

Annual Financial Report

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

Fiscal Year Ended June 30, 2010

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Annual Financial Report
Fiscal Year Ended June 30, 2010

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

Director
Arizona Department of Transportation

We have audited the financial statements of the governmental activities and each major fund of the Maricopa County Regional Area Road Fund (Fund), a major special revenue fund of the Arizona Department of Transportation (Department), as of and for the year ended June 30, 2010, which collectively comprise the Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Arizona Department of Transportation. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Maricopa County Regional Area Road Fund are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities and the major fund of the Arizona Department of Transportation that is attributable to the Maricopa County Regional Area Road Fund. They do not purport to, and do not, present fairly the financial position of the Arizona Department of Transportation, as of June 30, 2010, and the changes in its financial position 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 financial position of the Maricopa County Regional Area Road Fund, a major special revenue fund of the Arizona Department of Transportation, as of June 30, 2010, and the respective changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010 on our consideration of the Maricopa County Regional Area Road Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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

October 28, 2010

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis
June 30, 2010

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, 2010. 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 \$455,351,598, compared to \$819,365,303 for fiscal year 2009, a decrease of \$364,013,705 (or 44.4 percent). The decrease in assets is due to the spending down of the bond proceeds from the prior issues of Transportation Excise Tax Revenue Bonds, and no new bonds being issued during the year.
- For fiscal year 2010, the Fund distributed \$551,390,690 of capital assets to the Arizona Department of Transportation, compared to \$425,840,127 for fiscal year 2009, an increase of \$125,550,563 (or 29.5 percent). The increase is attributable to the American Recovery and Reinvestment Act (ARRA) and other construction projects currently underway.
- Maricopa County Transportation Excise Tax collections totaled \$299.0 million, a decrease of 8.9 percent compared to fiscal year 2009 and 5.2 percent below the forecast. However, the Transportation Excise Tax distributed to the Fund was \$199,672,233 compared to \$219,165,314 for fiscal year 2009, a decrease of \$19,493,081 (or 8.9 percent). The decreases of the transportation excise tax revenues and distributions are attributable to the continued weak housing and credit markets, 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, 2010

The statement of activities focuses on both the gross and net cost of various activities; the Fund's general tax and other revenues pay these costs. 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 14 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, 2010.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis (continued)
June 30, 2010

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

	Governmental Activities	
	2010	2009
Assets:		
Receivables:		
Accrued interest	\$ -	\$ 1,451,457
Other	2,365,747	4,045,007
Due from US Government	12,623,485	6,052,219
Deferred charges-issuance costs	3,943,715	4,085,383
Restricted cash on deposit with the State Treasurer	436,418,651	803,731,237
Total assets	455,351,598	819,365,303
Liabilities:		
Accrued payroll and other accrued expenditures	116,870	598,120
Contracts and retainage payable	34,072,334	37,445,258
Non-current liabilities:		
Due within one year	38,787,070	38,057,474
Due in more than one year	808,695,268	821,407,303
Total liabilities	881,671,542	897,508,155
Net assets:		
Unrestricted	<426,319,944>	<78,142,852>
Total net assets	\$ <426,319,944>	\$ <78,142,852>

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 \$455.4 million, while the liabilities were \$881.7 million, resulting in net assets of <\$426.3> million. The decrease in assets from fiscal year 2009 was due to the payment of the liabilities on the Transportation Excise Tax Revenue Bonds and the payment for construction projects. The Fund distributes all capital assets to the Department of Transportation when the Fund comes into possession of capital assets. As a result, the net assets of the Fund will typically be a deficit whenever there are bonds outstanding.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Management's Discussion and Analysis (continued)
 June 30, 2010

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	
	2010	2009
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 78,444,263	\$ 62,858,626
General revenues:		
Transportation excise taxes	199,672,233	219,165,314
Income from investments	4,731,367	8,949,157
Other	599,845	15,715,317
Total revenues	283,447,708	306,688,414
Expenses:		
Administration	625,976	341,062
Highway	185,018	2,281,629
Distributions to other state agencies	595,549,451	476,827,882
Interest on long-term debt	35,264,355	15,196,798
Total expenses	631,624,800	494,647,371
Changes in net assets	<348,177,092>	<187,958,957>
Net assets - July 1	<78,142,852>	109,816,105
Net assets - June 30	\$ <426,319,944>	\$ <78,142,852>

The total revenues of the Fund were \$283.4 million, while the expenses were \$631.6 million, resulting in the change in net assets of <\$348.2> million. The decrease in revenues was the result of the decline in the sales tax at the local level due to the protracted economic recession and the overall reduction in return on investments.

The increase in expenses of \$137.0 million (or 27.7 percent) was due directly to the increase in payments for construction projects and interest on long-term debt.

Non-Current Liabilities (See Note 4 to the financial statements for additional information):

The Fund's non-current liabilities as of June 30, 2010, amount to \$847.5 million, a decrease of \$12.0 million from the previous fiscal year. Compensated absences resulted from the assignment of the liability to the Fund. Previously, no employees were specifically assigned to the Fund. The increase in advances and notes payable in governmental activities was due to an increase in

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Management's Discussion and Analysis (continued)
 June 30, 2010

advances from several cities within the State to accelerate projects in the Five-Year Transportation Facilities Construction Program.

	2010	2009
Governmental Activities:		
Bonds:		
Transportation Excise Tax		
Revenue Bonds	\$ 743,815,000	\$ 777,130,000
Premium on bonds	56,736,565	60,519,003
Total bonds	800,551,565	837,649,003
Compensated absences	202,634	-
Advances and notes payable	46,728,139	21,815,774
Total	\$ 847,482,338	\$ 859,464,777

All bonds outstanding as of June 30, 2010, are scheduled to mature on various dates, but not later than July 1, 2025. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and are not obligations of the State of Arizona.

The Department's Transportation Excise Tax Revenue Bonds are rated AA+/Aa2 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively.

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 www.azdot.gov/Inside_ADOT/FMS/PDF/rarfin10.pdf.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Statement of Net Assets
 June 30, 2010

Assets

Receivables:

Other	\$ 2,365,747
Due from U.S. Government for reimbursable construction costs	12,623,485
Deferred charges - issuance costs	3,943,715
Restricted cash on deposit with the State Treasurer	<u>436,418,651</u>
Total assets	<u>455,351,598</u>

Liabilities

Accrued payroll and other accrued expenses	116,870
Contracts and retainage payable	34,072,334
Non-current liabilities (Note 4):	
Due within one year	38,787,070
Due in more than one year	<u>808,695,268</u>
Total liabilities	<u>881,671,542</u>

Net assets

Unrestricted	<u><426,319,944></u>
Total Net Assets	<u><u>\$ <426,319,944></u></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, 2010

Functions/Programs	Program Revenues				Net <Expenses> Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 625,976	\$ -	\$ -	\$ -	\$ <625,976>
Highway	185,018	-	-	78,444,263	78,259,245
Distributions to other state agencies	595,549,451	-	-	-	<595,549,451>
Interest on long-term debt	35,264,355	-	-	-	<35,264,355>
Total governmental activities	\$ 631,624,800	\$ -	\$ -	\$ 78,444,263	<553,180,537>
General revenues:					
Transportation excise taxes (Note 6)					199,672,233
Income from investments					4,731,367
Other					599,845
Total general revenues					205,003,445
Change in net assets					<348,177,092>
Net assets - July 1					<78,142,852>
Net assets - June 30					\$ <426,319,944>

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, 2010

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Assets				
Receivables:				
Other	\$ 2,365,747	\$ -	\$ -	\$ 2,365,747
Amounts due from U.S. Government	12,623,485	-	-	12,623,485
Restricted cash on deposit with the State Treasurer	<u>332,858,823</u>	<u>232,633</u>	<u>103,327,195</u>	<u>436,418,651</u>
Total assets	<u><u>347,848,055</u></u>	<u><u>232,633</u></u>	<u><u>103,327,195</u></u>	<u><u>451,407,883</u></u>
Liabilities and fund balances				
Liabilities:				
Accrued payroll and other accrued expenditures	116,870	-	-	116,870
Contracts and retainage payable	<u>34,072,334</u>	-	-	<u>34,072,334</u>
Total liabilities	<u>34,189,204</u>	-	-	<u>34,189,204</u>
Fund balances:				
Reserved for:				
Debt service	-	232,633	-	232,633
Capital projects	<u>313,658,851</u>	-	<u>103,327,195</u>	<u>416,986,046</u>
Total fund balances	<u>313,658,851</u>	<u>232,633</u>	<u>103,327,195</u>	<u>417,218,679</u>
Total liabilities and fund balances	<u><u>\$ 347,848,055</u></u>	<u><u>\$ 232,633</u></u>	<u><u>\$ 103,327,195</u></u>	<u><u>\$ 451,407,883</u></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, 2010

Total fund balances - governmental funds (Exhibit 3) \$ 417,218,679

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 A1).

<843,538,623>

Net assets of governmental activities (Exhibit 1)

\$ <426,319,944>

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, 2010

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Transportation excise taxes (Note 6)	\$ 199,672,233	\$ -	\$ -	\$ 199,672,233
Federal grants and reimbursements (Note 8)	71,664,278	-	-	71,664,278
Reimbursements from Arizona counties and cities	6,779,985	-	-	6,779,985
Income from investments	2,328,315	198,798	2,204,254	4,731,367
Rental income	542,852	-	-	542,852
Total revenues	<u>280,987,663</u>	<u>198,798</u>	<u>2,204,254</u>	<u>283,390,715</u>
Expenditures:				
Current:				
Administration	184,560	16,169	222,613	423,342
Highway	185,018	-	-	185,018
Distributions to other state agencies (Note 5)	208,649,097	-	387,287,900	595,936,997
Debt Service:				
Principal	-	33,315,000	-	33,315,000
Interest	559,070	38,224,801	-	38,783,871
Bond issuance costs	-	-	121,254	121,254
Total expenditures	<u>209,577,745</u>	<u>71,555,970</u>	<u>387,631,767</u>	<u>668,765,482</u>
Excess <deficiency> of revenue: over <under> expenditures	71,409,918	<71,357,172>	<385,427,513>	<385,374,767>
Other financing sources <uses>:				
Transfers in	-	71,210,234	-	71,210,234
Transfers out for debt service	<71,210,234>	-	-	<71,210,234>
Debt issuance	24,912,365	-	-	24,912,365
Sale of capital assets	444,539	-	-	444,539
Total other financing <uses> sources:	<u><45,853,330></u>	<u>71,210,234</u>	<u>-</u>	<u>25,356,904</u>
Net change in fund balances	25,556,588	<146,938>	<385,427,513>	<360,017,863>
Fund balances - July 1	<u>288,102,263</u>	<u>379,571</u>	<u>488,754,708</u>	<u>777,236,542</u>
Fund balances - June 30	<u>\$ 313,658,851</u>	<u>\$ 232,633</u>	<u>\$ 103,327,195</u>	<u>\$ 417,218,679</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, 2010

Net change in fund balances - total governmental funds (Exhibit 4) \$ <360,017,863>

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 B1).	<24,912,365>
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 B1).	36,955,770
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (Note 3 B2).	<u><202,634></u>

Change in net assets of governmental activities (Exhibit 2) \$ <348,177,092>

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, 2010

NOTE 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.

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

B. 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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2010

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2010

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2010

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2010, 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.

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

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 US Government are reported as due to/from due.

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 for the cost of design, right-of-way purchase, or construction of certain freeways and routes within Maricopa County.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2010

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

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

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 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. Other long-term obligations also include amounts that other governmental entities advance the Fund 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.

Compensated Absences

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits. There is no liability for unpaid accumulated sick leave. All vacation pay is accrued when incurred in the proprietary fund financial statements. A liability for these amounts is reported as non-current liabilities.

Effective July 1, 1998, state employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours, upon retirement directly from state service. The benefit value is calculated by taking the state hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is \$30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2010

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees are allowed to accumulate up to 240 hours of vacation leave (320 hours for uncovered employees) which is paid when vacation is taken or upon termination of employment at the individual's then-current rate of pay.

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.

NOTE 2–STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The expenses 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.

NOTE 3–RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Assets

The governmental funds Balance Sheet includes reconciliation between total fund balances – governmental funds and net assets of governmental activities as reported on the government-wide Statement of Net Assets. The following explanations are necessary to clarify these

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2010

NOTE 3–RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

differences between the governmental fund Balance Sheet and the government-wide Statement of Net Assets:

1. Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the current period on the fund statements. The detail for the difference is as follows:

Debt obligation	\$ <743,815,000>
Premium on debt	<56,736,565>
Compensated absences	<202,634>
Intergovernmental advance	<46,728,139>
Deferred charges-issuance costs	<u>3,943,715</u>
	<u>\$ <843,538,623></u>

B. Explanations of Reconciling Items of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net change in fund balances – total governmental funds and changes in net assets of governmental activities as reported on the government-wide Statement of Activities. The following explanations are necessary to clarify these differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

1. The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, the government reports the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The details of this difference are as follows:

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Notes to Financial Statements (continued)
 June 30, 2010

NOTE 3—RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Debt issued or incurred:

Intergovernmental advances	\$ <24,912,365>
	<u>\$ <24,912,365></u>

Principal repayment

Transportation Excise Tax Revenue Bonds	\$ 33,315,000
Amortization of premium and discount	3,903,692
Amortization of bond issuance costs	<u><262,922></u>
	<u>\$ 36,955,770</u>

2. Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. The details are as follows:

Compensated absences	<u>\$ 202,634</u>
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NOTE 4—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 \$777,130,000.

On September 21, 2007, the Transportation Board adopted a Master Resolution relating to Transportation Excise Tax Revenue Bonds. 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. 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:

Purpose	Interest Rates	Amount
Governmental activities	2.0% - 5.25%	\$ 743,815,000

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Notes to Financial Statements (continued)
 June 30, 2010

NOTE 4–NON-CURRENT LIABILITIES (continued)

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
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	41,960,000	29,576,238	71,536,238
2016-2020	242,400,000	115,294,110	357,694,110
2021-2025	309,680,000	48,007,450	357,687,450
	\$ 743,815,000	\$ 329,254,900	\$ 1,073,069,900

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 \$339,010,000 are not subject to redemption.

The Department has pledged future transportation excise taxes to repay \$743,815,000 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 \$1.1 billion. Principal and interest paid for the current year and total pledged revenues were \$71.5 million and \$199.7 million, respectively. The annual principal and interest payments on the bonds required 35.8 percent of the pledged revenues.

Intergovernmental advances

Intergovernmental advances represent construction loans (advances) from Arizona counties and 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, 2010

NOTE 4–NON-CURRENT LIABILITIES (continued)

Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Retirements /Refundings	Balance June 30, 2010	Due Within One Year
Transportation Excise Tax Revenue Bonds:					
2007 Series	\$ 337,130,000	\$ -	\$ 14,445,000	\$ 322,685,000	\$ 15,095,000
2009 Series	440,000,000	-	18,870,000	421,130,000	19,905,000
Premium on bonds	60,519,003	121,254	3,903,692	56,736,565	3,782,438
Intergovernmental advances	21,815,774	24,912,365	-	46,728,139	-
Compensated absences	-	202,634	-	202,634	4,632
	<u>\$ 859,464,777</u>	<u>\$ 25,236,253</u>	<u>\$ 37,218,692</u>	<u>\$ 847,482,338</u>	<u>\$ 38,787,070</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, 2010, 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.	\$ 322,685,000
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.	421,130,000
	<u>\$ 743,815,000</u>

NOTE 5–DISTRIBUTIONS

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Notes to Financial Statements (continued)
 June 30, 2010

NOTE 5–DISTRIBUTIONS (continued)

Distributions to the Department and other state agencies for the year ended June 30, 2010, were as follows:

	2010
Distribution to Arizona Department of Transportation	\$ 551,778,236
Distributions to Arizona counties and cities	35,416,377
Distribution to Regional Public Transit Authority	8,742,384
Total	\$ 595,936,997

NOTE 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 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; the remaining portion is sent directly to the Regional Public Transportation Authority.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Notes to Financial Statements (continued)
 June 30, 2010

NOTE 7–COMMITMENTS

The Fund had outstanding commitments, primarily for construction contracts, of \$285,896,153 at June 30, 2010.

	Expenditures To Date	Remaining Commitment
Construction Contracts:		
Rural Roadways	\$ 27,002,773	\$ 23,182,107
Small Urban Roadways	133,034,138	47,280,667
Urban Roadways	18,775,910	15,918,892
Large Urban Roadways	310,125,083	149,887,302
Sub-total	488,937,904	236,268,968
Design Contracts	88,926,908	4,201,730
Other Commitments	57,122,613	45,425,455
Total	\$ 634,987,425	\$ 285,896,153

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).

NOTE 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.

NOTE 9–INTERFUND TRANSFERS

The Special Revenue Fund made transfers of \$71,210,234 to the Debt Service Fund to pay bond debt service.

NOTE 10–SUBSEQUENT EVENTS

On September 16, 2010, the Transportation Board adopted the Third Supplemental Resolution authorizing the issuance of the third series of bonds under the Master Resolution in an amount not to exceed \$180,000,000.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements (continued)
June 30, 2010

NOTE 10—SUBSEQUENT EVENTS (continued)

On October 14, 2010, the Transportation Board issued \$180,000,000 in Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund) 2010 Series 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 2010 Series Bonds. The 2010 Series Bonds were issued as senior lien bonds and mature from July 1, 2011 through July 1, 2025. Net proceeds totaled \$206,424,108 (after receipt of \$26,424,108 reoffering premium and payment of \$1,136,496 in underwriting fees and costs of issuance). The bonds were rated AA+ and Aa1 by Standard & Poor's Ratings services and Moody's Investors Service, respectively.