <u>303,706,588</u> |
| Change in net assets | | | | | 229,819,464 |
| Net assets - July 1 | | | | | <406,896,174> |
| Net assets - June 30 | | | | | <u>\$ <177,076,710></u> |

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Balance Sheet
 Governmental Funds
 June 30, 2004

| | Special Revenue Fund | Debt Service Fund | Total |
|--|------------------------------|-----------------------------|------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Receivables: | | | |
| Accrued interest | \$ - | \$ 80,828 | \$ 80,828 |
| Other | 3,566,620 | - | 3,566,620 |
| Notes and loans (Note 5) | 1,791,012 | - | 1,791,012 |
| Amounts due from: | | | |
| U.S. Government | 883 | - | 883 |
| Restricted cash on deposit with the State Treasurer | <u>113,829,987</u> | <u>16,544,313</u> | <u>130,374,300</u> |
| Total assets | <u>\$ 119,188,502</u> | <u>\$ 16,625,141</u> | <u>\$ 135,813,643</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 30 | \$ - | \$ 30 |
| Accrued payroll and other accrued expenditures | 94,957 | - | 94,957 |
| Contracts and retainage payable | 21,266,909 | - | 21,266,909 |
| Deferred revenue | <u>1,791,012</u> | <u>-</u> | <u>1,791,012</u> |
| Total liabilities | <u>23,152,908</u> | <u>-</u> | <u>23,152,908</u> |
| Fund balances: | | | |
| Reserved for: | | | |
| Debt service | - | 16,625,141 | 16,625,141 |
| Capital projects | <u>96,035,594</u> | <u>-</u> | <u>96,035,594</u> |
| Total fund balances | <u>96,035,594</u> | <u>16,625,141</u> | <u>112,660,735</u> |
| Total liabilities and fund balances | <u>\$ 119,188,502</u> | <u>\$ 16,625,141</u> | <u>\$ 135,813,643</u> |

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2004

Total fund balances - governmental funds (Exhibit 3) \$ 112,660,735

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

| | |
|------------------|-----------|
| Deferred revenue | 1,791,012 |
| Accrued payroll | 914 |

Non-current liabilities are not due and payable in the current period and, therefore, are not reported in the funds

| | | |
|-----------------------------------|----------------|----------------------------|
| Bonds payable | <289,000,000> | |
| Premium on debt | <2,847,162> | |
| Deferred charges - issuance costs | <u>317,791</u> | <u><291,529,371></u> |

Net assets of governmental activities (Exhibit 1) **\$ <177,076,710>**

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the fiscal year ended June 30, 2004

| | Special Revenue Fund | Debt Service Fund | Total |
|---|----------------------------|-------------------------|-----------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Revenues: | | | |
| Transportation excise taxes | \$ 288,599,800 | \$ - | \$ 288,599,800 |
| Federal grants and reimbursements | 344,638 | - | 344,638 |
| Reimbursements from Arizona counties and cities | 12,882,046 | - | 12,882,046 |
| Interest on investments | 1,008,239 | 1,399,229 | 2,407,468 |
| Sale of land held for resale | 12,324,217 | - | 12,324,217 |
| Rental income | 375,103 | - | 375,103 |
| Other | 82,654 | - | 82,654 |
| Total revenues | <u>315,616,697</u> | <u>1,399,229</u> | <u>317,015,926</u> |
| Expenditures: | | | |
| Distributions to other state agencies | 64,198,927 | - | 64,198,927 |
| Debt Service: | | | |
| Principal | - | 199,400,000 | 199,400,000 |
| Interest | - | 23,553,235 | 23,553,235 |
| Other | 51,565 | 99,242 | 150,807 |
| Total expenditures | <u>64,250,492</u> | <u>223,052,477</u> | <u>287,302,969</u> |
| Excess <deficiency> of revenues over <under> expenditures | 251,366,205 | <221,653,248> | 29,712,957 |
| Other financing sources <uses>: | | | |
| Interfund transfers in (Note 9) | - | 222,099,630 | 222,099,630 |
| Interfund transfers out for debt service (Note 9) | <222,099,630> | - | <222,099,630> |
| Total other financing <uses> sources | <u><222,099,630></u> | <u>222,099,630</u> | <u>-</u> |
| Excess of revenues and other financing sources over expenditures and other financing uses | 29,266,575 | 446,382 | 29,712,957 |
| Fund balances, July 1 | <u>66,769,019</u> | <u>16,178,759</u> | <u>82,947,778</u> |
| Fund balances, June 30 | <u>\$ 96,035,594</u> | <u>\$ 16,625,141</u> | <u>\$ 112,660,735</u> |

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Reconciliation of the Statement of Revenues,
 Expenditures and Changes in Fund Balances of Governmental Funds
 to the Statement of Net Activities
 For the fiscal year ended June 30, 2004

Net change in fund balance - total governmental funds (Exhibit 4) **\$ 29,712,957**

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 assets. Governmental funds report the effect of issuance costs,
 premiums, discounts, and similar items when the debt is first issued,
 whereas these amounts are deferred and amortized in the statement
 of activities. <244,771>

Revenues in the statement of activities that do not provide current financial
 resources are not reported as revenues in the funds. <1,196,223>

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 assets. 201,547,501

Change in net assets of governmental activities (Exhibit 2) **\$ 229,819,464**

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements
June 30, 2004

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, which has responsibility for establishing a complete system of state highway routes and approving all highway construction contracts.

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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 Assets** presents the reporting entity's assets and liabilities, with the difference reported as net assets. Net assets are reported in two categories:

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

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

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements
June 30, 2004

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.

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.

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 judgements, are recorded only when payment is due and payable.

The Fund reports the following major governmental funds:

The Special Revenue Fund receives Maricopa County transportation excise tax monies collected by the Arizona Department of Revenue. These monies are expended for the construction of controlled-access highways which are included in the Regional Freeway System 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.

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

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

The expenditures of the Fund are not governed by appropriations of the state legislature and therefore are not subject to the limitations of a legally adopted budget.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
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June 30, 2004

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

D. Assets, Liabilities, and Net Assets

Deposits and Investments

The Fund's cash includes petty cash, 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 or obligations of the U.S. Government. All investments are carried at fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, classification because they are included 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. 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*.

Receivables and Payables

Outstanding balances between the Fund and the U.S. Government and Arizona counties, cities and other state agencies are reported as "due to/from".

Notes receivable represents real estate mortgage loans made to individuals purchasing homes previously owned by the Fund for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

Restricted Assets

Proceeds of the Fund's governmental revenue bonds are classified as restricted assets 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 and are restricted for acquisitions of right-of-way and construction of county highways.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements
June 30, 2004

Capital Assets

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

Deferred Revenues

In the government-wide statements, deferred revenues are recognized when cash, receivables, or other assets are received prior to being recognized. In the governmental funds, amounts are reported as deferred revenue until they are available to liquidate liabilities of the current period. Deferred revenues are reported in the fund statements for governmental funds. In the fund statements, the deferred revenues represent the amount for the notes receivable for real estate mortgage loans made to individuals who purchased homes previously owned by the Fund for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

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, as well as issuance costs, are deferred and amortized over the life of the bond using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

Net Assets

In the Statement of Net Assets, the net assets are negative because the Fund retains the long-term debt obligation related to the acquisition of capital assets but distributes all capital assets, when acquired, to the Department's general fund.

Reservations

In the fund financial statements, governmental funds report the reservation of fund balance for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose. The reservation includes restriction for the purchase of right-of-way or construction of controlled – access highways.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements
June 30, 2004

2. SECURITIES HELD IN LIEU OF RETENTION

In accordance with Arizona law, a contractor may assign to the Department, securities in lieu of retention and will deposit with the bank, cash, time certificates of deposit in federally insured banks licensed by the State of Arizona (Certificates of Deposit), securities of or guaranteed by the United States of America (Treasury Bills), or other eligible securities as defined in the Arizona Revised Statutes, Title 35, Chapter 2, Article 2, Section 35-313 (Eligible Investments). At June 30, 2004, the bank held assignment on securities aggregating approximately \$7 million in lieu of contractor retentions for construction. These additional securities are not reflected in the accompanying financial statements.

3. NON-CURRENT LIABILITIES

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$488,400,000.

The Bond Resolution adopted by the Transportation Board on July 25, 1986, established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988, gives the Transportation Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reflected in the accompanying financial statements. The policies (aggregating \$70,063,698 at June 30, 2004) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies were recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 2004, the carrying basis was \$7,896,568. At June 30, 2004, the outstanding balance was \$8,500,000.

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All Transportation Excise Tax Revenue Bonds mature no later than December 15, 2005. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

| Purpose | Interest Rates | Amount |
|--|----------------|-----------------------|
| Governmental activities | 3.0% - 6.5% | \$ 192,650,000 |
| Governmental activities - capital appreciation | 7.3% - 7.5% | 8,500,000 |
| Governmental activities - refunding | 4.5% - 6.5% | 87,850,000 |
| | | <u>\$ 289,000,000</u> |

The following is a summary of changes in general long-term debt for fiscal year ended June 30, 2004:

| | Balance July 1, 2003 | Retirements | Balance June 30, 2004 | Due within one year |
|--|-------------------------|---------------------------|--------------------------|------------------------|
| 1988 Series A, Capital Appreciation | \$ 30,000,000 | \$ 21,500,000 | \$ 8,500,000 | \$ 8,500,000 |
| 1992 Series A, Refunding | 63,500,000 | 24,545,000 | 38,955,000 | 38,955,000 |
| 1992 Series B | 6,040,000 | 2,935,000 | 3,105,000 | 3,105,000 |
| 1993 Series, Subordinated, Refunding | 51,160,000 | 32,335,000 | 18,825,000 | 18,825,000 |
| 1995 Series A, Subordinated | 33,605,000 | 16,275,000 | 17,330,000 | 17,330,000 |
| 1995 Series B, Subordinated, Refunding | 42,540,000 | 12,470,000 | 30,070,000 | 30,070,000 |
| 1998 Series A | 48,030,000 | 24,365,000 | 23,665,000 | 23,665,000 |
| 1999 Series, Subordinated | 39,815,000 | 19,420,000 | 20,395,000 | 20,395,000 |
| 2000 Series | 48,405,000 | 23,580,000 | 24,825,000 | 24,825,000 |
| 2001 Series | 44,830,000 | 21,975,000 | 22,855,000 | 22,855,000 |
| 2002 Series | 80,475,000 | - | 80,475,000 | 100,000 |
| | <u>\$ 488,400,000</u> | <u>\$ 199,400,000</u> | <u>\$ 289,000,000</u> | <u>\$ 208,625,000</u> |
| Unamortized Premium | <u>\$ 4,994,663</u> | <u>\$ 2,147,501</u> | <u>\$ 2,847,162</u> | <u>\$ 2,147,501</u> |
| | | Total Due within one year | | <u>\$ 210,772,501</u> |

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Bonds payable at June 30, 2004, related to the Maricopa County Regional Area Road Fund Arizona Transportation Board Transportation Excise Tax Revenue Bonds are comprised of the following individual issues:

| | |
|--|-----------------------|
| 1988 Series A, authorized by the Transportation Board on September 22, 1988, due in varying annual installments at an approximate yield of 7.5 percent, through July 1, 2005 | \$ 8,500,000 |
| 1992 Series A, refunding, authorized by the Transportation Board on October 1, 1992 due in varying annual installments plus semiannual interest at a 5.8 percentage rate, through July 1, 2005 | 38,955,000 |
| 1992 Series B, authorized by the Transportation Board on October 1, 1992, due in varying annual installments plus semiannual interest at a 5.8 percentage rate, through July 1, 2005 | 3,105,000 |
| 1993 Series, subordinated, refunding authorized by the Transportation Board on December 10, 1993, due in varying annual installments plus semiannual interest at a 4.7 percentage rate, through July 1, 2005 | 18,825,000 |
| 1995 Series A, subordinated, authorized by the Transportation Board on October 5, 1995, due in varying annual installments plus semiannual interest at a 6.0 percentage rate, through July 1, 2005 | 17,330,000 |
| 1995 Series B, subordinated, refunding, authorized by the Transportation Board on October 5, 1995, due in varying annual installments plus semiannual interest at a 6.0 percentage rate, through July 1, 2005 | 30,070,000 |
| 1998 Series A authorized by the Transportation Board on June 15, 1998, due in varying annual installments plus semiannual interest at rates ranging from 4.3 percent to 5.0 percent, through July 1, 2005 | 23,665,000 |
| 1999 Series, subordinated, authorized by the Transportation Board on June 15, 1999, due in varying annual installments plus semiannual interest at a 5.3 percentage rate, through July 1, 2005 | 20,395,000 |
| 2000 Series, authorized by the Transportation Board on September 15, 2000, due in varying annual installments plus semiannual interest at rates ranging from 4.6 percent to 5.8 percent, through July 1, 2005 | 24,825,000 |
| 2001 Series, authorized by the Transportation Board on October 15, 2001, due in varying annual installments plus semiannual interest at a 5.0 percentage rate, through July 1, 2005 | 22,855,000 |
| 2002 Series, authorized by the Transportation Board on August 1, 2002, due in varying annual installments plus semiannual interest at rates ranging from 3.0 percent to 5.0 percent, through December 15, 2005 | 80,475,000 |
| | <u>\$ 289,000,000</u> |

Refunded Bond Deposited with Escrow Agents

In prior years, the Transportation Board refinanced the 1988 Series A Bond issue through advance 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 issue 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 issue refunded. The assets, liabilities, and financial transactions of these trust

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accounts and the liability for the defeased bonds are not reflected in the financial statements of the Fund.

Refunded bonds of the Fund deposited with escrow agents at June 30, 2004, are as follows:

| Original Issue | Type | Escrow Maturity Date | Balance |
|----------------------|---|-------------------------|----------------------|
| 1998 Series A Senior | Transportation Excise Tax Revenue Bonds | July 1, 2005 | \$ 4,550,000 |
| 1988 Series A | Transportation Excise Tax Revenue Bonds Capital Appreciation Bonds | July 1, 2005 | <u>8,996,156</u> |
| | Total refunded bonds outstanding deposited with escrow agents | | <u>\$ 13,546,156</u> |

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

| Fiscal year ending June 30, | Principal | Interest | Total |
|--------------------------------|-----------------------|----------------------|-----------------------|
| 2005 | \$ 208,625,000 | \$ 14,318,152 | \$ 222,943,152 |
| 2006 | <u>80,375,000</u> | <u>1,566,542</u> | <u>81,941,542</u> |
| | <u>\$ 289,000,000</u> | <u>\$ 15,884,694</u> | <u>\$ 304,884,694</u> |

The bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The 1993 Series Bonds, the 1995 Series A and B Bonds and the 1999 Series Bonds are subordinate to the other senior Transportation Excise Tax Revenue Bonds. The Transportation Board may issue additional subordinated Transportation Excise Tax Revenue Bonds as long as the amount of transportation excise tax deposited with the Fund (plus any other monies deposited during the period) in any 12 consecutive months out of the 18 months prior to the issuance date of the proposed bonds is not less than 120 percent of the greatest combined adjusted aggregate debt service for all senior and subordinated bonds in the current or future bond years, including any proposed bonds. The Transportation Board may issue additional senior Transportation Excise Tax Revenue Bonds if the above condition is met and also if the amount of transportation excise tax deposited (plus any other monies deposited during the period) for the same period is not less than 200 percent of the greatest adjusted aggregate debt service for all senior bonds.

Bonds aggregating \$18,825,000 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, 2004. These bonds may be redeemed at par, plus accrued interest to the date fixed for redemption. Bonds aggregating \$270,175,000 are not subject to redemption.

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4. DISTRIBUTIONS

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

Distributions to other state agencies for the year ended June 30, 2004, were as follows:

| | |
|--|----------------------|
| Distribution to Arizona Department of Transportation | \$ 56,611,136 |
| Distribution to Regional Public Transit Authority | <u>7,587,791</u> |
| Total | <u>\$ 64,198,927</u> |

5. RECEIVABLES

Land, which was distributed to the Department, that is not used for highway construction is excess land. Excess land is returned to the Fund for sale.

Notes receivable activity for the fiscal year ended June 30, 2004, was as follows:

| | <u>Beginning Balance July 1, 2003</u> | <u>Decreases</u> | <u>Ending Balance June 30, 2004</u> |
|---------------------------|---|------------------|---|
| Mortgage notes receivable | \$ 2,988,149 | \$ 1,197,137 | \$ 1,791,012 |

6. TRANSPORTATION EXCISE TAX

In the 1985 regular session, the Legislature of the State of Arizona enacted transportation financing legislation. This legislation gives each county's voters the option of approving up to a 10 percent increase in existing transaction privilege taxes for highway purposes. Pursuant to this legislation, on October 8, 1985, Maricopa County (the County) voters approved a referendum providing for an increase in the transaction privilege tax (the Excise Tax) to finance the construction of certain controlled-access highways in the County. The Excise Tax is levied upon persons engaging in business activities within the County who are subject to the State of Arizona transaction privilege tax. Collection of the Excise Tax in the County commenced on January 1, 1986. The Excise Tax levy is currently scheduled to expire December 31, 2005. Revenues from the Excise Tax are collected by the Department of Revenue of the State of Arizona and are distributed to the State Treasurer for deposit into the Fund.