

*Annual Financial Report*

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

*Fiscal Year Ended June 30, 2008*

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Annual Financial Report  
Fiscal Year Ended June 30, 2008

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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 basic 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, 2008, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 1, the financial statements of the Fund of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities and each major fund 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, 2008, and the changes in its financial position, where applicable, 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 Fund as of June 30, 2008, 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's 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 supplementary information. However, we did not audit such information and we do not express an opinion on it.

*Deloitte & Touche LLP*

November 28, 2008

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund  
Management's Discussion and Analysis  
June 30, 2008

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, 2008. 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 \$535,336,581 compared to \$298,051,872 for fiscal year 2007, an increase of \$237,284,709 (or 79.6 percent). The increase in assets is due to the unspent bond proceeds from the Transportation Excise Tax Revenue Bonds issuance in November 2007 of \$370,000,000.
- For fiscal year 2008, the Fund distributed \$457,971,539 of capital assets to the Arizona Department of Transportation compared to \$264,200,772 for fiscal year 2007, an increase of \$193,770,767 (or 73.3 percent). The increase is attributable to more funds made available for construction projects as a result of new Transportation Excise Tax Revenue Bonds.
- Maricopa County Transportation Excise Tax collections totaled \$380.1 million, a decrease of 3.2 percent over fiscal year 2007 and 7.0 percent below the forecast. However, the Transportation Excise Tax distributed to the Fund was \$253,741,944 compared to \$262,263,939 for fiscal year 2007, a decrease of \$8,521,995 (or 3.2 percent). The decreases of the transportation excise tax revenues and distributions are attributable to the weak housing and credit markets, higher fuel and food prices, and slower employment and population growth.

### **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.

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June 30, 2008

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 into 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 three 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, Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds.

**Notes to Financial Statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 13 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, 2008.

Arizona Department of Transportation  
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 Management's Discussion and Analysis (continued)  
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The following table reflects the condensed Statement of Net Assets as of June 30:

	Governmental Activities	
	2008	2007
Assets:		
Receivables:		
Accrued interest	\$ 4,530,207	\$ 1,167,009
Other	4,419,728	1,244,296
Notes and loans	24,712	1,720,571
Due from US Government	5,680,352	12,005,017
Deferred charges-issuance costs	1,801,640	-
Restricted cash on deposit with the State Treasurer	518,879,942	281,914,979
Total assets	535,336,581	298,051,872
Liabilities:		
Accrued payroll and other accrued expenditures	4,837,629	55,494
Contracts and retainage payable	39,547,689	24,709,728
Non-current liabilities:		
Due within one year	15,927,138	-
Due in more than one year	365,208,020	-
Total liabilities	425,520,476	24,765,222
Net assets:		
Restricted for capital projects	109,816,105	273,286,650
Total net assets	\$ 109,816,105	\$ 273,286,650

The total assets of the Fund were \$535.3 million, while the liabilities were \$425.5 million, resulting in net assets of \$109.8 million. The increase in net assets was less than fiscal year 2007 due to the increase in liabilities from the new Transportation Excise Tax Revenue Bonds issue. The purpose of the Fund is to provide a funding source for the construction of new freeways and other routes, improvements to existing freeways and other routes, improvements to the arterial street system, regional bus service, and high capacity transit services such as light rail. To be able to construct these roads, the Fund collects excise taxes and issues bonds.

The Fund's bonded indebtedness increased due to a new Transportation Excise Tax Revenue Bonds issuance during fiscal year 2008.

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 Management's Discussion and Analysis (continued)  
 June 30, 2008

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	
	2008	2007
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 76,704,203	\$ 47,475,055
General revenues:		
Transportation excise taxes	253,741,944	262,263,939
Interest on investments	18,619,321	12,230,767
Gain on sale of capital assets	3,132,721	1,764,548
Other	716,850	520,374
Total revenues	352,915,039	324,254,683
Expenses:		
Administration	472,625	-
Highway	3,548,739	-
Highway maintenance	11,303,260	-
Distributions to other state agencies	491,619,215	278,980,083
Interest on long-term debt	9,441,745	-
Other	-	4,227
Total expenses	516,385,584	278,984,310
Changes in net assets	<163,470,545>	45,270,373
Net assets - July 1	273,286,650	228,016,277
Net assets - June 30	\$ 109,816,105	\$ 273,286,650

The total revenues of the Fund were \$352.9 million, while the expenses were \$516.4 million, resulting in the change in net assets of \$163.5 million. The increase in revenues in fiscal year 2008 were the result of using federal funding on a larger percentage of Maricopa County projects, thereby increasing the capital grants and contributions. The increase in interest on investments was from the investment of the proceeds of the Transportation Excise Tax Revenue Bonds, while the increase in gain on sale of capital assets was from sale of excess land.

The increase in expenses of \$237,401,274 (or 85.1 percent) was due to increases in construction projects, capital outlay and asset preservation. The passing of Proposition 400, Maricopa County Transportation Excise Tax, allowed expenses for Administration, Highway and Highway maintenance, which had previously been prohibited under Proposition 300. The rise in interest on long-term debt

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was due to the first new Transportation Excise Tax Revenue Bonds issuance (Maricopa County Regional Area Road Fund) since August 1, 2002.

**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. 17<sup>th</sup> Avenue, Phoenix, Arizona, 85007 or by visiting our web site at [http://www.azdot.gov/inside\\_adot/fms/PDF/rarfin08.pdf](http://www.azdot.gov/inside_adot/fms/PDF/rarfin08.pdf).



Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Statement of Net Assets  
 June 30, 2008

**ASSETS**

## Receivables:

Accrued interest	\$ 4,530,207
Other	4,419,728
Notes and loans (Note 5)	24,712
Due from U.S. Government for reimbursable construction costs	5,680,352
Deferred charges-issuance costs	1,801,640
Restricted cash on deposit with the State Treasurer	<u>518,879,942</u>
Total assets	<u>535,336,581</u>

**LIABILITIES**

Accrued payroll and other accrued expenses	4,837,629
Contracts and retainage payable	39,547,689
Non-current liabilities (Note 3):	
Due within one year	15,927,138
Due in more than one year	<u>365,208,020</u>
Total liabilities	<u>425,520,476</u>

**NET ASSETS**

Restricted for capital projects	<u>109,816,105</u>
Total Net Assets	<u>\$ 109,816,105</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, 2008

Functions/Programs	Program Revenues				Net <Expenses> Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Administration	\$ 472,625	\$ -	\$ -	\$ -	\$ <472,625>
Highway	3,548,739	-	-	76,704,203	73,155,464
Highway maintenance	11,303,260	-	-	-	<11,303,260>
Distributions to other state agencies (Note 4)	491,619,215	-	-	-	<491,619,215>
Interest on long-term debt	9,441,745	-	-	-	<9,441,745>
Total governmental activities	<u>\$ 516,385,584</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,704,203</u>	<u>&lt;439,681,381&gt;</u>
General revenues:					
Transportation excise taxes (Note 6)					253,741,944
Interest on investments					18,619,321
Gain on sale of capital assets					3,132,721
Other					716,850
Total general revenues					<u>276,210,836</u>
Change in net assets					<163,470,545>
Net assets - July 1					273,286,650
Net assets - June 30					<u>\$ 109,816,105</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, 2008

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
<b>ASSETS</b>				
Receivables:				
Accrued interest	\$ 1,830,988	\$ 154,526	\$ 2,544,693	\$ 4,530,207
Other	4,419,728	-	-	4,419,728
Notes and loans (Note 5)	24,712	-	-	24,712
Amounts due from U.S. Government	5,680,352	-	-	5,680,352
Restricted cash on deposit with the State Treasurer	232,015,767	87,444	286,776,731	518,879,942
Total assets	243,971,547	241,970	289,321,424	533,534,941
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accrued payroll and other accrued expenditures	4,837,629	-	-	4,837,629
Contracts and retainage payable	39,547,689	-	-	39,547,689
Deferred revenue	24,712	-	-	24,712
Total liabilities	44,410,030	-	-	44,410,030
Fund balances:				
Reserved for:				
Debt service	-	241,970	-	241,970
Capital projects	199,561,517	-	289,321,424	488,882,941
Total fund balances	199,561,517	241,970	289,321,424	489,124,911
Total liabilities and fund balances	\$ 243,971,547	\$ 241,970	\$ 289,321,424	\$ 533,534,941

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

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 Maricopa County Regional Area Road Fund  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Assets  
 June 30, 2008

**Total fund balances - governmental funds (Exhibit 3)** \$ 489,124,911

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

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 3).

<379,333,518>

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

Deferred revenue

24,712

**Net assets of governmental activities (Exhibit 1)**

\$ 109,816,105

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

Arizona Department of Transportation  
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 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the fiscal year ended June 30, 2008

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
<b>Revenues:</b>				
Transportation excise taxes (Note 6)	\$ 253,741,944	\$ -	\$ -	\$ 253,741,944
Federal grants and reimbursements	76,582,391	-	-	76,582,391
Reimbursements from Arizona counties and cities	121,812	-	-	121,812
Interest on loans receivable	148,002	-	-	148,002
Interest on investments	10,751,043	248,341	7,471,935	18,471,319
Rental income	276,832	-	-	276,832
Other	440,018	-	-	440,018
Total revenues	<u>342,062,042</u>	<u>248,341</u>	<u>7,471,935</u>	<u>349,782,318</u>
<b>Expenditures:</b>				
Current:				
Administration	303,054	6,371	163,200	472,625
Highway	3,548,739	-	-	3,548,739
Highway maintenance	5,108,014	-	6,195,246	11,303,260
Distributions to other state agencies	388,735,970	-	100,357,397	489,093,367
Debt Service:				
Principal	-	19,045,000	-	19,045,000
Interest	-	10,673,101	-	10,673,101
Bond issuance costs	-	-	1,863,460	1,863,460
Total expenditures	<u>397,695,777</u>	<u>29,724,472</u>	<u>108,579,303</u>	<u>535,999,552</u>
Excess <deficiency> of revenues over <under> expenditures	<55,633,735>	<29,476,131>	<101,107,368>	<186,217,234>
<b>Other financing sources &lt;uses&gt;:</b>				
Transfers in	-	29,718,101	-	29,718,101
Transfers out for debt service	<29,718,101>	-	-	<29,718,101>
Debt issuance	11,044,542	-	370,000,000	381,044,542
Premium from debt issuance	-	-	20,428,792	20,428,792
Sale of capital assets	2,302,732	-	-	2,302,732
Total other financing <uses> sources	<u>&lt;16,370,827&gt;</u>	<u>29,718,101</u>	<u>390,428,792</u>	<u>403,776,066</u>
Net change in fund balances	<72,004,562>	241,970	289,321,424	217,558,832
Fund balances - July 1	271,566,079	-	-	271,566,079
<b>Fund balances - June 30</b>	<u>\$ 199,561,517</u>	<u>\$ 241,970</u>	<u>\$ 289,321,424</u>	<u>\$ 489,124,911</u>

*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, 2008

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Maricopa County Regional Area Road Fund (Fund) is a part of the Arizona Department of Transportation (Department) and is not a legally separate entity. The Fund was established under Title 28, Chapter 17, Article 1 of the Arizona Revised Statutes. The Fund has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of state highway routes and approving all highway construction contracts.

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

*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*.

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Notes to Financial Statements (continued)  
June 30, 2008

**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, e.g. federal revenue reimbursements and transportation excise taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable.

**Financial Statement Presentation**

The Fund reports the following major governmental funds:

*The Special Revenue Fund* receives Maricopa County transportation excise tax monies collected by the Arizona Department of Revenue. These monies are expended for the construction of new freeways and other routes, improvements to existing freeways and other routes, improvements to the arterial street system, regional bus service, and high capacity transit services such as light rail, which are included in the Maricopa County Regional Transportation Plan, after the monthly debt service requirements are fully satisfied.

*The Debt Service Fund* administers the payment of principal and interest on all bonds outstanding under the bond resolutions.

*The Capital Projects Fund* administers the use of the net proceeds of any bonds issued pursuant to the bond resolutions. The bond proceeds are applied to the payment of certain bond related expenditures and construction expenditures and the funding of certain debt service reserve requirements.



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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, and then unrestricted resources, as they are needed to maintain appropriate cash balances and finance the construction program.

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

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

#### **D. Assets, Liabilities, and Net Assets**

##### ***Deposits and Investments***

The Fund's cash includes bank accounts and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements, obligations of the U.S. Government, and other permitted investments. All investments are carried at fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, classification because they are included in the state's investment pool.

The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with ARS §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2008, the state's investment pools were not rated.

State statutes require the State Treasurer to maintain separate investment accounts for the portion of the Maricopa Regional Area Road Fund Bond Proceeds relating to the Transportation Excise Tax Revenue Bond issues. These funds may be invested by the Treasurer in the state's investment pool.

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The Fund's investments are included in the state's 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*.

The Fund has restricted cash for payment of capital projects and for future debt service payments.

***Receivables and Payables***

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

Notes receivable represents loans made to parties who purchased assets previously owned by the Fund for highway construction purposes.

***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.

***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 revenues 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 loans made to parties who purchased assets previously owned by the Fund for highway construction purposes.

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Notes to Financial Statements (continued)  
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***Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized using the effective interest 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. Other long-term obligations also include amounts that other governmental entities advance the Department for highway road construction projects.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Advances from other governmental entities are recorded as debt issuance in other financing sources.

***Net Assets/Fund Balance***

The difference between assets and liabilities is "Net Assets" on the government-wide statements and "Fund Balance" on the governmental fund statements.

***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.

**E. Revenues and Expenditures/Expenses**

***Other Financing Sources <Uses>***

Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond issuance, sale of capital assets, and transfers from other funds. Other financing uses are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds.

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**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. At June 30, 2008, the bank held assignment on securities aggregating approximately \$20,000 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 (Maricopa County Regional Area Road Fund) issued by the Transportation Board. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. There were no outstanding amounts of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year. During the year, Transportation Excise Tax Revenue Bonds totaling \$370,000,000 were issued to pay (i) the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona and (ii) the costs of issuing the 2007 Series Bonds.

On September 21, 2007, the Transportation Board adopted a Master Resolution relating to Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund). Also on September 21, 2007, the Transportation Board adopted the First Supplemental Resolution authorizing the issuance of the first series of bonds under the Master Resolution in an amount not to exceed \$370,000,000. No debt service reserve is required for the outstanding bonds.

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.0% - 5.0%	\$ 350,955,000

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

Fiscal year ending <u>June 30</u>	Transportation Excise Tax Revenue Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 13,825,000	\$ 17,192,950	\$ 31,017,950
2010	14,445,000	16,570,825	31,015,825
2011	15,095,000	15,920,800	31,015,800
2012	15,820,000	15,195,850	31,015,850
2013	16,585,000	14,433,700	31,018,700
2014-2018	95,710,000	59,373,650	155,083,650
2019-2023	121,800,000	33,282,250	155,082,250
2024-2025	57,675,000	4,360,750	62,035,750
	<b><u>\$ 350,955,000</u></b>	<b><u>\$ 176,330,775</u></b>	<b><u>\$ 527,285,775</u></b>

Bonds aggregating \$200,475,000 are subject to redemption prior to their maturity dates at the option of the Transportation Board in whole or in part, at any time, on or after July 1, 2017. These bonds may be redeemed at par, plus accrued interest to the date fixed for redemption. Bonds aggregating \$150,480,000 are not subject to redemption.

The Department has pledged future transportation excise taxes to repay \$350,955,000 in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$527.3 million. Principal and interest paid for the current year and total pledged revenues were \$29.7 million and \$253.7 million, respectively. The annual principal and interest payments on the bonds required 11.7 percent of the pledged revenues.

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Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Retirements /Refundings	Balance June 30, 2008	Due Within One Year
Transportation Excise Tax Revenue Bonds:					
2007 Series	\$ -	\$ 370,000,000	\$ 19,045,000	\$ 350,955,000	\$ 13,825,000
Premium on Bonds	-	20,428,792	1,293,176	19,135,616	2,102,138
Intergovernmental Advances	-	11,044,542	-	11,044,542	-
	<u>\$ -</u>	<u>\$ 401,473,334</u>	<u>\$ 20,338,176</u>	<u>\$ 381,135,158</u>	<u>\$ 15,927,138</u>

Bonds issued by the Fund require compliance with a number of covenants. The Fund believes that it is in compliance with all such covenants. In addition, certain of the Fund's obligations are subject to Internal Revenue Service regulations pertaining to issuance of tax-exempt debt by governmental entities. The Fund does not have and has not accrued a liability under these regulations.

**4. DISTRIBUTIONS**

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

Distributions to the Department and other state agencies for the year ended June 30, 2008, were as follows:

	<u>2008</u>
Distribution to Arizona Department of Transportation	\$ 457,971,539
Distributions to Arizona counties and cities	22,787,492
Distribution to Regional Public Transit Authority	<u>8,334,336</u>
Total	<u>\$ 489,093,367</u>