

Annual Financial Report

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

Fiscal Year Ended June 30, 2008

Arizona Department of Transportation
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Annual Financial Report
Fiscal Year Ended June 30, 2008

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Deloitte & Touche LLP
Suite 1200
2901 N. Central Avenue
Phoenix, AZ 85012-2799
USA

Tel: +1 602 234 5100
Fax: +1 602 234 5186
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Arizona Department of Transportation Maricopa Regional Area Road Fund (the "Fund") as of and for the year ended June 30, 2008, which collectively comprise the Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Arizona Department of Transportation's (the "Department") management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Fund of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities and each major fund of the Department that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2008, and the changes in its financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2008, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Deloitte & Touche LLP

November 28, 2008

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

As management of the Arizona Department of Transportation, Maricopa County Regional Area Road Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements and the accompanying notes to the basic financial statements.

Financial Highlights

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

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Fund's basic financial statements. The Fund's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

Government-wide Financial Statements The government-wide financial statements are designed to present an overall picture of the financial position of the Fund. These statements consist of the statement of net assets and the statement of activities and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

The Fund maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the Special Revenue Fund, Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Fund's financial health. The following tables and analysis discuss the financial position and changes to financial position for the Fund as a whole as of and for the fiscal year ended June 30, 2008.

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

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

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

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

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

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

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

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

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

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

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

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

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Fund's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007 or by visiting our web site at http://www.azdot.gov/inside_adot/fms/PDF/rarfin08.pdf.

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

ASSETS

Receivables:

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

LIABILITIES

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

NET ASSETS

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

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Statement of Activities
 For the fiscal year ended June 30, 2008

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

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Balance Sheet
 Governmental Funds
 June 30, 2008

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

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

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 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2008

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

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

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

<379,333,518>

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

Deferred revenue

24,712

Net assets of governmental activities (Exhibit 1)

\$ 109,816,105

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

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

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

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