Annual Financial Report

Arizona Department of Transportation
Maricopa County Regional Area Road Fund

Fiscal Year Ended June 30, 2005

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Arizona Department of Transportation Maricopa Regional Area Road Fund (the "Fund") as of and for the year ended June 30, 2005, 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 respective 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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 1A, the financial statements of the Fund of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund information of the Department that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund information for the Fund as of June 30, 2005, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Deloitte & Touche LLP
November 15, 2005

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, 2005. 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 $161,771,542, compared to $136,131,434 for fiscal year 2004, an increase of $25,640,108 (or 18.8 percent). The increase in assets is because of the increase in Excise Tax revenue and the payoff of a number of debt service liabilities by the Arizona Department of Transportation.
- For fiscal year 2005, the Fund distributed $95,915,656 of cash and capital assets to the Arizona Department of Transportation compared to $56,611,136 for fiscal year 2004, an increase of $39,304,520 (or 69.4 percent). The increase is attributable to more construction projects being completed, resulting in more transfers of assets.
- The Transportation Excise taxes collected in fiscal year 2005 were $316,805,562 compared to $288,599,800 for fiscal year 2004, an increase of $28,205,762 (or 9.8 percent). The increase is attributable to the growth of the economy.

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.

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

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 12 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Fund's financial health. The following tables and analysis discuss the financial position and changes to financial position for the Fund as a whole as of and for the fiscal year ended June 30, 2005.

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

	Governmental Activities	
	2005	2004
Assets:		
Current and other assets	$ 161,771,542	$ 136,131,434
Total assets	161,771,542	136,131,434
Liabilities:		
Bonds payable	81,074,661	291,847,162
Other liabilities	26,293,825	21,360,982
Total liabilities	107,368,486	313,208,144
Net assets:		
Invested in capital assets, net of related debt	<81,074,661>	<291,847,162>
Restricted for capital projects	135,477,717	114,770,452
Total net assets	$ 54,403,056	$ <177,076,710>

The total assets of the Fund were $161.8 million, while the liabilities were $107.4 million, resulting in net assets of $54.4 million. The positive balance was due to the payoff of a number of debt service liabilities by the Arizona Department of Transportation while the Fund retained the cash related to the debt issued. The purpose of the Fund is highway construction to benefit the Arizona Department of Transportation. To be able to construct highways, the Fund collects excise tax and issues bonds.

The Fund's bonded indebtedness decreased by 72 percent for fiscal year 2005. This decrease was primarily due to bonded debt that was retired. The repayment schedule for these bonds is as follows:

Fiscal year ending	Transportation Excise Tax Revenue Bonds	
June 30	Principal	Interest
2006	$ 80,375,000	$ 1,566,542
	$ 80,375,000	$ 1,566,542

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	
	2005	2004
Revenues:		
Program revenues:		
Rental income	$ 475,952	$ 375,103
Capital grants and contributions	12,443,377	13,226,684
General revenues:		
Transportation excise taxes	316,805,562	288,599,800
Interest on investments	5,328,803	2,407,468
Sale of land held for resale	13,042,396	12,324,217
Total revenues	348,096,090	316,933,272
Expenses:		
Distributions to other state agencies	103,629,022	64,198,927
Interest on long-term debt	12,415,420	21,650,505
Other	571,882	1,264,376
Total expenses	116,616,324	87,113,808
Changes in net assets	231,479,766	229,819,464
Net assets - July 1	<177,076,710>	<406,896,174>
Net assets - June 30	$ 54,403,056	$ <177,076,710>

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 12-20 of this report.

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.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Statement of Net Assets
June 30, 2005

ASSETS	
Receivables:	
Accrued interest	$ 72,263
Other	6,833,171
Notes and loans (Note 5)	1,298,810
Interfund receivables	20,430
Due from U.S. Government for reimbursable construction costs	1,991
Deferred charges	73,020
Restricted cash on deposit with the State Treasurer	153,471,857
Total assets	161,771,542
LIABILITIES	
Accounts payable and other current liabilities	26,555
Accrued payroll and other accrued expenses	3,341
Contracts and retainage payable	26,178,929
Interfund payables	85,000
Bonds payable (Note 3)	81,074,661
Total liabilities	107,368,486
NET ASSETS	
Invested in capital assets, net of related debt	<81,074,661>
Restricted for capital projects	135,477,717
Total Net Assets	$ 54,403,056

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, 2005

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net <Expenses> Revenues
Governmental activities:					
Highway	$ -	$ 475,952	$ -	$ 12,443,377	$ 12,919,329
Other	571,882	-	-	-	<571,882>
Distributions to other state agencies (Note 4)	103,629,022	-	-	-	<103,629,022>
Interest on long-term debt	12,415,420	-	-	-	<12,415,420>
Total governmental activities	$ 116,616,324	$ 475,952	$ -	$ 12,443,377	<103,696,995>

General revenues:	
Transportation excise taxes	316,805,562
Interest on investments	5,328,803
Sale of capital assets	13,042,396
Total general revenues	335,176,761
Change in net assets	231,479,766
Net assets - July 1	<177,076,710>
Net assets - June 30	$ 54,403,056

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

Exhibit 3

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Balance Sheet
Governmental Funds
June 30, 2005

	Special Revenue Fund	Debt Service Fund	Total
ASSETS			
Receivables:			
Accrued interest	$ 70,913	$ 1,350	$ 72,263
Other	6,833,171	-	6,833,171
Interfund	20,430	-	20,430
Notes and loans (Note 5)	1,298,810	-	1,298,810
Anounts due from:			
U.S. Government	1,991	-	1,991
Restricted cash on deposit with the State Treasurer	153,184,337	287,520	153,471,857
Total assets	$ 161,409,652	$ 288,870	$ 161,698,522
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 26,555	$ -	$ 26,555
Accrued payroll and other accrued expenditures	4,965	-	4,965
Interfund payables	85,000	-	85,000
Contracts and retainage payable	26,178,929	-	26,178,929
Deferred revenue	1,298,810	-	1,298,810
Total liabilities	27,594,259	-	27,594,259
Fund balances:			
Reserved for:			
Debt service	-	288,870	288,870
Capital projects	133,815,393	-	133,815,393
Total fund balances	133,815,393	288,870	134,104,263
Total liabilities and fund balances	$ 161,409,652	$ 288,870	$ 161,698,522

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

Exhibit 3.1

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, 2005

Total fund balances - govermental funds (Exhibit 3)		$ 134,104,263
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:		
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Deferred revenue		1,298,810
Accrued payroll		1,624
Non-current liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Bonds payable	<80,375,000>	
Premium on debt	<699,661>	
Deferred charge - issuance costs	73,020	<81,001,641>
Net assets of governmental activities (Exhibit 1)		$ 54,403,056

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

Exhibit 4

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, 2005

	Special Revenue Fund	Debt Service Fund	Total
Revenues:			
Transportation excise taxes	$ 316,805,562	$ -	$ 316,805,562
Federal grants and reimbursements	369,327	-	369,327
Reimbursements from Arizona counties and cities	12,074,050	-	12,074,050
Interest on investments	3,579,604	1,749,199	5,328,803
Sale of land held for resale	13,042,396	-	13,042,396
Rental income	475,952	-	475,952
Total revenues	346,346,891	1,749,199	348,096,090
Expenditures:			
Distributions to other state agencies	103,629,022	-	103,629,022
Debt Service:			
Principal	-	208,625,000	208,625,000
Interest	-	14,318,150	14,318,150
Other	-	80,390	80,390
Total expenditures	103,629,022	223,023,540	326,652,562
Excess <deficiency> of revenues over <under> expenditures	242,717,869	<221,274,341>	21,443,528
Other financing sources <uses>:			
Interfund transfers in (Note 9)	-	204,938,070	204,938,070
Interfund transfers out for debt service (Note 9)	<204,938,070>	-	<204,938,070>
Total other financing <uses> sources	<204,938,070>	204,938,070	-
Excess <deficit> of revenues and other financing sources over <under> expenditures and other financing uses	37,779,799	<16,336,271>	21,443,528
Fund balances, July 1	96,035,594	16,625,141	112,660,735
Fund balances, June 30	$ 133,815,393	$ 288,870	$ 134,104,263

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Net Activities
For the fiscal year ended June 30, 2005

Net change in fund balance - total governmental funds (Exhibit 4)	$	21,443,528
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 liablities 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.		1,902,730
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		<491,492>
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.		208,625,000
Change in net assets of governmental activities (Exhibit 2)	$	231,479,766

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by federal reimbursement, taxes and intergovernmental revenues.

The **Statement of Net Assets** presents the reporting entity's assets and liabilities, with the difference reported as net assets. Net assets are reported in two categories:

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

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

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

Fund Financial Statements

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Transportation excise taxes are recognized as revenues in the year they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the fiscal year.

Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable.

The Fund reports the following major governmental funds:

> *The Special Revenue Fund* receives Maricopa County transportation excise tax monies collected by the Arizona Department of Revenue. These monies are expended for the construction of controlled-access highways, which are included in the Regional Freeway System after the monthly debt service requirements are fully satisfied.
>
> *The Debt Service Fund* administers the payment of principal and interest on all bonds outstanding under the bond resolutions.

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

When both restricted and unrestricted resources are available for use, the Fund generally expends the restricted resources first, 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 resolution.

D. Assets, Liabilities, and Net Assets

Deposits and Investments

The Fund's cash includes petty cash, bank accounts, and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements or obligations of the U.S. Government. All investments are carried at fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* classification because they are included in the state's investment pool. As of June 30, 2005, the state's investment pool was not rated.

The Fund's investments are included in the state investment pool and these investments are not shown in the Fund's name. Therefore, the Fund presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

Receivables and Payables

Outstanding balances between the Fund and the U.S. Government and Arizona counties, cities and other state agencies are reported as interfund receivables and interfund payables.

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

Restricted Assets

Proceeds of the Fund's governmental revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or state statutes. The debt service fund is used to report the resources set aside for payment of future debt service payments. The revenue bonds proceeds are deposited in the capital projects fund and are restricted for acquisitions of right-of-way and construction of county highways.

Capital Assets

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

Deferred Revenues

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

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Net Assets

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.

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, securities of or guaranteed by the United States of America, or other eligible securities as defined in the Arizona Revised Statutes, Title 35, Chapter 2, Article 2, Section 35-313. At June 30, 2005, the bank held assignment on securities aggregating approximately $10 million in lieu of contractor retentions for construction. These additional securities are not reflected in the accompanying financial statements.

3. NON-CURRENT LIABILITIES

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $289,000,000

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

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

Purpose	Interest Rates	Amount
Governmental activities - refunding	3.0% - 5.0%	$ 80,375,000
		$ 80,375,000

The following is a summary of changes in general long-term debt for fiscal year ended June 30, 2005:

	Balance July 1, 2004	Retirements	Balance June 30, 2005	Due within one year
1988 Series A, Capital Appreciation	$ 8,500,000	$ 8,500,000	$ -	
1992 Series A, Refunding	38,955,000	38,955,000	-	
1992 Series B	3,105,000	3,105,000	-	
1995 Series A, Subordinated	17,330,000	17,330,000	-	
1995 Series B, Subordinated, Refunding	30,070,000	30,070,000	-	
1998 Series A	23,665,000	23,665,000	-	
1999 Series, Subordinated	20,395,000	20,395,000	-	
2000 Series	24,825,000	24,825,000	-	
2001 Series	22,855,000	22,855,000	-	
2002 Series	80,475,000	100,000	80,375,000	80,375,000
	$ 289,000,000	$ 208,625,000	$ 80,375,000	$ 80,375,000
Unamortized Premium	$ 2,847,162	$ 2,147,501	$ 699,661	$ 699,661
		Total Due within one year		$ 81,074,661

Bonds payable at June 30, 2005, related to the Maricopa County Regional Area Road Fund Arizona Transportation Board Transportation Excise Tax Revenue Bonds are comprised of the following individual issues:

2002 Series, authorized by the Transportation Board on August 1, 2002, due in varying annual installments plus semiannual interest at rates ranging from 3.0 percent to 5.0 percent, through December 15, 2005	$ 80,375,000
	$ 80,375,000

Refunded Bond Deposited with Escrow Agents

In prior fiscal years, the Transportation Board had refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issue have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issue refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the financial statements of the Fund.

Refunded bonds of the Fund deposited with escrow agents at June 30, 2005, were as follows:

Original Issue	Type	Escrow Maturity Date	Balance
1998 Series A Senior	Transportation Excise Tax Revenue Bonds	July 1, 2005	$ 1,425,000
1988 Series A	Transportation Excise Tax Revenue Bonds Capital Appreciation Bonds	July 1, 2005	8,996,156
	Total refunded bonds outstanding deposited with escrow agents		$ 10,421,156

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

Fiscal year ending June 30	Principal	Interest	Total
2006	$ 80,375,000	$ 1,566,542	$ 81,941,542
	$ 80,375,000	$ 1,566,542	$ 81,941,542

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

4. DISTRIBUTIONS

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

Distributions to other state agencies for the year ended June 30, 2005, were as follows:

Distribution to Arizona Department of Transportation	$ 95,915,656
Distribution to Regional Public Transit Authority	7,713,366
Total	$ 103,629,022

5. RECEIVABLES

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

Notes receivable activity for the fiscal year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Decreases	Balance June 30, 2005
Mortgage notes receivable	$ 1,791,012	$ 492,202	$ 1,298,810

6. TRANSPORTATION EXCISE TAX

In October 1985, the voters of Maricopa County approved the Maricopa County Transportation Excise Tax, a tax which may equal up to ten percent of the State transaction privilege tax rates. This transportation excise tax, often referred to as the "1/2 cent sales 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. 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 source 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. The "1/2 cent sales tax" is expected to yield $3.8 billion for the period January 1986 through December 2005.

On November 2, 2004, Maricopa County's voters approved Proposition 400 which extends the one-half cent sales tax for another 20 years through December 31, 2025. The sales tax extension will be used for construction of new freeways, widening of existing freeways and highways, improvements to the arterial street system, regional bus service and other special transportation services, and high capacity transit services such as light rail, bus rapid transit and express buses.

7. COMMITMENTS

The Fund had outstanding commitments under construction contracts of $220,742,453 at June 30, 2005.

	Expenditures To Date	Remaining Commitment
Construction contracts:		
Small urban roadways	$ 522,937	$ 234,434
Urban roadways	-	36,444
Large urban roadways	269,616,372	210,992,140
Sub-total	270,139,309	211,263,018
Design contracts	80,549,106	7,925,080
Other commitments	3,381,349	1,554,355
Total	$ 354,069,764	$ 220,742,453

No construction in progress is recorded in the Fund. All capital assets are transferred to the Arizona Department of Transportation's general 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 $204,938,070 to the Debt Service Fund to pay bond debt service.