

Annual Financial Report

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

Fiscal Year Ended June 30, 2009

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Annual Financial Report
Fiscal Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets (Exhibit 1)	8
Statement of Activities (Exhibit 2)	9
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds (Exhibit 3)	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Exhibit 3.1)	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (Exhibit 4)	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Exhibit 4.1)	13
Notes to Financial Statements	14

INDEPENDENT AUDITORS' REPORT

The Honorable Jan Brewer
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, 2009, 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, 2009, 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, 2009, 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

December 7, 2009

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis
June 30, 2009

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, 2009. 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 \$819,365,303 compared to \$535,336,581 for fiscal year 2008, an increase of \$284,028,722 (or 53.1 percent). The increase in assets is due to the unspent bond proceeds from the Transportation Excise Tax Revenue Bonds, 2009 series issuance in June 2009 of \$440,000,000.
- For fiscal year 2009, the Fund distributed \$425,840,127 of capital assets to the Arizona Department of Transportation compared to \$457,971,539 for fiscal year 2008, a decrease of \$32,131,412 (or 7.0 percent). The decrease is attributable to the timing of payments and other costs related to construction projects currently underway.
- Maricopa County Transportation Excise Tax collections totaled \$328.2 million, a decrease of 13.7 percent compared to fiscal year 2008 and 13.7 percent below the forecast. However, the Transportation Excise Tax distributed to the Fund was \$219,165,314 compared to \$253,741,944 for fiscal year 2008, a decrease of \$34,576,630 (or 13.6 percent). The decreases of the transportation excise tax revenues and distributions are attributable to the continued 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.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2009

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 the amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Fund's general governmental operations and the basic services it provides. This information should help determine whether there are more or less current financial resources available for the Fund's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The Fund maintains three individual governmental sub-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, 2009.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Management's Discussion and Analysis (continued)
 June 30, 2009

The following table reflects the net assets as of June 30:

	Governmental Activities	
	2009	2008
Assets:		
Receivables:		
Accrued interest	\$ 1,451,457	\$ 4,530,207
Other	4,045,007	4,419,728
Notes and loans	-	24,712
Due from US Government	6,052,219	5,680,352
Deferred charges-issuance costs	4,085,383	1,801,640
Restricted cash on deposit with the State Treasurer	<u>803,731,237</u>	<u>518,879,942</u>
Total assets	<u>819,365,303</u>	<u>535,336,581</u>
Liabilities:		
Accrued payroll and other accrued expenditures	598,120	4,837,629
Contracts and retainage payable	37,445,258	39,547,689
Non-current liabilities:		
Due within one year	38,057,474	15,927,138
Due in more than one year	<u>821,407,303</u>	<u>365,208,020</u>
Total liabilities	<u>897,508,155</u>	<u>425,520,476</u>
Net assets:		
Restricted for capital projects	<u><78,142,852></u>	<u>109,816,105</u>
Total net assets	<u>\$ <78,142,852></u>	<u>\$ 109,816,105</u>

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, and improvements to the arterial street system in Maricopa county. To be able to construct these roads, the Fund collects excise taxes and issues bonds. The total assets of the Fund were \$819.4 million, while the liabilities were \$897.5 million, resulting in net assets of <\$78.1> million. The decrease in net assets from fiscal year 2008 was due to the increase in liabilities from the Transportation Excise Tax Revenue Bond, 2009 series issued in fiscal year 2009.

The Fund's bonded indebtedness increased due to the Transportation Excise Tax Revenue Bonds, 2009 series issuance during fiscal year 2009.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Management's Discussion and Analysis (continued)
 June 30, 2009

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	
	2009	2008
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 62,858,626	\$ 76,704,203
General revenues:		
Transportation excise taxes	219,165,314	253,741,944
Interest on investments	8,949,157	18,619,321
Gain <loss> on sale of capital assets	<211,605>	3,132,721
Other	15,926,922	716,850
Total revenues	306,688,414	352,915,039
Expenses:		
Administration	341,062	472,625
Highway	2,281,629	3,548,739
Highway maintenance	-	11,303,260
Distributions to other state agencies	476,827,882	491,619,215
Interest on long-term debt	15,196,798	9,441,745
Total expenses	494,647,371	516,385,584
Changes in net assets	<187,958,957>	<163,470,545>
Net assets - July 1	109,816,105	273,286,650
Net assets - June 30	\$ <78,142,852>	\$ 109,816,105

The total revenues of the Fund were \$306.7 million, while the expenses were \$494.6 million, resulting in the change in net assets of <\$188.0> million. The decrease in revenues was the result of a reduction in available grants and contributions, and the resulting reduction in tax collections at the local level due to the protracted economic recession. The decrease in interest earned on investments and the loss on the sale of capital assets was the result of the general decline in property values and the overall reduction in return on investments. The decrease in net assets was notwithstanding an overall reduction of expenses.

The decrease in expenses of \$37.0 million (or 7.2 percent) was due directly to the timing of payments on construction projects.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2009

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007, or by visiting our web site at http://www.azdot.gov/inside_adot/fms/misc_reports.asp.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Statement of Net Assets
 June 30, 2009

ASSETS

Receivables:

Accrued interest	\$ 1,451,457
Other	4,045,007
Due from U.S. Government for reimbursable construction costs	6,052,219
Deferred charges-issuance costs	4,085,383
Restricted cash on deposit with the State Treasurer	<u>803,731,237</u>
Total assets	<u>819,365,303</u>

LIABILITIES

Accrued payroll and other accrued expenses	598,120
Contracts and retainage payable	37,445,258
Non-current liabilities (Note 3):	
Due within one year	38,057,474
Due in more than one year	<u>821,407,303</u>
Total liabilities	<u>897,508,155</u>

NET ASSETS

Restricted for capital projects	<u><78,142,852></u>
Total Net Assets	<u>\$ <78,142,852></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, 2009

Functions/Programs	Program Revenues				Net <Expenses> Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 341,062	\$ -	\$ -	\$ -	\$ <341,062>
Highway	2,281,629	-	-	62,858,626	60,576,997
Distributions to other state agencies	476,827,882	-	-	-	<476,827,882>
Interest on long-term debt	15,196,798	-	-	-	<15,196,798>
Total governmental activities	\$ 494,647,371	\$ -	\$ -	\$ 62,858,626	<431,788,745>
General revenues:					
Transportation excise taxes					219,165,314
Interest on investments					8,949,157
Gain <loss> on sale of capital assets					<211,605>
Other					15,926,922
Total general revenues					243,829,788
Change in net assets					<187,958,957>
Net assets - July 1					109,816,105
Net assets - June 30					\$ <78,142,852>

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, 2009

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS				
Receivables:				
Accrued interest	\$ 843,655	\$ 49,203	\$ 558,599	\$ 1,451,457
Other	4,031,937	-	13,070	4,045,007
Amounts due from U.S. Government	6,052,219	-	-	6,052,219
Restricted cash on deposit with the State Treasurer	<u>314,724,314</u>	<u>330,368</u>	<u>488,676,555</u>	<u>803,731,237</u>
Total assets	<u>325,652,125</u>	<u>379,571</u>	<u>489,248,224</u>	<u>815,279,920</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accrued payroll and other accrued expenditures	104,604	-	493,516	598,120
Contracts and retainage payable	<u>37,445,258</u>	<u>-</u>	<u>-</u>	<u>37,445,258</u>
Total liabilities	<u>37,549,862</u>	<u>-</u>	<u>493,516</u>	<u>38,043,378</u>
Fund balances:				
Reserved for:				
Debt service	-	379,571	-	379,571
Capital projects	<u>288,102,263</u>	<u>-</u>	<u>488,754,708</u>	<u>776,856,971</u>
Total fund balances	<u>288,102,263</u>	<u>379,571</u>	<u>488,754,708</u>	<u>777,236,542</u>
Total liabilities and fund balances	<u>\$ 325,652,125</u>	<u>\$ 379,571</u>	<u>\$ 489,248,224</u>	<u>\$ 815,279,920</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, 2009

Total fund balances - governmental funds (Exhibit 3) \$ 777,236,542

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). <855,379,394>

Net assets of governmental activities (Exhibit 1) \$ <78,142,852>

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, 2009

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Transportation excise taxes (Note 6)	\$ 219,165,314	\$ -	\$ -	\$ 219,165,314
Federal grants and reimbursements	56,496,270	-	-	56,496,270
Reimbursements from Arizona counties and cities	6,362,356	-	-	6,362,356
Interest on loans receivable	3,697	-	-	3,697
Interest on investments	4,567,624	190,448	4,187,388	8,945,460
Rental income	584,138	-	-	584,138
Other	15,342,784	-	-	15,342,784
Total revenues	<u>302,522,183</u>	<u>190,448</u>	<u>4,187,388</u>	<u>306,900,019</u>
Expenditures:				
Current:				
Administration	185,466	9,279	146,317	341,062
Highway	2,281,629	-	-	2,281,629
Distributions to other state agencies	191,744,976	-	285,703,583	477,448,559
Debt Service:				
Principal	-	13,825,000	-	13,825,000
Interest	-	17,192,950	-	17,192,950
Bond issuance costs	-	-	2,389,729	2,389,729
Total expenditures	<u>194,212,071</u>	<u>31,027,229</u>	<u>288,239,629</u>	<u>513,478,929</u>
Excess <deficiency> of revenues over <under> expenditures	108,310,112	<30,836,781>	<284,052,241>	<206,578,910>
Other financing sources <uses>:				
Transfers in	-	30,974,382	-	30,974,382
Transfers out for debt service	<30,974,382>	-	-	<30,974,382>
Debt issuance	10,771,232	-	440,000,000	450,771,232
Premium from debt issuance	-	-	43,485,525	43,485,525
Sale of capital assets	433,784	-	-	433,784
Total other financing <uses> sources	<u><19,769,366></u>	<u>30,974,382</u>	<u>483,485,525</u>	<u>494,690,541</u>
Net change in fund balances	88,540,746	137,601	199,433,284	288,111,631
Fund balances - July 1	199,561,517	241,970	289,321,424	489,124,911
Fund balances - June 30	<u>\$ 288,102,263</u>	<u>\$ 379,571</u>	<u>\$ 488,754,708</u>	<u>\$ 777,236,542</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 Activities
 For the fiscal year ended June 30, 2009

Net change in fund balances - total governmental funds (Exhibit 4) \$ 288,111,631

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 (Note 3).

<494,256,757>

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 (Note 3).

18,210,881

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

<24,712>

Change in net assets of governmental activities (Exhibit 2) \$ <187,958,957>

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, 2009

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*.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2009

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 a portion of the Maricopa County transportation excise tax monies collected by the Arizona Department of Revenue. These monies are expended for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system, which are included in the Maricopa County Regional Transportation Plan, after the monthly debt service requirements are fully satisfied.

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

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2009

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, 2009, 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.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2009

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

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.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2009

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.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Notes to Financial Statements (continued)
 June 30, 2009

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, §35-313. At June 30, 2009, the bank held no assignment on securities in lieu of contractor retentions for construction. These additional securities, should there be any, would not be 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. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$350,955,000. During the year, Transportation Excise Tax Revenue Bonds totaling \$440,000,000 were issued to pay (1) the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona, and (2) the costs of issuing the 2009 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). On April 17, 2009, the Transportation Board adopted the Second Supplemental Resolution authorizing the issuance of the second series of bonds under the Master Resolution in an amount not to exceed \$440,000,000.

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

Purpose	Interest Rates	Amount
Governmental activities	2.0% - 5.25%	\$ 777,130,000

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Notes to Financial Statements (continued)
 June 30, 2009

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

Fiscal year ending June 30	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2010	\$ 33,315,000	\$ 38,224,801	\$ 71,539,801
2011	35,000,000	36,537,938	71,537,938
2012	36,485,000	35,050,988	71,535,988
2013	38,210,000	33,330,938	71,540,938
2014	40,080,000	31,457,238	71,537,238
2015-2019	231,110,000	126,583,636	357,693,636
2020-2024	294,790,000	62,895,462	357,685,462
2025	68,140,000	3,398,700	71,538,700
	<u>\$ 777,130,000</u>	<u>\$ 367,479,701</u>	<u>\$ 1,144,609,701</u>

Bonds aggregating \$404,805,000 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 \$372,325,000 are not subject to redemption.

The Department has pledged future transportation excise taxes to repay \$777,130,000 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 \$1,144.6 million. Principal and interest paid for the current year and total pledged revenues were \$31.0 million and \$219.2 million, respectively. The annual principal and interest payments on the bonds required 14.1 percent of the pledged revenues.

Intergovernmental advances

Intergovernmental advances represent construction loans (advances) from Arizona cities to advance the construction of certain projects. These advances are recorded as the Fund draws monies from an escrow account, usually held by the State Treasurer, and are evidenced by a Joint Project Agreement (JPA). The advances are payable according to the terms of the JPA and occur as funds become available in the Five-Year Transportation Facilities Construction Program.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Notes to Financial Statements (continued)
 June 30, 2009

Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Retirements /Refundings	Balance June 30, 2009	Due Within One Year
Transportation Excise Tax					
Revenue Bonds:					
2007 Series	\$ 350,955,000	\$ -	\$ 13,825,000	\$ 337,130,000	\$ 14,445,000
2009 Series	-	440,000,000	-	440,000,000	18,870,000
Premium on bonds	19,135,616	43,485,525	2,102,138	60,519,003	4,742,474
Intergovernmental advances	11,044,542	10,771,232	-	21,815,774	-
	<u>\$ 381,135,158</u>	<u>\$ 494,256,757</u>	<u>\$ 15,927,138</u>	<u>\$ 859,464,777</u>	<u>\$ 38,057,474</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.

Bonds payable at June 30, 2009, related to the Maricopa County Regional Area Road Fund Arizona Transportation Board Transportation Excise Tax Revenue Bonds are comprised of the following individual issues:

2007 Series, issued by the Transportation Board on November 1, 2007, due in varying annual installments plus semiannual interest at rates ranging from 4.0 percent to 5.0 percent, through July 1, 2025.	\$ 337,130,000
2009 Series, issued by the Transportation Board on June 23, 2009, due in varying annual installments plus semiannual interest at rates ranging from 2.0 percent to 5.25 percent, through July 1, 2025.	<u>440,000,000</u>
	<u>\$ 777,130,000</u>

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Notes to Financial Statements (continued)
 June 30, 2009

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, 2009, were as follows:

	<u>2009</u>
Distribution to Arizona Department of Transportation	\$ 426,460,804
Distributions to Arizona counties and cities	42,433,172
Distribution to Regional Public Transit Authority	8,554,583
Total	\$ 477,448,559

5. RECEIVABLES

Land which is 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, 2009, was as follows:

	<u>Balance</u>		<u>Increases</u>		<u>Decreases</u>		<u>Balance</u>
	<u>July 1, 2008</u>						<u>June 30, 2009</u>
Mortgage notes receivable	\$ 24,712	\$	-	\$	<24,712>	\$	-

6. TRANSPORTATION EXCISE TAX

The Maricopa County Transportation Excise Tax, often referred to as the “1/2 cent sales tax,” is a tax which may equal up to ten percent of the State transaction privilege tax rates. This transportation excise tax is levied upon business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. Under Proposition 300 (passed by the voters in 1985 becoming effective on January 1, 1986), the transportation excise tax revenues are deposited in the Maricopa County Regional Area Road Fund (RARF) which is administered by the Arizona Department of Transportation. The revenues deposited into the RARF account are the principal sources of funding for the Regional Freeway System in Maricopa County and are dedicated by statute to the purchase of right-of-way, design, and construction of controlled access highways. In addition, these revenues were an important source of funding for the Regional Public Transportation Authority and were dedicated through December 31, 2005.

In November 2004, Maricopa County’s voters approved Proposition 400, Maricopa County Transportation Excise Tax, which became effective January 1, 2006, and extends the “1/2 cent sales tax” for another 20 years through December 31, 2025. The sales tax extension will be used for

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Notes to Financial Statements (continued)
 June 30, 2009

construction of new freeways and other routes, improvements to existing freeways and other routes, improvements to the arterial street system, regional bus service, and high capacity transit services such as light rail. The collections of the Maricopa County Transportation Excise Tax will be distributed as follows: freeways and other routes 56.2%, public transportation 33.3%, and arterial streets 10.5%. Only the portion of the tax revenues that relate to freeways and other routes, and arterial streets is deposited into the Fund.

7. COMMITMENTS

The Fund had outstanding commitments under construction contracts of \$405,609,889 at June 30, 2009.

	Expenditures To Date	Remaining Commitment
Construction Contracts:		
Rural Roadways	\$ 89,551,805	\$ 29,519,082
Small Urban Roadways	1,851	1,115
Urban Roadways	73,313	60,125
Large Urban Roadways	450,004,827	216,704,071
Sub-total	539,631,796	246,284,393
Design Contracts	92,912,077	6,426,951
Other Commitments	51,487,494	152,898,545
Total	\$ 684,031,367	\$ 405,609,889

No construction in progress is recorded in the Fund. All capital assets are transferred to the Arizona Department of Transportation's General Fund (State Highway Fund).

8. CONTINGENT LIABILITIES

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

9. INTERFUND TRANSFERS

The Special Revenue Fund made transfers \$30,974,382 to the Debt Service Fund to pay bond debt service.