

Fiscal Year 2016

COMPREHENSIVE ANNUAL FINANCIAL REPORT

State of Arizona | Department of Transportation



For fiscal year ended June 30, 2016



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016

Prepared by Financial Management Services
State of Arizona Department of Transportation

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Phoenix, Arizona 85007

azdot.gov

**Arizona Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2016
Table of Contents**

	<u>Page</u>
 INTRODUCTORY SECTION	
Letter of Transmittal	i-v
Certificate of Achievement for Excellence in Financial Reporting	vi
List of Principal Officials	vii
Organization Chart	viii
 FINANCIAL SECTION	
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-15
 Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position (Exhibit 1)	16
Statement of Activities (Exhibit 2)	17
Governmental Funds Financial Statements:	
Balance Sheet – Governmental Funds (Exhibit 3)	18-19
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position (Exhibit 3.1)	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit 4)	21-24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Exhibit 4.1)	25
Proprietary Funds Financial Statements:	
Statement of Net Position – Proprietary Funds (Exhibit 5)	26
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds (Exhibit 6)	27
Statement of Cash Flows – Proprietary Funds (Exhibit 7)	28-29
Notes to the Financial Statements	30-64
 Required Supplementary Information (Other than MD&A)	
Budgetary Comparison Schedule – General Fund (State Highway Fund)	65
Note to Required Supplementary Information	66
Information about Infrastructure Assets Reported Using the Modified Approach	67-71
Pension Liability and Pension Contributions	72

**Arizona Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2016
Table of Contents — continued**

	<u>Page</u>
Supplementary Information	
Nonmajor Governmental Funds Financial Statements:	
Combining Balance Sheet (Exhibit 8)	73-74
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Exhibit 9)	75-76
 STATISTICAL SECTION	
Overview	77
Index of Statistical Section	78
 Financial Trends	
Change in Net Position (Table A-1)	79-82
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Table A-2)	83-86
Fund Balances of Governmental Funds (Table A-3)	87-88
Expenditures of Federal Awards (Table A-4)	89
Government-Wide Expenses by Function (Table A-5)	90-91
Government-Wide Revenues (Table A-6)	92-93
Net Position by Component (Table A-7)	94-95
 Revenue Capacity	
Highway User Revenue Fund Collections (Table B-1)	96
Highway User Revenue Fund Distributions (Table B-2)	97
Fuel Tax Rates (Table B-3)	98
Motor Vehicle Fuel Tax – Top Ten Suppliers (Table B-4)	99
Gasoline Volume Sold – Top Twenty-Five Suppliers (Table B-5)	100-101
 Debt Capacity	
Highway User Revenue Fund – Legal Debt Margin (Table C-1)	102
Highway Revenue Bonds – Bond Coverage (Table C-2)	103
Transportation Excise Tax Revenue Bonds – Bond Coverage (Table C-3)	104
Transportation Excise Tax Revenue Bonds – Debt Service Revenue and Cost Per Capita (Table C-4)	105
Ratios of Outstanding Debt by Type (Table C-5)	106-107

**Arizona Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2016
Table of Contents — continued**

	<u>Page</u>
Demographic and Economic Information	
Number of Vehicle Registrations Per Year (Table D-1)	108
Vehicle Registrations Per Year Compared to Fuel Sales (Table D-2)	109
Demographic and Economic Statistics (Table D-3)	110
Principal Employers (Table D-4)	111
Operating Information	
Full-Time Equivalents (FTEs) (Table E-1)	112
Capital Assets – Schedule by Function and Activity (Table E-2)	113
Capital Assets – Schedule of Changes by Function and Activity (Table E-3)	114
Total Public Road Mileage by Highway Class and Governmental Ownership (Table E-4)	115
Vehicle Miles Traveled with Population Data (Table E-5)	116
Acknowledgments	117

Introductory Section



January 30, 2017

The Honorable Douglas A. Ducey
Governor of the State of Arizona,
Members of the Legislature, and
Citizens of the State of Arizona

The Arizona Department of Transportation (Department) is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Department for the fiscal year ended June 30, 2016. The CAFR is presented in three sections: Introductory, Financial, and Statistical. The **Introductory Section** includes this Letter of Transmittal, a List of Principal Officials, and the Department's Organization Chart. The **Financial Section** includes the Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements, Notes to the Financial Statements, Required Supplementary Information, as well as Other Supplementary Information. The **Statistical Section** includes additional financial information and transportation data presented on a multi-year comparative basis.

Arizona Revised Statutes, §41-1279.03, requires the State Auditor General to "conduct or cause to be conducted at least biennial financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the single audit act of 1984 (P.L. 98-502)." In fulfillment of this requirement, the Department prepared this CAFR, for the fiscal year ended June 30, 2016, and contracted with the independent auditing firm of CliftonLarsonAllen LLP to audit the financial statements.

The objective of the independent audit is to provide a reasonable assurance that the financial statements are free from material misstatement. The independent audit involved 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; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Department's financial statements for the fiscal year ended June 30, 2016, are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The independent auditors' report is presented as the first component of the Financial Section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The Department's MD&A can be found immediately following the report of the independent auditors.

The CAFR includes all funds (some of which are external to the Department) used to record the financial activity of the Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Department.

To provide a reasonable basis for making these representations, the Department has established a comprehensive internal control framework that is designed both to protect the Department's assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the financial statements in conformity with GAAP. The Department's internal control includes both automated controls, which are an integral component of the financial accounting system, and comprehensive policies and procedures. In addition, the Department's Office of Audit and Analysis is an independent unit that reviews accounting controls and performs operational audits of the various divisions and units of the Department. Because the cost of internal controls should not outweigh their benefits, the Department's comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds. All disclosures necessary to enable the reader to gain an understanding of the Department's financial activities have been included.

Profile of the Department

The Department was established by the state legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the Department of Aeronautics (originally established in 1962). The Department is not legally separate from the State of Arizona's primary government. The Department's mission is to provide a safe, efficient, cost-effective transportation system. The vision is creating a transportation system for Arizona that improves the quality of life. The Department's statutory authority for carrying out its programs is found in Arizona Revised Statutes, Titles 28, 35, and 41.

The Department receives guidance in capital planning and program development from a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) appointed by the governor and confirmed by the state senate. The Transportation Board is responsible for the annual update of the Five-Year Transportation Facilities Construction Program and awards contracts each month for highway projects. The Transportation Board also has authority for the issuance of highway revenue and transportation excise tax bonds, grant anticipation notes (GARVEE bonds), and board funding obligations.

As of June 30, 2016, the Department was organized into five major operating divisions supported by several groups, such as Human Resources, Information Technology and Financial Management Services. The five major operating divisions include: Infrastructure Delivery and Operations, Motor Vehicle Division, Enforcement and Compliance Division, Administrative Services Division, and Multimodal Planning Division.

- Infrastructure Delivery and Operations is responsible for the management and maintenance of the existing state highway system and related facilities as well as the location, design, and construction of new highways and facilities that are a part of the state highway system.
- The Motor Vehicle Division regulates motor vehicles in the state and collects motor vehicle registration fees, motor carrier fees, motor vehicle operators' license fees, and miscellaneous fees and revenues. The Motor Vehicle Division annually processes motor vehicle registrations and records, issues certificates of title for motor vehicles, and processes drivers' license applications.
- The Enforcement and Compliance Division conducts criminal and administrative investigations related to all facets of agency operations, e.g., titling, registration, and licensing; as well as providing services to the local and national law enforcement communities while enforcing transportation related laws and regulations.
- The Administrative Services Division provides a wide variety of services for ADOT business areas and employees. The Administrative Services Division's work units include Equipment Services, Facilities Maintenance & Support, Procurement, Safety & Health, and Audit & Analysis. The Administrative Services Division also oversees operations of the Grand Canyon National Park Airport.
- The Multimodal Planning Division is responsible for the planning of the statewide transportation system, including highways and airports, in coordination with local and regional planning agencies. The Division produces the Five-Year Transportation Facilities Construction Program through which the Transportation Board establishes the priorities for highways and airports. The Division also supports statewide public transit planning, administers federal grants for transit planning in rural and metropolitan areas, and performs state regulatory safety oversight for the light rail system in Maricopa County.

Overall, the Department employs approximately 3,750 persons.

Budgetary Controls Upon the effective date of the operating budget appropriations bill, allocations are made to organizational levels within each division. The allocations result in a detailed operating budget that guides the divisions and programs in their financial operation. State funding for the Five-Year Transportation Facilities Construction Program is included in the capital outlay appropriations bill as a lump-sum budget without identifying individual projects. In the land, building, and improvements portion of that bill, each separate capital project is identified for control purposes. This bill also provides funding for building renewal purposes. The budgets are prepared on a cash basis except that liabilities (encumbrances) incurred before the end of the fiscal year and paid

within the next calendar month are charged against that prior fiscal year's budget. With a few exceptions, such as the capital budgets, highway maintenance, and special line items, state appropriations typically lapse at the end of the fiscal year.

The Department relies on the Arizona Financial Information System (AFIS) to control total expenditures by appropriation and to ensure budgetary compliance and management control. These features of AFIS include: encumbrance and pre-encumbrance capabilities, appropriation allocation and control capabilities to the expense budget/organization unit level, and management control reports from the expense budget/organizational unit level, with summary reporting capabilities by program, division, or appropriation.

Factors Affecting Financial Condition

Arizona Economy Arizona continued to experience measured economic growth in FY 2016 with employment, personal income and population all posting modest growth over FY 2015. On the bright side, the 12-month average price of gasoline, net of taxes, decreased 23.9 percent in FY 2016. In addition, the 12-month average price of use fuel (diesel), including taxes, decreased 25.3 percent in FY 2016. Both of these price decreases led to stronger than expected growth in gas and fuel tax revenues. According to AAA, the decrease in fuel prices was a result of abundant fuel supplies and declining crude oil costs. U.S. crude oil supplies are about 13 percent higher than a year ago. The national economy also experienced slow but positive economic growth in FY 2016 with employment and personal income posting modest gains. According to the July 21, 2016 Arizona Department of Administration's employment report, the Arizona unemployment rate decreased from 6.0 percent in June 2015 to 5.8 percent in June 2016. During this period, the private sector created 83,000 jobs while the government sector lost 1,600 jobs for a net gain of 81,400. The number of jobs gained in FY 2016 was higher than the 53,500 jobs gained in FY 2015.

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Regional Area Road Fund (RARF), also known as the Maricopa County Transportation Excise Tax, posted positive results in fiscal year 2016. In fiscal year 2016, the HURF revenue collections were \$1,356.8 million, 5.1 percent above fiscal year 2015 and 1.9 percent above the forecast. The Regional Area Road Fund revenues equaled \$396.8 million, an increase of 3.8 percent over fiscal year 2015, but 1.0 percent below the estimate. Fiscal year 2016 was the first year that RARF revenues surpassed the fiscal year 2007 high, while fiscal year 2016 HURF revenues were 1.8 percent below the fiscal year 2007 high.

Arizona's economy is expected to grow over the next two years, but at a slower rate than the historical growth prior to 2007. The June 2016 University of Arizona Economic and Business Research Center Forecast Report estimated Arizona non-farm employment will grow by 3.0 and 3.0 percent in calendar years 2016 and 2017, respectively. According to the June 2016 Western Blue Chip report, personal income in Arizona is expected to increase by 5.3 percent in calendar year 2016 and 5.5 percent in calendar year 2017. According to the Arizona Department of Administration, the population of Arizona is forecasted to grow by 1.6 percent in fiscal year 2016 and 1.7 percent in fiscal year 2017.

The Department's fiscal year 2017 HURF revenue estimate amounts to \$1,415.6 million, an increase of 4.3 percent over fiscal year 2016. The HURF ten year compound growth rate for fiscal years 2007 through 2016 was -0.2 percent. The distribution of HURF revenues in fiscal year 2017 is estimated to be as follows: State Highway Fund \$644.4 million; Arizona cities and towns \$408.8 million; Arizona counties \$254.7 million; Department of Public Safety \$96.0 million; Economic Strength Project Fund \$1.0 million; and the Motor Vehicle Division for the registration compliance/third party program \$0.650 million. An estimated \$10.0 million will be re-allocated from the State Highway Fund share of HURF vehicle license tax revenues with \$6.8 million going to the State General Fund and \$3.2 million going to the Department of Public Safety.

The Maricopa County Transportation Excise Tax revenue forecast for fiscal year 2017 totals \$411.4 million, an increase of 3.7 percent over fiscal year 2016. The Maricopa County Transportation Excise Tax ten year compound growth rate for fiscal years 2007 through 2016 was 0.1 percent. The distribution of the Maricopa County Transportation Excise Tax revenue in fiscal year 2017 is estimated to be as follows: Maricopa County Regional Area Road Fund \$231.2 million for highways, \$43.2 million for arterial streets, and \$137.0 million for the Public Transportation Fund.

Long-term Financial Planning The Department has developed a long-range forecasting model for revenues to be deposited in the Highway User Revenue Fund and the Maricopa County Regional Area Road Fund. This econometric modeling approach provides a framework that allows for the complex interaction of economic,

demographic, and technological factors which influence revenue collections over the long term. Using this process, the Department updates and publishes its official forecast on an annual basis, after the close of the fiscal year, and uses this data in developing cash-flow projections for the statewide Highway Construction Program and the Regional Transportation Plan (RTP) Freeway Program, two components of the Five-Year Transportation Facilities Construction Program (the other components being the Pima Association of Governments Highway Program and the Airport Program). These cash-flow projections incorporate estimates of all funding sources available to the capital program and estimates of project-related and other expenditures.

Planned Construction Activity In June 2015, the Transportation Board approved a \$4.5 billion statewide Highway Construction Program as part of the Five-Year Transportation Facilities Construction Program for fiscal years 2017 through 2021. This program provides funding for highway facilities on the National Highway System and the statewide system, as well as the Maricopa County Regional Transportation Plan. Altogether (including Maricopa County), the program includes \$1.9 billion for expansion, \$1.8 billion for preservation, and \$0.66 billion for modernization.

The Five-Year Transportation Facilities Construction Program includes approximately \$1.8 billion for the RTP of freeway and expressway construction in Maricopa County, funded in large part from the Maricopa County Regional Area Road Fund. Obligations for the Regional Transportation Plan Freeway Program to date total \$5.5 billion. The Department currently has 5 major RTP Freeway Program projects under design and 7 major projects under construction. Included in these project listings is the new South Mountain Freeway. The Department acquired 5,106 acres of land for the RTP Freeway Program.

As part of the Five-Year Transportation Facilities Construction Program, the Transportation Board also adopted a \$101.03 million (state share) Five-Year Airport Development Program that includes 512 projects at general aviation and air carrier airports located throughout the state.

Other Information

Single Audit The Department is required to undergo an annual Single Audit in accordance with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The Department's Single Audit information is included in the Single Audit of the State of Arizona for the fiscal year ended June 30, 2016.

Awards The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Arizona Department of Transportation for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. This accomplishment was the twenty-sixth consecutive year that the Department has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments We would like to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. A special note of thanks is extended to the staff of Fiscal Operations whose commitment, professionalism, and dedicated efforts contributed to the preparation of the fiscal year 2016 Comprehensive Annual Financial Report.

Respectfully Submitted,



John S. Halikowski, Director
Arizona Department of Transportation



Kristine Ward, Chief Financial Officer
Arizona Department of Transportation



Government Financial Officers Association

**Certificate of
Achievement
For Excellence
In Financial
Reporting**

Presented to

Arizona Department of Transportation

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

**Arizona Department of Transportation
List of Principal Officials**

John S. Halikowski
Director

Scott Omer
Deputy Director
Operations

Kevin Biesty
Deputy Director for Policy

Dallas Hammit
Deputy Director
Transportation

Kristine Ward
Chief Financial Officer

Floyd Roehrich, Jr.
Executive Officer

Sonya E. Herrera
Director
Administrative Services Division

Tim Lane
Director
Enforcement and Compliance Division

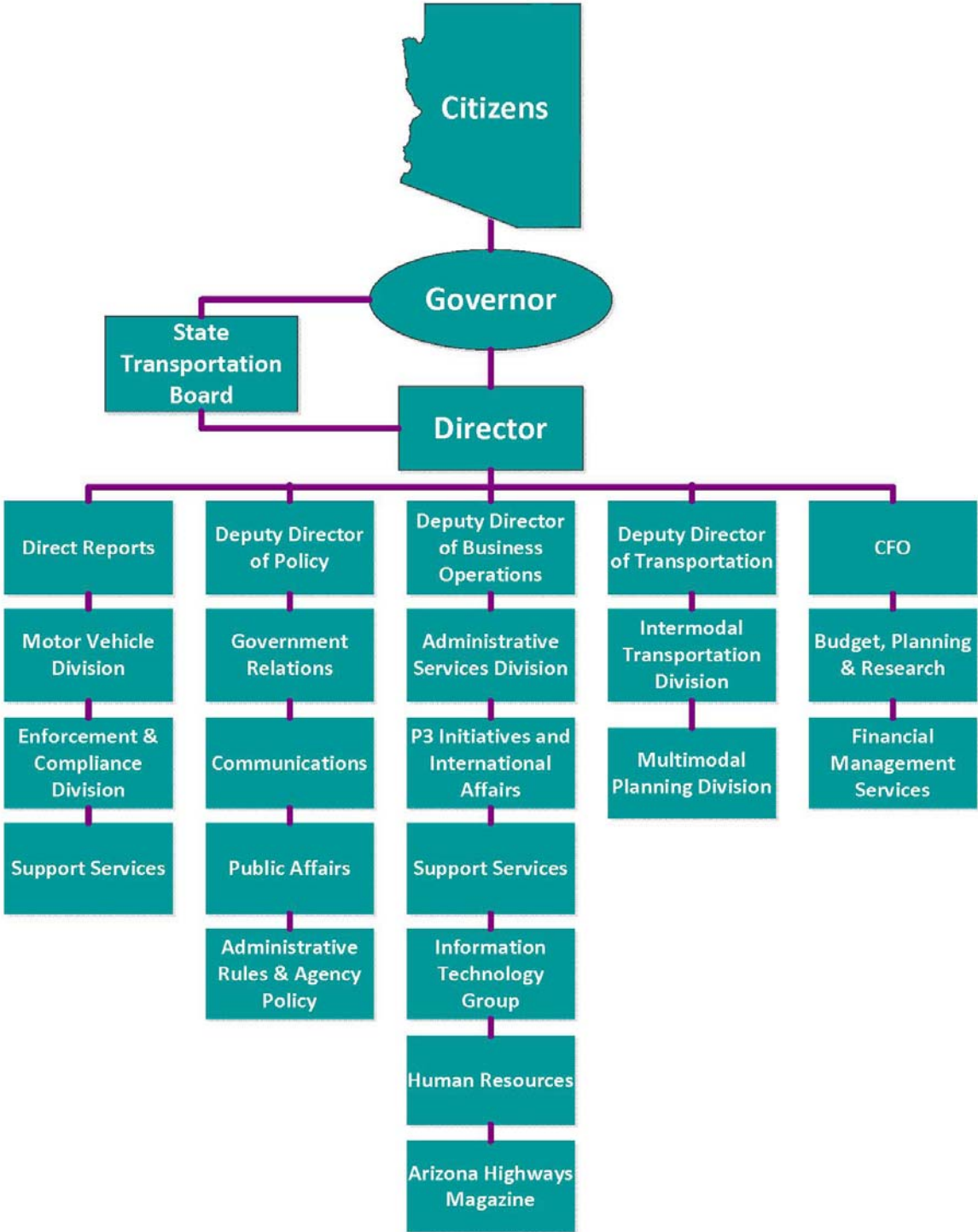
Eric Jorgensen
Director
Motor Vehicle Division

Michael Kies
Director
Multimodal Planning Division

Arizona State Transportation Board

Member	Counties	Term Expires
Joseph E. La Rue, Chairman	District 1 (Maricopa County)	2018
Deanna L. Beaver, Vice Chairman	District 6 (Yavapai, Yuma, Mohave, and LaPaz Counties)	2018
Jack Sellers, Member	District 1 (Maricopa County)	2020
Michael S. Hammond, Member	District 2 (Pima County)	2021
William R. Cuthbertson, Member	District 3 (Cochise, Greenlee, and Santa Cruz Counties)	2019
Steve Stratton, Member	District 4 (Gila, Graham, and Pinal Counties)	2022
Arlando S. Teller, Member	District 5 (Apache, Coconino, and Navajo Counties)	2017

State of Arizona Department of Transportation Organization Chart



Financial Section



INDEPENDENT AUDITORS' REPORT

The Honorable Douglas A. Ducey
Governor of the State of Arizona

Members of the Arizona State Legislature
Arizona Department of Transportation
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation (Department), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The Honorable Douglas A. Ducey
Governor of the State of Arizona

Members of the Arizona State Legislature
Arizona Department of Transportation

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, budgetary comparison information on pages 65 and 66, information about infrastructure assets reported using the modified approach on page 67 through 71, and the Department's proportionate share of the net pension liability and contributions on page 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arizona Department of Transportation's basic financial statements. The accompanying supplementary information, the Introductory Section and Statistical Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

The Honorable Douglas A. Ducey
Governor of the State of Arizona

Members of the Arizona State Legislature
Arizona Department of Transportation

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated January 30, 2017, on our consideration of the Department'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
January 30, 2017

Arizona Department of Transportation

Management's Discussion and Analysis

For the Year Ended June 30, 2016

As management of the Arizona Department of Transportation (the "Department"), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal, which can be found on pages i-v, and the Department's basic financial statements, which begin on page 16, with the accompanying notes and Required Supplementary Information (RSI).

Financial Highlights

Government-Wide

- The net position of the Department at the close of the fiscal year is \$19.1 billion, compared to \$18.3 billion for fiscal year 2015, an increase of 4.3%. Of this amount, \$10.7 million represents the *unrestricted* component as compared to (\$57.2) million at the end of 2015.
- The Department's capital assets are \$21 billion, compared to \$20.3 billion for fiscal year 2015, an increase of 3.3%. This increase is attributable to the results of highway construction activity. The Department's *net investment in capital assets* is \$18.3 billion, compared to \$17.5 billion for fiscal year 2015, an increase of 4.6%.
- The Department's total liabilities are \$3.5 billion, compared to \$3.6 billion in 2015. The Department had \$183.1 million less in bonds outstanding in 2016 than in 2015. During fiscal year 2016, there were no new bonds issued and \$217.5 million in bonds retired.

Fund Level

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of \$1.2 billion, as compared to \$1.2 billion in 2015.
- The total restricted fund balance is \$885.6 million; the majority of this amount is restricted for capital projects. Inventories of \$6.2 million represent the nonspendable portion of fund balance while \$299.6 million represents the committed fund balance portion.
- The proprietary funds reported net position at year-end of \$59.3 million, as compared to \$79.2 million in 2015.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction of the Department's basic financial statements. The Department's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other Required Supplementary Information, in addition to the basic financial statements.

Government-wide Financial Statements (Reporting the Department as a Whole)

The government-wide financial statements are designed to present an overall picture of the financial position of the Department. These statements consist of the Statement of Net Position 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

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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 Position combines and consolidates the Department's current financial resources with capital assets and long-term obligations. This statement includes all of the Department's assets and liabilities.

Net position is the difference between the Department's assets and deferred outflows of resources less liabilities and deferred inflows of resources, and represents one measure of the Department's financial health.

- An increase or decrease in the Department's net position from one year to the next is an indicator of whether its financial health is improving or declining.
- Other indicators of the Department's financial health include the condition of its roads and bridges (infrastructure) and economic trends affecting the Department's future tax revenues.

The Statement of Activities focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by the Department's general tax and other revenues. This statement summarizes the cost of providing specific Department services and includes all current year revenues and expenses.

The Statement of Net Position and the Statement of Activities divide the Department's activities into two types:

Governmental Activities—The Department's basic services are reported here, including administration, highway, highway maintenance, and motor vehicle. Taxes, fees, and federal grants finance most of these activities.

Business-type Activities—Activities for which the Department charges a fee to customers to pay for most or all of the costs of the services it provides are reported as business-type activities. The Department's Highway Expansion and Extension Loan Program (HELP) is reported here.

The government-wide financial statements can be found on pages 16-17 of this report.

This report includes two schedules (Exhibit 3.1 and Exhibit 4.1) that reconcile the amounts reported on the governmental fund financial statements (prepared using the modified accrual basis of accounting and current financial resources measurement focus) with governmental activities (prepared using the accrual basis of accounting and economic resources measurement focus) on the appropriate government-wide statements. The following summarizes the impact of utilizing Governmental Accounting Standards Board Statement 34 (GASB 34), as amended, reporting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term assets that are not available to pay for current period expenditures are not reported on governmental fund statements.
- Internal service fund activities are reported as governmental activities, but reported as proprietary funds in the fund financial statements.
- Bond issuance costs are expensed as governmental activities.
- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, bonds, notes payable, and others only appear as liabilities on the government-wide statements.

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

Fund Financial Statements (Reporting the Department's Major Funds)

The fund financial statements begin on page 18 and provide detailed information about the major individual funds. A fund is an accounting entity with a self-balancing set of accounts that the Department uses to keep track of specific sources of funding and spending for a particular purpose. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into two categories: governmental and proprietary.

Governmental Funds—A majority of the Department's activities are reported in governmental funds. Reporting of these funds focuses on how financial resources flow in 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 Department'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 Department's programs. The reconciliations following the fund financial statements explain the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The Department maintains fifteen 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 General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Debt Service Fund, and Capital Projects Fund, which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

The legislature appropriates an annual budget from the Department's General Fund (State Highway Fund). The Budgetary Comparison Schedule – General Fund (State Highway Fund) has been provided to demonstrate compliance with this budget and is presented as Required Supplementary Information. The governmental funds financial statements can be found on pages 18-25 of this report.

Proprietary Funds: When the Department charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting, the same method used by most private sector businesses. Enterprise funds report activities that provide goods and services to outside customers, to other agencies, or to other divisions of the Department. The Department's enterprise fund is the Highway Expansion and Extension Loan Program Fund. The internal service fund reports activities that provide supplies and services for the Department's other programs and activities and other state agencies. The Equipment Revolving Fund is the Department's only internal service fund. Internal

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

service fund activities are reported as governmental activities on the government-wide statements. The proprietary funds financial statements can be found on pages 26-29 of this report.

Notes to the 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 on pages 30-64 of this report.

Required Supplementary Information

In addition to the basic financial statements, including accompanying notes, this section presents certain Required Supplementary Information including the Department's Budgetary Comparison Schedule – General Fund (State Highway Fund), the modified approach to reporting infrastructure assets, and the Pension Liability and Pension Contributions as per GASB statement 68, as amended. Required Supplementary Information can be found on pages 65-72 of this report.

Supplementary Information

Other Supplementary Information includes the combining statements for the nonmajor governmental funds and is presented immediately following the Required Supplementary Information. Combining fund statements and schedules can be found on pages 73-76 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Department's financial health. The following tables, graphs, and analyses address the net position and changes to net position for the Department as a whole as of and for the fiscal years ended June 30, 2016 and 2015.

The Department's combined net position increased by \$784.5 million over the course of this fiscal year's operations, an increase of 4.3%. The net position of the governmental activities increased by \$804.0 million, or 4.4%; and business-type activities decreased by \$19.5 million, a decrease of 25% over the previous year. The overall increase in the Department's net position was due primarily to an increase in the Department's infrastructure.

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The following table reflects the condensed Statement of Net Position as of June 30, 2016 and 2015:

Condensed Statement of Net Position
As of June 30,

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 1,486,427,479	\$ 1,474,303,545	\$ 59,293,343	\$ 83,207,708	\$ 1,545,720,822	\$ 1,557,511,253
Capital assets	<u>20,971,599,914</u>	<u>20,307,159,233</u>	<u>-</u>	<u>18,328</u>	<u>20,971,599,914</u>	<u>20,307,177,561</u>
Total assets	<u>22,458,027,393</u>	<u>21,781,462,778</u>	<u>59,293,343</u>	<u>83,226,036</u>	<u>22,517,320,736</u>	<u>21,864,688,814</u>
Deferred Outflows of Resources	<u>93,921,223</u>	<u>109,108,947</u>	<u>-</u>	<u>227,258</u>	<u>93,921,223</u>	<u>109,336,205</u>
Liabilities						
Other liabilities	299,304,777	232,093,784	-	2,057,201	299,304,777	234,150,985
Noncurrent liabilities	<u>3,161,519,626</u>	<u>3,346,919,370</u>	<u>-</u>	<u>1,916,635</u>	<u>3,161,519,626</u>	<u>3,348,836,005</u>
Total liabilities	<u>3,460,824,403</u>	<u>3,579,013,154</u>	<u>-</u>	<u>3,973,836</u>	<u>3,460,824,403</u>	<u>3,582,986,990</u>
Deferred Inflows of Resources	<u>28,720,206</u>	<u>53,525,346</u>	<u>-</u>	<u>307,767</u>	<u>28,720,206</u>	<u>53,833,113</u>
Net Position						
Net investment in capital assets	18,305,645,969	17,496,121,617	-	18,328	18,305,645,969	17,496,139,945
Restricted	<u>746,099,060</u>	<u>819,445,518</u>	<u>59,293,343</u>	<u>78,770,273</u>	<u>805,392,403</u>	<u>898,215,791</u>
Unrestricted	<u>10,658,978</u>	<u>(57,533,910)</u>	<u>-</u>	<u>383,090</u>	<u>10,658,978</u>	<u>(57,150,820)</u>
Total net position	<u>\$ 19,062,404,007</u>	<u>\$ 18,258,033,225</u>	<u>\$ 59,293,343</u>	<u>\$ 79,171,691</u>	<u>\$ 19,121,697,350</u>	<u>\$ 18,337,204,916</u>

The total assets of the Department (excluding deferred outflows of resources) were \$22.5 billion, while total liabilities (excluding deferred inflows of resources) were \$3.5 billion, resulting in a net position balance of \$19.1 billion. The majority of the Department's net position, \$18.3 billion (95.7%), was invested in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), net of any related debt used to acquire those assets. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

The governmental activities reported an increase in capital assets with the largest increase being in the area of infrastructure.

During the fiscal year ended June 30, 2016, ADOT reclassified the Arizona Highways Magazine from Business-Type Activities to Governmental Activities. The 2015 numbers in this table have not been revised to reflect this change. See Note 2 for further information.

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net position changed during the year, compared to the prior year:

Condensed Statement of Activities
For the Years Ended June 30,

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 167,982,852	\$ 145,815,312	\$ -	\$ 5,073,108	\$ 167,982,852	\$ 150,888,420
Operating grants and contributions	134,446,359	172,279,124	-	-	134,446,359	172,279,124
Capital grants and contributions	856,433,851	696,876,955	-	-	856,433,851	696,876,955
General revenues						
Motor vehicle registration, title, and related taxes	1,134,913,276	1,036,501,712	-	-	1,134,913,276	1,036,501,712
Fuel and motor carrier taxes and fees	735,927,602	686,041,839	-	-	735,927,602	686,041,839
Transportation excise taxes	262,970,657	254,871,189	-	-	262,970,657	254,871,189
Flight property taxes	9,620,180	8,595,398	-	-	9,620,180	8,595,398
Income from investments	9,064,236	9,989,166	559,869	612,623	9,624,105	10,601,789
Other	6,990,075	10,264,182	-	-	6,990,075	10,264,182
Gain (loss) on sale of capital assets	60,471	151,096	-	-	60,471	151,096
Total revenues	<u>3,318,409,559</u>	<u>3,021,385,973</u>	<u>559,869</u>	<u>5,685,731</u>	<u>3,318,969,428</u>	<u>3,027,071,704</u>
Expenses						
Distributions to Arizona counties and cities	1,260,018,637	1,155,651,075	-	-	1,260,018,637	1,155,651,075
Noncapital, including asset preservation	373,006,370	315,348,743	-	-	373,006,370	315,348,743
Distributions to other state agencies	232,905,324	189,517,017	-	-	232,905,324	189,517,017
Highway	122,025,358	41,835,681	-	4,739,367	122,025,358	46,575,048
Highway maintenance	116,067,188	137,473,410	-	-	116,067,188	137,473,410
Local governmental assistance	114,649,721	98,371,365	-	-	114,649,721	98,371,365
Motor vehicle	113,029,280	92,519,607	-	-	113,029,280	92,519,607
Interest on long-term debt	93,840,131	94,955,871	-	-	93,840,131	94,955,871
Administration	88,898,186	98,854,942	-	-	88,898,186	98,854,942
Highway Expansion and Extension						
Loan Program	-	-	20,036,799	43,169	20,036,799	43,169
Total expenses	<u>2,514,440,195</u>	<u>2,224,527,711</u>	<u>20,036,799</u>	<u>4,782,536</u>	<u>2,534,476,994</u>	<u>2,229,310,247</u>
Changes in net position	<u>803,969,364</u>	<u>796,858,262</u>	<u>(19,476,930)</u>	<u>903,195</u>	<u>784,492,434</u>	<u>797,761,457</u>
Net position, beginning	<u>18,258,434,643</u>	<u>17,461,174,963</u>	<u>78,770,273</u>	<u>78,268,496</u>	<u>18,337,204,916</u>	<u>17,539,443,459</u>
Net position, ending	<u>\$ 19,062,404,007</u>	<u>\$ 18,258,033,225</u>	<u>\$ 59,293,343</u>	<u>\$ 79,171,691</u>	<u>\$ 19,121,697,350</u>	<u>\$ 18,337,204,916</u>

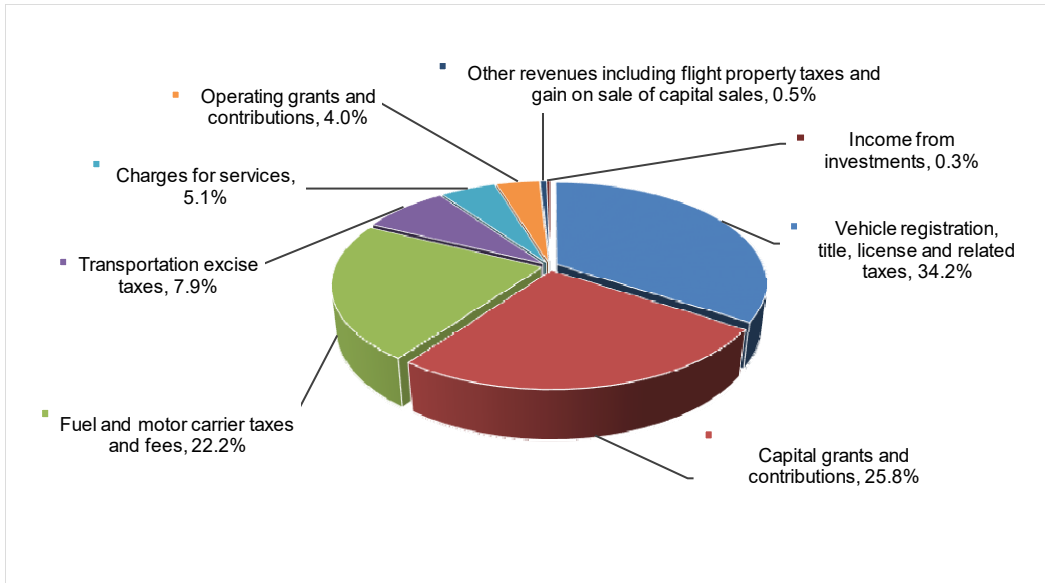
During the fiscal year ended June 30, 2016, ADOT reclassified the Arizona Highways Magazine from Business-Type Activities to Governmental Activities. The 2015 numbers in this table have not been revised to reflect this change. See Note 2 for further information.

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2016:

Revenues – Governmental Activities
\$3,318,409,559



Of the Department's revenues, \$2.7 billion (or 82.2%) are from the following three revenue sources:

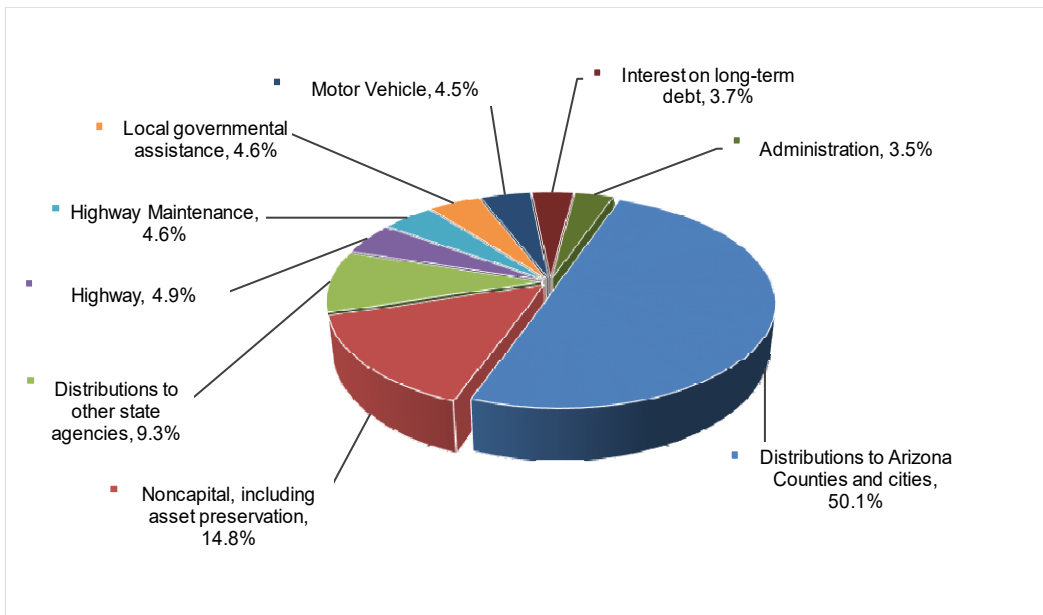
- Vehicle registration, title, license, and related taxes comprise the Department's largest revenue source of \$1.1 billion (34.2%).
- Capital grants and contributions represent the Department's second largest revenue source of \$856.4 million (25.8%).
- Fuel and motor carrier taxes and fees represent the Department's third largest revenue source of \$735.9 million (22.2%).

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Regional Area Road Fund (RARF), also known as the Maricopa County Transportation Excise Tax, posted positive year-results in fiscal year 2016. HURF collections totaled approximately \$1,356.8 million, 5.1% above fiscal year 2015 and 1.9% above the forecast. Maricopa County Transportation Excise Tax collections totaled \$396.8 million, an increase of 3.8 % over fiscal year 2015 and 1.0% above the Department's estimate. The Transportation Excise Tax distribution to the Department was \$263 million compared to \$254.9 million for fiscal year 2015.

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2016:

Expenses – Governmental Activities
\$2,514,440,195



Arizona Department of Transportation

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Of the Department's expenses, \$1.9 billion (or 74.2%) were for the following:

- Distributions to Arizona counties and cities comprise the Department's largest expense of \$1.3 billion (50.1%).
- Noncapital, including asset preservation, represents the Department's second largest expense of \$373 million (14.8%).
- Distributions to other state agencies represent the Department's third largest expense of \$232.9 million (9.3%).

Distributions to Arizona counties and cities increased in fiscal year 2016 as compared to fiscal year 2015 due to an increase in gas and fuel tax revenue collections. The distributions to other government entities equal \$1.5 billion (59.4%); making up more than half of the expenditures for fiscal year 2016.

Business-Type Activities

Net position for business-type activities decreased by \$19.5 million in fiscal year 2016. Total revenues were \$560 thousand, all of which came from income from investments. The total expenses for business-type activities were \$20 million.

The Highway Expansion and Extension Loan Program did not approve or disburse any loans in Fiscal Year 2016. Interest revenue decreased this fiscal year due to the lower interest rates during the year.

Financial Analysis of the Department's Funds

As previously mentioned, the Department uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental Funds: The focus of the Department's governmental funds financial statements (pages 18-25) is to provide information on near-term inflows, outflows, and balances of spendable resources. All major governmental funds are discretely presented on these financial statements, while the nonmajor governmental funds are combined into a single column. Combining statements for the nonmajor governmental funds may be found on pages 73-76.

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$1.2 billion, a decrease of \$57.5 million over the previous fiscal year. The majority of this amount is restricted for capital projects.

The General Fund (State Highway Fund) is the primary operating fund of the Department. At the end of the current fiscal year, the non-spendable fund balance was \$6.2 million; the restricted fund balance was \$337.5 million; and the committed fund balance was \$282.3 million.

The Maricopa Regional Area Road Construction Fund is a major special revenue fund that receives a portion of Maricopa County Transportation Excise Tax monies that are used 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 within Maricopa County. Total revenues collected in the fund in fiscal year 2016 were \$568.1 million; Transportation Excise Tax revenue of \$263 million (or 46.3%) was the bulk of the revenue. The remaining revenue was mainly federal revenue and income from investments.

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The Debt Service Fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest of the governmental funds. The other financing sources of \$304.3 million were transferred in from the General Fund (State Highway Fund) (\$144.1 million), Maricopa Regional Area Road Construction Fund (\$103.3 million), and Grant Anticipation Notes Fund (\$56.9 million), and were used to pay the debt service.

The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities in the governmental funds. During the fiscal year, the Capital Projects Funds' expenditures were \$67.8 million. Capital outlay expenditures of \$51.6 million (76.1%) accounted for the majority of the expenditures in the Capital Projects Fund. This expenditure for the acquisition and construction of new highways was converted to capital assets on the government-wide statements.

Budget Variances

The Department's appropriated operating budget from the General Fund (State Highway Fund) increased by about \$1.0 million from fiscal year 2015 to fiscal year 2016. The increase was primarily due to the increased cost to maintain and operate new lane miles. In fiscal year 2015, the Department spent 97.5% of its budget and in fiscal year 2016 the Department spent 94.2% of its budget. Ultimately, the Department spent about \$7.9 million less in fiscal year 2016 than in fiscal year 2015 from its appropriated operating budget from the General Fund (State Highway Fund). Reference the budgetary comparison schedule on page 65.

Capital Assets and Debt Administration

Capital Assets (See Note 5A to the financial statements for additional information)

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$21 billion (net of accumulated depreciation), a \$664.4 million increase over the previous fiscal year.

Capital Assets June 30,

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 3,232,963,015	\$ 2,977,145,531	\$ -	\$ 7,900	\$ 3,232,963,015	\$ 2,977,153,431
Infrastructure	16,095,093,730	15,732,568,650	-	-	16,095,093,730	15,732,568,650
Construction in progress	1,422,492,003	1,358,933,346	-	-	1,422,492,003	1,358,933,346
Buildings and improvements	104,236,514	104,164,773	-	4,471	104,236,514	104,169,244
Improvements other than buildings	20,718,360	46,770,729	-	-	20,718,360	46,770,729
Machinery and equipment	31,609,100	21,970,078	-	5,957	31,609,100	21,976,035
Mobile fleet and aircraft	64,487,192	65,606,126	-	-	64,487,192	65,606,126
Total	<u>\$ 20,971,599,914</u>	<u>\$ 20,307,159,233</u>	<u>\$ -</u>	<u>\$ 18,328</u>	<u>\$ 20,971,599,914</u>	<u>\$ 20,307,177,561</u>

As provided by accounting principles generally accepted in the United States (GAAP), the Department has elected to record its infrastructure assets using the modified approach, as defined in GASB Statement 34, as amended. Assets accounted for under the modified approach include 6,800 center line miles of roads (21,390 travel lane miles) and 4,798 bridges that the Department is responsible for maintaining.

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The Five-Year Transportation Facilities Construction Program (the "Program") is a dynamic program and adjustments are made to the annual plans based on the needs of the Department to maintain the condition level of the roads and bridges at a level equal to, or greater than, the goals established by the Department. The Program is updated annually and adjustments are made monthly during the fiscal year, as circumstances may require.

The Department manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The Department's serviceability rating goal is 3.23 for the overall system. The Department's most recent assessment indicated that an overall rating of 3.66 was achieved for fiscal year 2016.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). To comply with Federal standards, the Department is expected to maintain its Bridges to a condition where not more than 10.0% are classified as poor. The Department's most recent assessment indicated that 2.9% of the bridges were so classified for fiscal year 2016.

Noncurrent Liabilities (See Note 5E to the financial statements for additional information)

The Department's noncurrent liabilities for its governmental and business-type activities as of June 30, 2016, amount to \$3.2 billion, a decrease of \$185.6 million from the previous fiscal year.

<u>Governmental Activities</u>	<u>2016</u>	<u>2015</u>
Highway revenue bonds	\$ 1,519,770,000	\$ 1,589,965,000
Transportation excise tax revenue bonds	717,225,000	782,810,000
Grant anticipation notes (GARVEE bonds)	147,320,000	194,670,000
Unamortized Premium on bonds	367,142,825	401,520,619
Capital leases	37,745,660	30,944,653
Compensated absences	18,307,328	18,742,433
Net pension liability and net OPEB obligation (Note 6C)	331,830,170	306,088,022
Advances and notes payable	<u>22,178,643</u>	<u>22,178,643</u>
Total governmental activities	<u>3,161,519,626</u>	<u>3,346,919,370</u>
<u>Business-Type Activities</u>		
Compensated absences	-	156,652
Total business-type activities	<u>-</u>	<u>156,652</u>
Total noncurrent liabilities	<u>\$ 3,161,519,626</u>	<u>\$ 3,347,076,022</u>

The Department has issued revenue bonds in 35 separate issues since 2000. All bonds outstanding as of June 30, 2016, are scheduled to mature on various dates, but none later than July 1, 2038. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (the "Transportation Board") and are not obligations of the State of Arizona.

Arizona Department of Transportation
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The senior lien Highway Revenue Bonds have been rated AAA/Aa1 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively. The Department's subordinate lien Highway Revenue Bonds are rated AA+/Aa2. The Department's Transportation Excise Tax Revenue Bonds are rated AA+/Aa1. The Department's Grant Anticipation Notes (GARVEE bonds) are rated AA/Aa2/AA with the additional rating provided by Fitch Ratings.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Department'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 website at:

<http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/financial-reports>.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements – includes a statement of net position and a statement of activities. These statements report the overall Department activities. The statements also distinguish between the Department’s government and business-type activities. These statements are prepared utilizing the accrual basis of accounting for financial reporting.

Governmental and Proprietary Fund Financial Statements – Provides information about the Department’s funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Notes to the Financial Statements – provide additional information that is essential for the full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position – combines and consolidates the Department’s current financial resources with capital assets and long-term obligations. This statement includes all of the Department’s non-fiduciary assets and liabilities.

Statement of Activities – focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by the Department’s general tax and other revenues. This statement summarizes the cost of providing specific Department services and includes all current year revenues and expenses.

Arizona Department of Transportation

Exhibit 1

Statement of Net Position

June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Unrestricted cash on deposit with State Treasurer	\$ 232,243,239	\$ -	\$ 232,243,239
Receivables			
Taxes and fees	74,157,406	-	74,157,406
Notes and loans	3,472,154	-	3,472,154
Other, net of allowance for doubtful accounts	14,414,460	-	14,414,460
Due from U.S. government	65,096,195	-	65,096,195
Due from other state agencies	22,584,082	-	22,584,082
Inventories	8,696,351	-	8,696,351
Restricted cash on deposit with State Treasurer	1,065,216,825	59,293,343	1,124,510,168
Restricted cash with fiscal agents	546,767	-	546,767
Capital assets not subject to depreciation (Notes 5A)	20,750,548,748	-	20,750,548,748
Capital assets subject to depreciation, net of accumulated depreciation, (Notes 5A)	221,051,166	-	221,051,166
Total assets	<u>22,458,027,393</u>	<u>59,293,343</u>	<u>22,517,320,736</u>
Deferred Outflows of Resources			
Relating to pensions (Note 6C)	31,877,605	-	31,877,605
Loss on debt refundings	62,043,618	-	62,043,618
Total deferred outflows of resources	<u>93,921,223</u>	<u>-</u>	<u>93,921,223</u>
Liabilities			
Accounts payable and other current liabilities	110,751,611	-	110,751,611
Accrued payroll and other accrued expenses	10,650,516	-	10,650,516
Due to other state agencies	12,548,303	-	12,548,303
Tax and refunds payable	15,575,257	-	15,575,257
Due to Arizona counties and cities	147,991,868	-	147,991,868
Unearned revenue	1,787,222	-	1,787,222
Long-term obligations (Notes 5E)	2,829,689,456	-	2,829,689,456
Net OPEB obligation (Note 6C)	9,802,038	-	9,802,038
Net pension liability (Note 6C)	322,028,132	-	322,028,132
Total liabilities	<u>3,460,824,403</u>	<u>-</u>	<u>3,460,824,403</u>
Deferred Inflows of Resources			
Relating to pensions (Note 6C)	28,720,206	-	28,720,206
Total deferred inflows of resources	<u>28,720,206</u>	<u>-</u>	<u>28,720,206</u>
Net Position			
Net investment in capital assets	18,305,645,969	-	18,305,645,969
Restricted			
Loans and other financial assistance	17,708,713	59,293,343	77,002,056
Capital projects	728,390,347	-	728,390,347
Unrestricted	10,658,978	-	10,658,978
Total net position	<u>\$ 19,062,404,007</u>	<u>\$ 59,293,343</u>	<u>\$ 19,121,697,350</u>

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation
Statement of Activities
For the Year Ended June 30, 2016

Exhibit 2

Functions/Programs	Program Revenues				Net (Expenses) Revenues																																																								
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions																																																									
Governmental activities																																																													
Administration	\$ 88,898,186	\$ 13,185,551	\$ 4,548,967	\$ 45,457,540	\$ (25,706,128)																																																								
Highway	122,025,358	2,596,575	17,925,767	810,744,433	709,241,417																																																								
Highway maintenance	116,067,188	6,301,700	-	3,645	(109,761,843)																																																								
Motor vehicle	113,029,280	145,899,026	520,328	228,233	33,618,307																																																								
Noncapital, including asset preservation	373,006,370	-	-	-	(373,006,370)																																																								
Distributions to other state agencies	232,905,324	-	-	-	(232,905,324)																																																								
Distributions to Arizona counties and cities	1,260,018,637	-	-	-	(1,260,018,637)																																																								
Local government assistance	114,649,721	-	111,451,297	-	(3,198,424)																																																								
Interest on long-term debt	93,840,131	-	-	-	(93,840,131)																																																								
Total governmental activities	<u>2,514,440,195</u>	<u>167,982,852</u>	<u>134,446,359</u>	<u>856,433,851</u>	<u>(1,355,577,133)</u>																																																								
Business-type activities																																																													
Highway Expansion and Extension Loan Program	20,036,799	-	-	-	(20,036,799)																																																								
Total business-type activities	<u>20,036,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,036,799)</u>																																																								
Total primary government	<u>\$ 2,534,476,994</u>	<u>\$ 167,982,852</u>	<u>\$ 134,446,359</u>	<u>\$ 856,433,851</u>	<u>\$ (1,375,613,932)</u>																																																								
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: center; border-bottom: 1px solid black;">Governmental Activities</th> <th style="text-align: center; border-bottom: 1px solid black;">Business-type Activities</th> <th style="text-align: center; border-bottom: 1px solid black;">Total</th> </tr> </thead> <tbody> <tr> <td>Net (expenses) revenues</td> <td style="text-align: right;">\$ (1,355,577,133)</td> <td style="text-align: right;">\$ (20,036,799)</td> <td style="text-align: right;">\$ (1,375,613,932)</td> </tr> <tr> <td>General revenues</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Transportation excise taxes</td> <td style="text-align: right;">262,970,657</td> <td style="text-align: center;">-</td> <td style="text-align: right;">262,970,657</td> </tr> <tr> <td style="padding-left: 20px;">Motor vehicle registration, title, and related taxes</td> <td style="text-align: right;">1,134,913,276</td> <td style="text-align: center;">-</td> <td style="text-align: right;">1,134,913,276</td> </tr> <tr> <td style="padding-left: 20px;">Fuel and motor carrier taxes and fees</td> <td style="text-align: right;">735,927,602</td> <td style="text-align: center;">-</td> <td style="text-align: right;">735,927,602</td> </tr> <tr> <td style="padding-left: 20px;">Flight property taxes</td> <td style="text-align: right;">9,620,180</td> <td style="text-align: center;">-</td> <td style="text-align: right;">9,620,180</td> </tr> <tr> <td style="padding-left: 20px;">Income from investments</td> <td style="text-align: right;">9,064,236</td> <td style="text-align: right;">559,869</td> <td style="text-align: right;">9,624,105</td> </tr> <tr> <td style="padding-left: 20px;">Gain on sale of capital assets</td> <td style="text-align: right;">60,471</td> <td style="text-align: center;">-</td> <td style="text-align: right;">60,471</td> </tr> <tr> <td style="padding-left: 20px;">Other</td> <td style="text-align: right;">6,990,075</td> <td style="text-align: center;">-</td> <td style="text-align: right;">6,990,075</td> </tr> <tr> <td style="padding-left: 40px;">Total general revenues</td> <td style="text-align: right; border-top: 1px solid black;"><u>2,159,546,497</u></td> <td style="text-align: right; border-top: 1px solid black;"><u>559,869</u></td> <td style="text-align: right; border-top: 1px solid black;"><u>2,160,106,366</u></td> </tr> <tr> <td style="padding-left: 40px;">Changes in net position</td> <td style="text-align: right;">803,969,364</td> <td style="text-align: right;">(19,476,930)</td> <td style="text-align: right;">784,492,434</td> </tr> <tr> <td>Beginning net position</td> <td style="text-align: right; border-top: 1px solid black;"><u>18,258,434,643</u></td> <td style="text-align: right; border-top: 1px solid black;"><u>78,770,273</u></td> <td style="text-align: right; border-top: 1px solid black;"><u>18,337,204,916</u></td> </tr> <tr> <td>Ending net position</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><u>\$ 19,062,404,007</u></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><u>\$ 59,293,343</u></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><u>\$ 19,121,697,350</u></td> </tr> </tbody> </table>							Governmental Activities	Business-type Activities	Total	Net (expenses) revenues	\$ (1,355,577,133)	\$ (20,036,799)	\$ (1,375,613,932)	General revenues				Transportation excise taxes	262,970,657	-	262,970,657	Motor vehicle registration, title, and related taxes	1,134,913,276	-	1,134,913,276	Fuel and motor carrier taxes and fees	735,927,602	-	735,927,602	Flight property taxes	9,620,180	-	9,620,180	Income from investments	9,064,236	559,869	9,624,105	Gain on sale of capital assets	60,471	-	60,471	Other	6,990,075	-	6,990,075	Total general revenues	<u>2,159,546,497</u>	<u>559,869</u>	<u>2,160,106,366</u>	Changes in net position	803,969,364	(19,476,930)	784,492,434	Beginning net position	<u>18,258,434,643</u>	<u>78,770,273</u>	<u>18,337,204,916</u>	Ending net position	<u>\$ 19,062,404,007</u>	<u>\$ 59,293,343</u>	<u>\$ 19,121,697,350</u>
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The accompanying notes are an integral part of these financial statements.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

MAJOR FUNDS

General Fund (State Highway Fund) – This fund is used to account for all financial transactions applicable to the general operations of the Department. The fund receives money from the Highway User Revenue Fund including vehicle registration, title, license, and related fees and fuel and motor carrier taxes. Reimbursements for certain construction expenditures are received from the federal government, Arizona cities and counties, and other state agencies. The fund also receives interest and other revenues. The fund disburses money primarily for the design, construction, and maintenance of state highways, parts of highways forming state routes, and highways under cooperative agreements with the United States and day-to-day operating expenses.

Maricopa Regional Area Road Construction Fund – This fund receives certain Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial streets within Maricopa County.

Motor Vehicle Division Clearing Fund – This fund accounts for the collection and disbursement of Motor Vehicle Division revenues.

Highway User Revenue Fund – This fund receives all revenues collected by the Department and its agents that are not designated for other purposes. The revenues include: motor fuel taxes, a portion of vehicle license tax, vehicle registration fees, driver license fees, dealer fees, permits, and other miscellaneous fees. These monies are distributed to the General Fund (State Highway Fund), the Department of Public Safety, the Economic Strength Project Fund, incorporated cities, counties, and other legislatively appropriated entities.

Debt Service Fund – This fund is used to administer all payments of principal and interest on bonds and notes issued by the Arizona Transportation Board for Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes (GARVEE bonds).

Capital Projects Fund – This fund is used to administer bond proceeds for Arizona Transportation Board Highway Revenue Bonds, Arizona Transportation Board Transportation Excise Tax Revenue Bonds, Grant Anticipation Notes (GARVEE bonds). These monies are expended for the construction of projects in the Five-Year Transportation Facilities Construction Program.

NONMAJOR FUNDS

Other Governmental Funds are the nonmajor funds and are all special revenue funds. These funds can be found on Exhibit 8 and Exhibit 9.

Arizona Department of Transportation

Balance Sheet — Governmental Funds

June 30, 2016

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
Assets			
Unrestricted cash on deposit with the State Treasurer	\$ 214,431,885	\$ -	\$ -
Receivables			
Interfund	100,140,520	-	820,282
Taxes and fees	-	-	11,036,999
Notes and loans	561,377	-	-
Due from other state agencies	-	22,584,082	-
Other, net	5,144,974	272,622	95,686
Amounts due from U.S. government	40,415,747	16,675,354	-
Inventories	6,178,810	-	-
Restricted cash held by fiscal agents	546,767	-	-
Restricted cash on deposit with the State Treasurer	<u>336,987,207</u>	<u>383,637,716</u>	<u>65,997,440</u>
Total assets	<u>\$ 704,407,287</u>	<u>\$ 423,169,774</u>	<u>\$ 77,950,407</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 60,528,255	\$ 28,457,079	\$ 1,017,738
Accrued payroll and other accrued expenditures	9,593,963	255,157	-
Tax and refunds payable	-	-	15,575,257
Interfund payables	820,282	-	30,056,116
Amounts due to			
Other state agencies	-	-	6,559,276
Arizona counties and cities	5,091,155	3,601,165	32,870,443
Unearned revenue	<u>1,787,222</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>77,820,877</u>	<u>32,313,401</u>	<u>86,078,830</u>
Deferred inflows of resources			
Unavailable revenue	<u>561,377</u>	<u>-</u>	<u>-</u>
Fund balances			
Unassigned	-	-	(8,128,423)
Nonspendable	6,178,810	-	-
Restricted	337,533,974	390,856,373	-
Committed	<u>282,312,249</u>	<u>-</u>	<u>-</u>
Total fund balances (deficits)	<u>626,025,033</u>	<u>390,856,373</u>	<u>(8,128,423)</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 704,407,287</u>	<u>\$ 423,169,774</u>	<u>\$ 77,950,407</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 3

Special Revenue Funds			Total Nonmajor Governmental Funds (See Exhibit 8)	Total Governmental Funds
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund		
\$ -	\$ -	\$ -	\$ 16,468,314	\$ 230,900,199
26,690,672	-	-	3,114,056	130,765,530
63,120,407	-	-	-	74,157,406
-	-	-	2,910,777	3,472,154
-	-	-	-	22,584,082
-	-	-	8,871,402	14,384,684
-	-	-	8,005,094	65,096,195
-	-	-	-	6,178,810
-	-	-	-	546,767
<u>110,489,183</u>	<u>232,883</u>	<u>145,195,300</u>	<u>22,677,096</u>	<u>1,065,216,825</u>
<u>\$ 200,300,262</u>	<u>\$ 232,883</u>	<u>\$ 145,195,300</u>	<u>\$ 62,046,739</u>	<u>\$ 1,613,302,652</u>
\$ -	\$ -	\$ 5,842,274	\$ 14,764,702	\$ 110,610,048
-	-	69,222	300,934	10,219,276
-	-	-	-	15,575,257
99,889,132	-	-	-	130,765,530
-	-	-	5,989,027	12,548,303
100,411,130	-	-	6,017,975	147,991,868
-	-	-	-	1,787,222
<u>200,300,262</u>	<u>-</u>	<u>5,911,496</u>	<u>27,072,638</u>	<u>429,497,504</u>
-	-	-	-	561,377
-	-	-	-	(8,128,423)
-	-	-	-	6,178,810
-	232,883	139,283,804	17,708,713	885,615,747
-	-	-	17,265,388	299,577,637
-	<u>232,883</u>	<u>139,283,804</u>	<u>34,974,101</u>	<u>1,183,243,771</u>
<u>\$ 200,300,262</u>	<u>\$ 232,883</u>	<u>\$ 145,195,300</u>	<u>\$ 62,046,739</u>	<u>\$ 1,613,302,652</u>

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation

Exhibit 3.1

Reconciliation of the Balance Sheet of Governmental

Funds to the Statement of Net Position

June 30, 2016

Fund balances – total governmental funds (Exhibit 3)	\$ 1,183,243,771
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note 4 B1).	20,906,101,458
Certain receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds (Exhibit 3).	561,377
Internal service funds are used by management to charge the costs of equipment rentals to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position (Exhibit 5).	53,251,319
Deferred outflows of resources are not reported in the funds (Notes 4 B2).	92,484,451
OPEB liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds (Note 4 B3).	(9,341,342)
Pension liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds (Note 4 B4).	(307,512,150)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 4 B5).	(2,828,959,285)
Deferred inflows of resources related to pensions are not reported in the funds (Note 4 B6).	<u>(27,425,592)</u>
Net position of governmental activities (Exhibit 1)	<u><u>\$ 19,062,404,007</u></u>

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation

Statement of Revenues, Expenditures and Changes in

Fund Balances — Governmental Funds

For the Year Ended June 30, 2016

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
Revenues			
Transportation excise taxes	\$ -	\$ 262,970,657	\$ -
Vehicle registration, title, license, and related taxes and fees	364,211,789	-	550,527,971
Fuel and motor carrier taxes and fees	282,499,056	-	-
Flight property taxes	-	-	-
Reimbursement of construction expenditures – federal aid	492,327,144	299,345,147	-
Other federal grants and reimbursements	20,700,502	-	-
Reimbursements from Arizona counties and cities	4,818,225	759,848	-
Distributions from other state agencies	743,960	-	-
Interest on loans receivable	47,593	-	-
Income from investments	3,453,468	3,130,734	-
Sales and charges for services	9,188,717	-	-
Grand Canyon National Park Airport	-	-	-
Rental income	3,388,112	1,862,395	-
Other	4,257,314	-	6,305
Total revenues	1,185,635,880	568,068,781	550,534,276
Expenditures			
Current			
Administration	63,851,491	3,464,117	2,317,783
Highway	104,691,671	4,608,219	-
Highway maintenance	98,652,620	10,119,771	-
Motor vehicle	100,505,490	1,276	985,310
Total current expenditures	367,701,272	18,193,383	3,303,093

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds			Total Nonmajor Governmental Funds	Total Governmental Funds
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund	(See Exhibit 9)	
\$ -	\$ -	\$ -	\$ -	\$ 262,970,657
346,608,419	-	-	19,464,123	1,280,812,302
412,719,819	-	-	40,708,727	735,927,602
-	-	-	9,620,180	9,620,180
-	-	-	68,313,014	859,985,305
-	-	-	85,959,020	106,659,522
-	-	-	18,657,310	24,235,383
-	-	-	-	743,960
-	-	-	159,142	206,735
399,013	753,778	1,188,218	139,025	9,064,236
-	-	-	-	9,188,717
-	-	-	343,849	343,849
-	-	-	306,146	5,556,653
<u>1,890,639</u>	<u>20,192</u>	<u>-</u>	<u>815,625</u>	<u>6,990,075</u>
<u>761,617,890</u>	<u>773,970</u>	<u>1,188,218</u>	<u>244,486,161</u>	<u>3,312,305,176</u>
4,794,082	57,123	120,920	6,585,071	81,190,587
-	-	-	53,710,908	163,010,798
-	-	-	109,238	108,881,629
<u>759,168</u>	<u>-</u>	<u>-</u>	<u>3,779,137</u>	<u>106,030,381</u>
<u>5,553,250</u>	<u>57,123</u>	<u>120,920</u>	<u>64,184,354</u>	<u>459,113,395</u>

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation

Statement of Revenues, Expenditures and Changes in

Fund Balances — Governmental Funds

For the Year Ended June 30, 2016

	Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund
Expenditures – continued			
Intergovernmental			
Distributions to other state agencies	\$ 9,012,551	\$ -	\$ 57,264,841
Distributions to Arizona counties and cities	52,639,224	43,885,737	489,966,342
Debt service			
Principal	11,178,006	-	-
Interest	647,403	-	-
Noncapital, including asset preservation	335,279,971	5,162,962	-
Capital outlay	<u>175,863,430</u>	<u>460,875,153</u>	<u>-</u>
Total expenditures	<u>952,321,857</u>	<u>528,117,235</u>	<u>550,534,276</u>
Revenues over (under) expenditures	<u>233,314,023</u>	<u>39,951,546</u>	<u>-</u>
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	(144,111,139)	(103,296,981)	-
Sale of capital assets	50,000	10,471	-
Insurance recovery	<u>6,301,700</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(137,759,439)</u>	<u>(103,286,510)</u>	<u>-</u>
Net change in fund balances	95,554,584	(63,334,964)	-
Fund balances (deficits), beginning of year	<u>530,470,449</u>	<u>454,191,337</u>	<u>(8,128,423)</u>
Fund balances (deficits), end of year	<u><u>\$ 626,025,033</u></u>	<u><u>\$ 390,856,373</u></u>	<u><u>\$ (8,128,423)</u></u>

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds				Total Nonmajor Governmental Funds (See Exhibit 9)	Total Governmental Funds
Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund			
\$ 105,749,042	\$ -	\$ -	\$ 60,964,057	\$ 232,990,491	
650,315,598	-	8,146	84,133,987	1,320,949,034	
-	183,130,000	-	-	194,308,006	
-	121,801,162	-	-	122,448,565	
-	-	15,988,429	322,185	356,753,547	
-	-	51,643,007	1,231,515	689,613,105	
<u>761,617,890</u>	<u>304,988,285</u>	<u>67,760,502</u>	<u>210,836,098</u>	<u>3,376,176,143</u>	
-	(304,214,315)	(66,572,284)	33,650,063	(63,870,967)	
-	304,310,751	-	-	304,310,751	
-	-	-	(56,902,631)	(304,310,751)	
-	-	-	-	60,471	
-	-	-	-	6,301,700	
-	<u>304,310,751</u>	-	<u>(56,902,631)</u>	<u>6,362,171</u>	
-	96,436	(66,572,284)	(23,252,568)	(57,508,796)	
-	<u>136,447</u>	<u>205,856,088</u>	<u>58,226,669</u>	<u>1,240,752,567</u>	
<u>\$ -</u>	<u>\$ 232,883</u>	<u>\$ 139,283,804</u>	<u>\$ 34,974,101</u>	<u>\$ 1,183,243,771</u>	

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation

Exhibit 4.1

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2016

Net change in fund balances – total governmental funds (Exhibit 4)	\$ (57,508,796)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds (Note 4 C1).	665,096,577
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 position (Note 4 C2).	222,916,440
Internal services funds are used by management to charge the cost of equipment rentals to individual funds. The net loss of the internal service funds is reported with governmental activities (Note 4 C3).	(592,179)
Pension contributions are reported as expenditures in the governmental funds (Note 4 C4).	1,058,590
OPEB expense (Note 4 C4).	(9,341,342)
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (Note 4 C5).	<u>(17,659,926)</u>
Change in net position of governmental activities (Exhibit 2)	<u><u>\$ 803,969,364</u></u>

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

MAJOR FUNDS

Highway Expansion and Extension Loan Program Fund – This fund is an innovative financing mechanism to administer monies designated to provide loans and credit enhancement assistance to the Department and to sponsors of local transportation projects.

NONMAJOR FUNDS

Internal Service Fund – The Equipment Revolving Fund is primarily funded by the charges it collects from the Department of Transportation, other state agencies, and local organizations to support the repair and maintenance of vehicles and equipment.

Arizona Department of Transportation

Exhibit 5

Statement of Net Position

Proprietary Funds

June 30, 2016

	Business-Type Activities – <u>Enterprise Fund</u>	Governmental Activities- Internal <u>Service Fund</u>
	Highway Expansion and Extension Loan Program Fund	
Assets		
Current assets		
Unrestricted cash on deposit with the State Treasurer	\$ -	\$ 1,343,040
Receivables		
Other, net allowance for doubtful accounts	-	29,776
Inventories	-	2,517,541
Restricted cash on deposit with the State Treasurer	<u>59,293,343</u>	<u>-</u>
Total current assets	<u>59,293,343</u>	<u>3,890,357</u>
Noncurrent assets		
Capital assets subject to depreciation, net of accumulated depreciation	<u>-</u>	<u>65,498,456</u>
Total noncurrent assets	<u>-</u>	<u>65,498,456</u>
Total assets	<u>59,293,343</u>	<u>69,388,813</u>
Deferred outflows of resources – relating to pensions	<u>-</u>	<u>1,436,772</u>
Liabilities		
Current liabilities		
Accounts payable	-	141,563
Accrued payroll and other accrued expenses	-	431,240
Compensated absences	<u>-</u>	<u>730,171</u>
Total current liabilities	<u>-</u>	<u>1,302,974</u>
Noncurrent liabilities		
Net OPEB obligation		460,696
Net pension liability	<u>-</u>	<u>14,515,982</u>
Total noncurrent liabilities	<u>-</u>	<u>14,976,678</u>
Total liabilities	<u>-</u>	<u>16,279,652</u>
Deferred inflows of resources – relating to pensions	<u>-</u>	<u>1,294,614</u>
Net Position		
Net investment in capital assets	-	64,901,837
Restricted for loans and other financial assistance	59,293,343	-
Unrestricted	<u>-</u>	<u>(11,650,518)</u>
Total net position	<u>\$ 59,293,343</u>	<u>\$ 53,251,319</u>

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation

Exhibit 6

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds For the Year Ended June 30, 2016

	Business-Type Activities – Enterprise Fund	
	Highway Expansion and Extension Loan Program Fund	Governmental Activities- Internal Service Fund
Operating Revenues		
Sales and charges for services	\$ -	\$ 24,721,125
Other	-	11,639
Total operating revenues	-	24,732,764
Operating Expenses		
Depreciation	-	18,008,108
Salaries and related benefits	-	13,782,414
Fuel and lubricants	-	8,389,842
Repair and maintenance	-	1,740,132
Professional and outside services	-	373,534
Equipment purchase and rental	-	158,653
Supplies	-	122,189
Travel	-	57,140
Other	-	2,562,908
Total operating expenses	-	45,194,920
Operating loss	-	(20,462,156)
Nonoperating Income		
Income from investments	559,869	13,143
Investment expense/credit card fees	(36,799)	(1,201)
Gain on sale/disposal of capital assets	-	952,353
Insurance recoveries	-	262,025
Distributions to other state agencies	(20,000,000)	-
Total nonoperating revenue (expenses)	(19,476,930)	1,226,320
Capital contributions	-	18,643,657
Change in net position	(19,476,930)	(592,179)
Net position, beginning of year	78,770,273	53,843,498
Net position, end of year	\$ 59,293,343	\$ 53,251,319

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation

Exhibit 7

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2016

	Business-Type Activities – Enterprise Fund	
	Highway Expansion and Extension Loan Program Fund	Governmental Activities- Internal Service Fund
Cash flows from operating activities		
Receipts from customers	\$ -	\$ 25,290,271
Payments to suppliers	-	(14,004,910)
Payments to employees	-	(13,937,218)
Other receipts	37,016	11,639
Net cash provided by (used in) operating activities	37,016	(2,640,218)
Cash flows from noncapital financing activities		
Distribution to other state agencies	(20,000,000)	-
Net cash used in noncapital financing activities	(20,000,000)	-
Cash flows from capital and related financing activities		
Proceeds from sale of capital assets	-	2,243,800
Insurance recoveries	-	262,025
Net cash provided by capital and related financing activities	-	2,505,825
Cash flows from investing activities		
Income from investments	559,869	13,143
Investment expense	(36,799)	(1,201)
Net cash provided by investing activities	523,070	11,942
Net decrease in cash	(19,439,914)	(122,451)
Cash, beginning of year	78,733,257	1,465,491
Cash, end of year	\$ 59,293,343	\$ 1,343,040

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2016

Exhibit 7
— continued

	Business-Type Activities – Enterprise Fund	
	Highway Expansion and Extension Loan Program Fund	Governmental Activities- Internal Service Fund
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	\$ -	\$ (20,462,156)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	-	18,008,108
Change in assets and liabilities		
Due from other state agencies	37,016	37,645
Other receivables	-	(27,222)
Inventories	-	162,576
Deferred outflows of resources	-	428,607
Accounts payable	-	(600,512)
Accrued payroll and other accrued expenses	-	56,560
Unearned revenues	-	(32,460)
Compensated absences	-	(14,885)
Net OPEB liability		460,696
Net pension liability	-	499,297
Deferred inflows of resources	-	(1,156,472)
Total adjustments	37,016	17,821,938
Net cash provided by (used in) operating activities	\$ 37,016	\$ (2,640,218)
Noncash capital and financing activities		
Certain vehicles were contributed to the Equipment Revolving Fund by the General Fund		\$ 18,643,657

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements



Arizona Department of Transportation

Index — Notes to the Financial Statements

June 30, 2016

	<u>Page</u>
Note 1 – Summary of Significant Accounting Policies	31
A – Reporting Entity	31
B – Government-wide and Fund Financial Statements	31
C – Measurement Focus, Basis of Accounting, and Financial Statement Presentation	32
D – Assets, Liabilities, and Net Position/Fund Balance	34
E – Revenues and Expenditures/Expenses	39
F – Interfund Activity and Balances	39
G – Use of Estimates	40
Note 2 – Funds by Classification	40
A – Funds	40
B – Reclassifications	41
Note 3 – Budgeting, Budgetary Control, and Legal Compliance	41
Note 4 – Accounting Pronouncements and Reconciliation of Government-Wide and Fund Financial Statements	42
A – New Accounting Pronouncements	42
B – Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Position	43
C – Explanations of Reconciling Items of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	45
Note 5 – Detailed Notes on all Funds and Activities	47
A – Capital Assets	47
B – Construction Commitments	48
C – Interfund Receivables, Payables, Advances, and Transfers	49
D – Leases	50
E – Noncurrent Liabilities	51
F – Fund Balances	57
Note 6 – Other Information	57
A – Loop 202 South Mountain Freeway Project	57
B – Contingent Liabilities	58
C – Pension and Other Postemployment Benefits	59
D – Subsequent Events	64

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

1) Summary of Significant Accounting Policies

The accounting and reporting policies of the Arizona Department of Transportation (the "Department") conform in all material respects to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental and Financial Reporting Standards* (GASB Codification). Following is a summary of the Department's significant accounting policies.

A. Reporting Entity

The Department is a department of the State of Arizona (the "State") and is not a legally separate entity. The Department has no component units. The Director of the Department serves as the Chief Executive Officer and is directly responsible to the governor. The governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (the "Transportation Board"), which has responsibility for establishing a complete system of state highway routes, approving all highway construction contracts, and distributing monies for local airport facilities' projects through a grant program.

The Department is responsible for the construction and maintenance of all state highways. The Department cooperates with the various cities and counties within the State in the construction and maintenance of state roads and with the Federal Highway Administration in the construction and maintenance of interstate and other highways. Assistance in the development of local airports, registering motor vehicles and aircraft, licensing drivers, and the publishing of the *Arizona Highways Magazine* are also responsibilities of the Department.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by federal reimbursement, taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Position presents the reporting entity's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

Restricted results 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.

Arizona Department of Transportation

Notes to the Financial Statements

June 30, 2016

Unrestricted consists of those assets which do not meet the definition of the two preceding categories. Unrestricted often are designated to indicate that management does not consider them to be available for general operations. The unrestricted component often has constraints on resources which are imposed by management, but can be removed or modified by management or the Transportation Board.

When both restricted and unrestricted resources are available for use, the Department 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 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: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 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

Separate statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements, with nonmajor funds being reported in a single column.

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 full *accrual basis of accounting*, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year they are levied for transportation excise, aircraft licensing, aviation and motor fuel, flight property, and underground storage tanks. Motor carrier and vehicle license taxes are recognized when received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 Department considers revenues to be available if they are collected within 60 days of the end of the fiscal year, e.g., federal revenue reimbursements, vehicle license taxes, and highway user revenue 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 Department reports the following major governmental funds:

Arizona Department of Transportation

Notes to the Financial Statements

June 30, 2016

The *General Fund*, known as the State Highway Fund, is the primary operating fund. It accounts for all financial resources except for those required to be accounted for in another fund. Expenditures are reported for general operations of the Department, including road and bridge repairs, maintenance and construction, planning and development, engineering, and administration. Revenues are received from the following primary sources: fuel and motor carrier taxes and fees; vehicle registrations, titles, licenses and related fees; and federal grants. In 2016, management elected to report the Arizona Highways Magazine in the General fund.

The *Maricopa Regional Area Road Construction Fund* is a special revenue fund that receives a portion of Maricopa County Transportation Excise Tax monies collected by the 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.

The *Motor Vehicle Division Clearing Fund* is a special revenue fund which accounts for the collection and disbursement of certain Motor Vehicle Division revenues (e.g., vehicle registration, title, license, and related taxes and fees, and fuel and motor carrier taxes and fees).

The *Highway User Revenue Fund* is a special revenue fund which collects motor vehicle and liquid use fuel taxes and receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the General Fund (State Highway Fund), the Department of Public Safety, the Economic Strength Project Fund, incorporated cities, towns, counties, and other legislatively appropriated entities.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payments of, general long-term debt principal and interest of the governmental funds.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities in the governmental funds.

The Department reports the following major proprietary fund:

The *Highway Expansion and Extension Loan Program Fund* is an innovative financing mechanism to administer funds designated to provide loan and credit enhancement assistance to sponsors of local transportation projects.

Additionally, the Department reports the following fund:

The *Internal Service Fund*, which accounts for purchases and maintenance of equipment and materials to be used by other divisions in the Department and other government agencies. The Equipment Revolving Fund is the Department's only internal service fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for services by the Equipment Revolving Fund to the other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

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

Proprietary funds distinguish *operating revenues* and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for services, interest on loan receivables and other revenues intended to recover the cost of services. Operating expenses for the enterprise fund and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Position/Fund Balance

Deposits and Investments

The Department's cash includes petty cash 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, or 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 Arizona Revised Statutes, §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2016, the State's investment pool 2, pool 3, and pool 4 were not rated. The weighted average maturity at year-end for investment pool 2 was 6.10 years while for investment pool 3 it was 2.56 years, and for investment pool 4 it was 3.28 years.

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

The Department's investments are included in the State investment pool and these investments are not shown in the Department's name. From the perspective of the Department, the pool functions as both a cash management pool and a demand deposit account. Therefore, the Department 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 fair value.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

The Department has restricted cash for payment of capital projects for Maricopa and Pima Counties, for future debt service payments, and for the Statewide Transportation Acceleration Needs account.

At June 30, 2016, the carrying amount of the Department's cash on deposit with the State Treasurer (unrestricted and restricted) totaled \$1,356,753,704. The funds were invested in the State Agency's pool number 2, pool number 3 and pool number 4. These pools are valued at the pool's share price multiplied by the number of shares the Department held. The fair value of a participant's position in the pools approximate the value of that participant's shares. The funds are invested in accordance with the Investment Policy of the Arizona State Treasurer's office.

Receivables, Payables and Advances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables. All other outstanding balances between the U.S. Government, Arizona counties and cities, and other state agencies are reported as due to/from. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

The subscriptions receivable allowance for doubtful accounts is the portion of any receivable greater than 90 days that has been recognized as revenue. The remainder of the subscriptions receivable that has not been recognized is still unearned.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. The other receivables are shown net of allowance for doubtful accounts. Other receivable amounts include funds held by third parties on behalf of the agency. For other receivables comprising recoverable insurance claims, the amount reserved for doubtful accounts is comprised of 100% of balances sent to the Attorney General's Office for collection.

Notes receivable represents loans made to parties purchasing assets previously owned by the Department for highway construction purposes.

Inventories

The governmental activities inventory is valued at cost, which approximates market, using the moving average method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used. The fund financial statement reports inventory as nonspendable for the like amount indicating it does not constitute available expendable resources. No reservation of net position is shown in the government-wide statements for inventories.

Costs of the internal service fund's inventories (consisting of vehicle parts and supplies, fuels and lubricants, and other supplies) are determined by moving average cost methods.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Restricted Assets

Certain proceeds of the Department’s governmental revenue bonds, as well as certain resources of the General Fund (State Highway Fund) and the Highway Expansion and Extension Loan Program Fund (enterprise fund) are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by applicable bond covenants or State statutes. State law requires 12.6% of the revenues allocated each year to the General Fund (State Highway Fund) from the Highway User Revenue Fund be allocated for design, purchase of right-of-way, or construction of controlled-access highways, arterial streets, and local highways that are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). State Transportation Board policy further allocates 2.6% of the revenues for the same purpose as listed above. The debt service fund is used to report the resources set aside for payment of future debt service. Bond proceeds are deposited in the capital projects fund and are restricted for acquisitions of right-of-way and construction of federal, state, and local highways.

Capital Assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, mobile fleet and aircraft, infrastructure, and construction in progress, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Purchased capital assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at fair market value at time of donation.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized. Outlays for capital assets are capitalized at the time of the purchase or, in the case of infrastructure, at the time of final acceptance by the Department from the contractor. Asset preservation costs are expensed as incurred. The Department depreciates non-infrastructure capital assets on a straight-line basis using the following estimated useful lives:

Capital Assets	Useful Life
Buildings and improvements	20-40 years
Improvements other than buildings	20-40 years
Machinery and equipment	5-15 years
Mobile fleet and aircraft	5-7 years

Infrastructure was capitalized for the first time in fiscal year 2002. The infrastructure assets are reported in the governmental activities column of the Statement of Net Position. The Department’s infrastructure assets consist of roads and bridges and are presented using the modified approach and, therefore, are not depreciated.

In order to utilize the modified approach, the Department is required to maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets, perform condition assessments of eligible assets and summarize the results using a measurement scale, estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department, and document that the assets are being preserved approximately at or above the established condition level.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Unearned Revenues

In the government-wide statements and proprietary fund financial statements, unearned revenues are recorded when cash, receivables, or other assets are received prior to revenue being recognized. Unearned revenue in the Governmental Activities represents subscription revenue received in advance of delivery of the related subscriptions. Additionally, in the governmental funds, unavailable revenue is reported as deferred inflows of resources, until such revenue is available to liquidate liabilities of the current period. Unearned revenues are reported in the government-wide statements for the governmental activities and in the fund statements for the governmental funds. In the fund statements for the General Fund (State Highway Fund), the unavailable revenue represents the amount for the notes receivable for loans made to parties who purchased assets previously owned by the Department for highway construction purposes.

Compensated Absences

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits as well as compensatory time. There is no liability for unpaid accumulated sick leave for the Department. All vacation pay and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements.

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 employee's 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% for 500 hours to a maximum of 50% for 1,500 hours. The maximum benefit value is \$30,000. Per Arizona Revised Statute 38-615D, the benefit shall be paid either in a lump sum or in installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

Most employees accrue vacation time which is paid when taken or upon termination of employment at the individual's then current rate of pay. Additionally, some employees may earn compensatory time in lieu of overtime pay, which is paid in the same manner as vacation time. To limit the Department's liability, employees are allowed to carry forward a maximum of 240 hours of vacation time if covered and 320 hours if uncovered at the end of each calendar year. Compensatory time accrual is capped at 240 hours at any time, however the agency policy has been to evaluate and pay quarterly to keep this accrual low. The liabilities for vacation and compensatory time outstanding as of June 30 for both the governmental and proprietary funds are reported on the Statement of Net Position.

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 premium or discount. Gains and losses related to refunding of debt are reported as deferred inflows of resources and deferred outflows of resources, respectively. Debt issuance costs are expensed in the current period. Other long-term obligations also include amounts that other governmental entities advance the Department for highway road construction projects.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

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

Net Position/Fund Balance

The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is "Net Position" on the government-wide and proprietary statements and "Fund Balance" on the governmental fund statements.

Fund balances for governmental funds may be reported in classifications that comprise a hierarchy based primarily on the extent to which the Department is bound to honor constraints on the specific purposes for which amounts in those fund can be spent. Five classifications are available:

Nonspendable fund balance – describes that portion that cannot be spent because of its form (inventories, prepaid amounts, etc.) and are not expected to be converted to cash.

Restricted fund balance – describes that portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions (voter initiatives, court orders, etc.).

Committed fund balance – describes that portion which can be used only for specific purposes pursuant to constraints imposed by a formal action of the Department's highest level of decision-making authority. This formal action is the passage of law by the Legislature creating, modifying or rescinding fund balance commitments.

Assigned fund balance – describes that portion of that reflects the Department's intended use of resources for a specific purpose, but are neither restricted nor committed.

Unassigned fund balance – the residual classification for the general fund and includes all spendable amounts not reported in other classifications. Also, deficits in fund balances of other governmental funds are reported as unassigned.

The Department's highest level of Authority is the Arizona State Legislature where the legislative appropriations are determined, identifying the uses of funds for specific purposes. The Arizona State Legislature also grants authority to other Boards and Commissions to authorize fund uses.

When an expenditure is incurred for purposes for which restricted, committed and unassigned fund balance is available, the Department considers restricted, committed and unassigned amounts to have been spent in that order.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

E. Revenues and Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., Administration, Highway). Additionally, revenues are classified between program and general revenues. Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenue includes all taxes and income on investments.

In the governmental fund financial statements, revenues are reported by source. Expenditures are reported by function (e.g., administration, distributions to Arizona counties and cities, distributions to other state agencies, debt service, capital outlay).

The distributions to Arizona counties and cities and distributions to other state agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to bonds, loans, advances, board funding obligations, and capitalized leases. Capital outlay includes expenditures for real property or infrastructure (i.e., bridges and roads).

Revenues and expenses of proprietary funds are classified as operating and nonoperating and are sub-classified by object (e.g., salaries, equipment rental, depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

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, capital leases, insurance recovery, 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.

F. Interfund Activity and Balances

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are activities between the funds reported as governmental activities and the funds reported as business-type activities (e.g., the transfer of the gain or loss from the Equipment Revolving Fund).

Interfund Balances

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities, deferred inflows of resources, and net position, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

2) Funds by Classification

A. Funds

The following table lists all of the funds whose balances are reflected in this financial report.

FUND TYPES

MAJOR FUNDS

Governmental Funds

General Fund (State Highway Fund)

Special Revenue Funds:

 Maricopa Regional Area Road

 Construction Fund

 Motor Vehicle Division Clearing Fund

 Highway User Revenue Fund

Debt Service Fund

Capital Projects Fund

Proprietary Funds

Enterprise Fund:

 Highway Expansion and Extension

 Loan Program Fund

Internal Service Fund:

 Equipment Revolving Fund

NONMAJOR FUNDS

Special Revenue Funds

State Aviation Fund

Safety Enforcement and

 Transportation Infrastructure Fund

Motor Vehicle Liability Insurance

 Enforcement Fund

Motor Vehicle Inspection and Title

 Enforcement Fund

Motor Carrier Safety Revolving Fund

Underground Storage Tank Fund

Economic Strength Project Fund

Grant Anticipation Notes Fund

Local Agency Deposits Fund

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

B. Fund Reclassifications

Fund Financial Statements

Fund Balance and Net Position have been reclassified as follows:

	Governmental Funds	Proprietary Funds
	General Fund (State Highway Fund)	Arizona Highways Magazine Fund
Fund balance/net position, as previously reported	\$ 528,071,887	\$ 401,418
Fund reclassification	401,418	(401,418)
Accounting basis change due to fund reclassification	1,997,144	-
Fund balance	\$ 530,470,449	\$ -

Government-wide Financial Statements

Government-wide Net Position has been reclassified as follows:

	Governmental Activities	Business-Type Activities
Net position, as previously reported	\$ 18,258,033,225	\$ 79,171,691
Fund reclassification	401,418	(401,418)
Net position	\$ 18,258,434,643	\$ 78,770,273

Arizona Highways Magazine (AHM) has been reclassified as part of the State Highway Fund. The AHM was previously reported as a major Enterprise Fund using the full accrual basis of accounting and the economic resources measurement focus. As a result of this reclassification, the AHM is now reported as a governmental fund using the modified accrual basis of accounting and the current financial resources measurement focus.

3) Budgeting, Budgetary Control and Legal Compliance

An annual budget for the operating expenditures of the General Fund (State Highway Fund) is submitted to the governor in accordance with state law. The budget is legally enacted as appropriations after approval by the state legislature and signature of the governor. The legal level of control for operating expenditures is set at the agency level and expenditure budgets are appropriated using a lump-sum by agency format with a special line-item appropriation for highway maintenance. Expenditure details for personal services, employee-related expenditures, and all other operating expenditures are specifically allocated within all divisions. In certain divisions, other specific programs are allocated in addition to these categories. Revenue budgets are developed internally by the Department and are not part of the appropriation process.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation, the allocation of funds between personal services, employee-related expenditures, and other operating expenditures is an internal decision. Accordingly, transfers between line items such as personal services and other operating expenditures within a particular program may be made by the program manager. Expenditures may not exceed appropriations in total. All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the first month of the subsequent fiscal year are charged against the prior fiscal year's budget. The Department's appropriations lapse at fiscal year-end unless exempted by the legislature.

In addition, budgets for capital outlay, including land, building, and improvements for the State Highway Fund and State Aviation Fund, are also submitted to the governor in accordance with state law. The capital outlay appropriation includes state highway construction and land, building, and improvements for the State Highway Fund. A legal limitation is adopted for land, building, and improvements; however, legislation allows the Department to spend in excess of its appropriation for state highway construction up to the current fund balance. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board.

4) Accounting Pronouncements and Reconciliation of Government-Wide and Fund Financial Statements

A. New Accounting Pronouncements

For the year ended June 30, 2016, the Department implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 76 establishes the hierarchy of source of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2016:

- ◆ GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* – to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.
- ◆ GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* –to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB).

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

- ◆ GASB Statement No. 77, *Tax Abatement Disclosures* – to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time.
- ◆ GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* – to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.
- ◆ GASB Statement No. 82, *Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73* – this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The Department has not fully determined the effect that the aforementioned GASB Statements will have on the Department's financial statements.

B. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Position

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

1. Capital assets are not included on the fund statements, but are included on the government-wide statement as follows:

Capital assets not subject to depreciation	\$ 20,750,548,748
Capital assets subject to depreciation	<u>221,051,166</u>
	20,971,599,914
Less: Internal Service Fund (Equipment Revolving Fund) assets	<u>(65,498,456)</u>
	<u><u>\$ 20,906,101,458</u></u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

2. Deferred outflows of resources are not reported in the governmental funds, but are reported in the government-wide Statement of Net Position. The detail for the difference is as follows:

Deferred outflows of resources related to pensions	\$ 31,877,605
Less: Internal Service Fund (Equipment Revolving Fund) deferred outflows of resources related to pensions	<u>(1,436,772)</u>
	30,440,833
Deferred outflows of resources-loss on debt refunding	<u>62,043,618</u>
	<u>\$ 92,484,451</u>

3. OPEB liabilities is as follows:

Net OPEB obligation	\$ (9,802,038)
Less: Internal Service Fund (Equipment Revolving Fund) net OPEB obligation	<u>460,696</u>
	<u>\$ (9,341,342)</u>

4. Pension liabilities are not due and payable from current financial resources and, therefore, are not reported in the governmental funds. The detail for the difference is as follows:

Net pension liability	\$ (322,028,132)
Less: Internal Service Fund (Equipment Revolving Fund) net pension liability	<u>14,515,982</u>
	<u>\$ (307,512,150)</u>

5. 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:

Bonds payable (including unamortized premium)	\$ (2,751,457,825)
Capital leases	(37,745,660)
Compensated absences	(18,307,328)
Intergovernmental advances	<u>(22,178,643)</u>
	<u>(2,829,689,456)</u>
Less: Internal Service Fund (Equipment Revolving Fund)	<u>730,171</u>
	<u>\$ (2,828,959,285)</u>

6. Deferred inflows of resources are not reported in the governmental funds. The detail for the difference is as follows:

Deferred inflows of resources related to pensions	\$ (28,720,206)
Less: Internal Service Fund (Equipment Revolving Fund) deferred inflows of resources related to pensions	<u>1,294,614</u>
	<u>\$ (27,425,592)</u>

Arizona Department of Transportation

Notes to the Financial Statements

June 30, 2016

C. 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 position 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. Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, these costs are removed; some costs are capitalized as assets while other costs are expensed as follows:

Capital outlay	\$ 689,613,105
Reduction in construction in progress resulting from certain infrastructure projects, previously identified as infrastructure, reclassified as non-infrastructure	(14,004,659)
Assets removed from service, net of accumulated depreciation	(2,341,432)
Less: depreciation expense - governmental funds	<u>(8,170,437)</u>
	<u>\$ 665,096,577</u>

2. 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 position. Also, the government reports the effect of 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:

Principal repayments	
Highway Revenue Bonds	\$ 70,195,000
Transportation Excise Tax Revenue Bonds	65,585,000
Grant Anticipation Notes (GARVEE bonds)	47,350,000
Amortization of premium and discount	34,377,794
Amortization of deferred loss on refunding	(5,769,360)
Repayment of capital leases	<u>11,178,006</u>
	<u>\$ 222,916,440</u>

3. The Internal Service Fund (Equipment Revolving Fund) is used by the Department to charge the cost for purchases and maintenance of equipment and material to be used by other funds and state agencies. The gain /(loss) in the Internal Service Fund (Equipment Revolving Fund) represents

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

over/(under) billing and must be eliminated from the government-wide Statement of Activities for the governmental activities.

Internal Service Fund (Equipment Revolving Fund)	
Changes in net position	<u>\$ (592,179)</u>

4. Pension contributions are reported as expenditures in the governmental funds in the fiscal year contributed. However, current year contributions are reported as deferred outflows of resources in the government-wide Statement of Net Position because the reported net pension liability is measured a year before the Department's current fiscal year-end financial statements. Pension expense, which is the change in net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities:

Pension contributions	\$ 19,283,651
Pension expense	<u>(18,225,061)</u>
	<u>\$ 1,058,590</u>
OPEB expense, net of Internal Service Fund of \$460,696	<u>\$ (9,341,342)</u>

5. Some items reported in the Statement of Activities do not provide or require the use of current financial resources and, therefore, are not reported in the governmental funds. The details are as follows:

Land sales are financed with Notes Receivable, which are not available to pay current expenditures, and are, therefore, deferred inflows of resources in the governmental funds. The entire land sale is recognized in the year of sale for government-wide reporting. However, for fund level reporting loan repayments are recognized as revenue as received	\$ (257,785)
Compensated absences	576,872
Assumption of Lease from Equipment Services fund by Highway fund	<u>(17,979,013)</u>
	<u>\$ (17,659,926)</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

5) Detailed Notes on All Funds and Activities

A. Capital Assets

Capital assets activity for the year ended June 30, 2016, was as follows:

	July 1, 2015				June 30, 2016
	Balance	Increases	Decreases	Transfers	Ending Balance
<i>Governmental activities</i>					
Capital assets, not being depreciated					
Land	\$ 2,977,145,531	\$ 257,336,788	\$ (1,527,204)	\$ 7,900	\$ 3,232,963,015
Infrastructure	15,758,147,180	34,190,476	(12,358,338)	315,114,412	16,095,093,730
Construction in progress	1,358,933,346	381,030,839	(2,357,770)	(315,114,412)	1,422,492,003
Total capital assets, not being depreciated	<u>20,094,226,057</u>	<u>672,558,103</u>	<u>(16,243,312)</u>	<u>7,900</u>	<u>20,750,548,748</u>
Capital assets, being depreciated					
Buildings and improvements	200,289,397	3,945,970	-	839,925	205,075,292
Improvements other than buildings	33,910,868	1,218,267	-	225,448	35,354,583
Machinery and equipment	59,718,795	12,537,560	(1,411,122)	(679,059)	70,166,174
Mobile fleet and aircraft	172,728,263	18,005,373	(12,223,046)	630,856	179,141,446
Total capital assets, being depreciated	<u>466,647,323</u>	<u>35,707,170</u>	<u>(13,634,168)</u>	<u>1,017,170</u>	<u>489,737,495</u>
Less accumulated depreciation for					
Buildings and improvements	(96,124,624)	(3,802,172)	-	(911,982)	(100,838,778)
Improvements other than buildings	(12,718,669)	(1,696,388)	-	(221,166)	(14,636,223)
Machinery and equipment	(37,748,717)	(3,424,580)	1,267,421	1,348,802	(38,557,074)
Mobile fleet and aircraft	(107,122,137)	(17,255,405)	10,947,669	(1,224,381)	(114,654,254)
Total accumulated depreciated	<u>(253,714,147)</u>	<u>(26,178,545)</u>	<u>12,215,090</u>	<u>(1,008,727)</u>	<u>(268,686,329)</u>
Total capital assets, being depreciated, net	<u>212,933,176</u>	<u>9,528,625</u>	<u>(1,419,078)</u>	<u>8,443</u>	<u>221,051,166</u>
Governmental activities capital assets, net	<u>\$ 20,307,159,233</u>	<u>\$ 682,086,728</u>	<u>\$ (17,662,390)</u>	<u>\$ 16,343</u>	<u>\$ 20,971,599,914</u>

Capital asset additions are not included on the fund statements, but are included on the government-wide statement as follows:

Capital asset additions not subject to depreciation	\$ 672,558,103
Capital asset additions subject to depreciation	<u>35,707,170</u>
	708,265,273
Less: Internal Service Fund (Equipment Revolving Fund) asset additions	<u>(18,652,168)</u>
Total capital outlay	<u>\$ 689,613,105</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Depreciation expense was charged to functions/programs as follows:

<i>Governmental activities</i>	
Administration	\$ 2,259,685
Highway	2,549,506
Highway maintenance	1,702,920
Motor vehicle	<u>1,658,326</u>
	8,170,437
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets	<u>18,008,108</u>
Total depreciation expense	<u>\$ 26,178,545</u>

B. Construction Commitments

The Department's outstanding commitments for contracts at June 30, 2016, were \$1,466,349,681.

	<u>Remaining Commitment</u>
Construction Contracts	
Rural Roadways	\$ 131,992,229
Small Urban Roadways	20,656,980
Urban Roadways	26,228,190
Large Urban Roadways	80,577,822
202 Loop / SM Freeway	890,389,178
General Roadways	<u>125,351,862</u>
	<u>1,275,196,261</u>
Capital Asset Replacement and Maintenance	
202 Loop / SM Freeway	<u>191,153,420</u>
	<u>\$ 1,466,349,681</u>

Area type designations for highways and roads are primarily determined by geographic location and population, as noted below:

Rural – outside of urbanized areas and urban clusters, generally long roads carrying little traffic

Small urban – in areas of 5,000 to 49,999 in population

Urban – interstate highways, freeways, expressways, principal arteries serving major centers of activity in metropolitan areas

Large urban – in areas of equal to or greater than 200,000 in population

General roadways – statewide projects that cross categories.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

C. Interfund Receivables, Payables, Advances, and Transfers

The balances of current interfund receivables and payables as of June 30, 2016, were:

Receivables	Payables	Amount
Governmental activities		
General Fund (State Highway Fund)	Highway User Revenue Fund	\$ 99,889,132
	Motor Vehicle Division Clearing Fund	251,388
Highway User Revenue Fund	Motor Vehicle Division Clearing Fund	26,690,672
Motor Vehicle Division Clearing Fund	General Fund (State Highway Fund)	820,282
Nonmajor Governmental Funds	Motor Vehicle Division Clearing Fund	<u>3,114,056</u>
		<u>\$ 130,765,530</u>

The General Fund (State Highway Fund) receivable of \$99,889,132 is an accrual for fuel taxes imposed in fiscal year 2016 from the Highway User Revenue Fund that will be collected in fiscal year 2017.

The Highway User Revenue Fund receivable of \$26,690,672 is an accrual for vehicle license taxes due in fiscal year 2016 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2017.

Interfund transfers for the year ended June 30, 2016, consisted of the following:

	Transfers To	
	Debt Service Fund	Total
Transfer from		
General Fund (State Highway Fund)	\$ 144,111,139	\$ 144,111,139
Maricopa Regional Area Road Construction Fund	103,296,981	103,296,981
Nonmajor Governmental Fund (GANS)	<u>56,902,631</u>	<u>56,902,631</u>
Total Debt Service Fund	<u>\$ 304,310,751</u>	<u>\$ 304,310,751</u>

Transfers from the General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, and the Nonmajor Governmental Fund (GANS) into the Debt Service Fund are to pay bond debt service.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

D. Leases

Operating Leases

The Department leases data processing equipment, other equipment, and certain facilities from various lessors. The majority of these leases are for a one year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the fiscal year ended June 30, 2016, approximated \$18.5 million.

During fiscal year 2016, the Department entered into two operating agreements for noncapital computer equipment. Agreements initiated in prior years, for office space in East Phoenix and a lab in Gilbert, and several MVD offices remain in force.

Future commitments on operating leases are as follows:

Description	2017	2018	2019	2020	2021	2022
Payson MVD	\$ 28,056	\$ 9,352	\$ -	\$ -	\$ -	\$ -
North Tucson MVD	34,472	34,472	-	-	-	-
Show Low MVD	63,888	63,888	42,592	-	-	-
South Mesa MVD	17,616	17,616	15,532	-	-	-
Phoenix EHO	892,510	917,942	943,384	351,456	-	-
E Washington St Phoenix	535,510	-	-	-	-	-
Gilbert Lab	126,000	94,500	-	-	-	-
Computer Equipment #1	322,919	387,503	387,503	387,503	387,503	64,584
Computer Equipment #2	168,881	225,174	225,174	225,174	225,174	56,294
Total commitments	<u>\$ 2,189,852</u>	<u>\$ 1,750,447</u>	<u>\$ 1,614,185</u>	<u>\$ 964,133</u>	<u>\$ 612,677</u>	<u>\$ 120,878</u>

Capital Leases

The Department has entered into lease agreements as lessee for financing the acquisition of various vehicles, equipment, and modular buildings. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The assets acquired through capital leases are as follows:

Description	Governmental Activities
Machinery and equipment	\$ 65,861,746
Less accumulated depreciation	<u>(19,385,642)</u>
Total	<u>\$ 46,476,104</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

Year Ending June 30	Governmental Activities
2017	\$ 12,576,945
2018	10,765,074
2019	7,797,642
2020	5,331,643
2021	2,638,819
2022	<u>41,971</u>
Total minimum lease payments	39,152,094
Less amount representing interest	<u>(1,406,434)</u>
Present value of minimum lease payments	<u>\$ 37,745,660</u>

Capital outlay on Exhibit 4 includes \$18.0 million of capital leases.

E. Noncurrent Liabilities

Arizona Transportation Board Highway Revenue Bonds

The Transportation Board has issued Senior and Subordinate Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1,589,965,000.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes of the General Fund (State Highway Fund). On September 21, 2006, House Bill 2206 became effective and eliminated the restriction that limited the principal amount of Highway Revenue Bonds that could be outstanding at any time to \$1.3 billion. Also, during fiscal year 2007, the Transportation Board received legislative authority to begin issuing Highway Revenue Bonds with maturities up to 30 years in length, replacing the 20-year maturity requirement that had been in place since 1980.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Highway Revenue Bonds currently outstanding are as follows:

Outstanding Highway Revenue Bonds
As of June 30, 2016

Maturity (7/1)	Series 2011A		Series 2011B		Series 2013A		Series 2013B		Series 2015	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2017	\$ 36,390,000	5.000%	\$ 9,895,000	2.492%	\$ -	-	\$ 8,405,000	1.194%	\$ 18,095,000	4.000%
2018	270,000	3.000%	10,140,000	2.842%			27,760,000	1.631%		
2018	10,475,000	4.000%								
2018	27,480,000	5.000%								
2019	600,000	4.000%	10,435,000	3.024%			28,245,000	1.831%		
2019	39,390,000	5.000%								
2020	200,000	4.000%			7,000,000	3.500%	27,940,000	2.179%		
2020	33,315,000	5.000%			13,050,000	5.000%				
2021	200,000	4.000%			36,020,000	5.000%				
2021	48,465,000	5.000%								
2022	53,210,000	5.000%			35,710,000	5.000%				
2023	13,475,000	5.000%			53,430,000	5.000%			24,745,000	5.000%
2024	30,170,000	5.000%			40,080,000	5.000%			25,985,000	5.000%
2025	30,885,000	5.000%			32,880,000	5.000%			27,280,000	5.000%
2026	7,000,000	5.250%			49,950,000	5.000%			28,650,000	5.000%
2027	7,370,000	5.000%			44,840,000	5.000%			30,085,000	5.000%
2028	7,740,000	5.000%			14,500,000	4.000%			31,585,000	5.000%
2028					32,580,000	5.000%				
2029	8,125,000	5.250%			2,100,000	4.000%			33,160,000	5.000%
2029					47,200,000	5.000%				
2030	8,550,000	5.250%			20,000,000	4.000%			34,820,000	5.000%
2030					31,740,000	5.000%				
2031	9,000,000	5.250%			14,835,000	5.000%			36,565,000	5.000%
2032	4,220,000	4.000%			15,580,000	5.000%			38,385,000	5.000%
2032	5,250,000	5.250%								
2033	9,915,000	5.000%			16,360,000	5.000%			40,305,000	5.000%
2033										
2034	10,415,000	5.000%			17,175,000	5.000%				
2035	10,935,000	5.000%			18,035,000	5.000%				
2036	11,480,000	5.000%			18,935,000	5.000%				
2037					19,885,000	5.000%				
2038					20,880,000	5.000%				
Totals	<u>\$ 424,525,000</u>		<u>\$ 30,470,000</u>		<u>\$ 602,765,000</u>		<u>\$ 92,350,000</u>		<u>\$ 369,660,000</u>	

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Annual debt service requirements to maturity for Highway Revenue Bonds are as follows:

Fiscal year ending June 30,	Highway Revenue Bonds		
	Principal	Interest	Total
2017	\$ 72,785,000	\$ 71,657,429	\$ 144,442,429
2018	76,125,000	69,858,434	145,983,434
2019	78,670,000	67,316,390	145,986,390
2020	81,505,000	64,490,168	145,995,168
2021	84,685,000	61,310,106	145,995,106
2022-2026	453,450,000	239,367,239	692,817,239
2027-2031	414,795,000	126,849,936	541,644,936
2032-2036	216,990,000	37,919,176	254,909,176
2037-2038	40,765,000	3,082,250	43,847,250
	<u>\$ 1,519,770,000</u>	<u>\$ 741,851,128</u>	<u>\$ 2,261,621,128</u>

The Department has pledged future motor vehicle and related fuel fees and taxes to repay \$1,519,770,000 in outstanding Highway Revenue Bonds issued since 2011. Proceeds from the bonds finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2038. The total principal and interest remaining to be paid on the bonds is \$2,261.6 million. Principal and interest paid for the current year and total pledged revenues were \$144.4 million and \$589.4 million, respectively. The annual principal and interest payments on the bonds required 24.5% of the pledged revenues.

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa Regional Area Road Construction 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 a portion of transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$782.81 million.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

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

Maturity (7/1)	2007 Series		2009 Series		2010 Series		2011 Series		2014 Series	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2017	\$ 17,770,000	5.000%	\$ 325,000	3.000%	\$ 1,685,000	2.000%	\$ 10,330,000	5.000%	\$ -	-
2017	2,250,000	4.000%	25,730,000	5.000%	9,405,000	5.000%				
2018			27,355,000	5.000%	1,505,000	3.000%	10,840,000	5.000%	18,480,000	5.000%
2018					10,090,000	5.000%				
2019			6,700,000	4.250%	2,370,000	2.500%	11,385,000	5.000%	19,400,000	5.000%
2019			22,020,000	5.000%	9,775,000	5.000%				
2020			340,000	3.500%	5,250,000	4.000%	11,955,000	5.000%	20,365,000	5.000%
2020			29,765,000	5.250%	7,445,000	5.000%				
2021					13,275,000	5.000%	12,555,000	5.000%	53,065,000	5.000%
2022					13,940,000	5.000%	13,180,000	3.000%	55,720,000	5.000%
2023					14,635,000	5.000%	13,575,000	4.000%	58,505,000	5.000%
2024							14,115,000	4.000%	76,800,000	5.000%
2025			830,000	4.000%	735,000	3.125%	14,685,000	3.000%	63,675,000	5.000%
2025					15,400,000	5.000%				
Totals	\$ 20,020,000		\$ 113,065,000		\$105,510,000		\$ 112,620,000		\$366,010,000	

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

Fiscal year ending June 30,	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2017	\$ 67,495,000	\$ 34,802,631	\$ 102,297,631
2018	68,270,000	31,507,431	99,777,431
2019	71,650,000	28,124,031	99,774,031
2020	75,120,000	24,651,031	99,771,031
2021	78,895,000	20,878,219	99,773,219
2022-2025	355,795,000	43,294,076	399,089,076
	<u>\$ 717,225,000</u>	<u>\$ 183,257,419</u>	<u>\$ 900,482,419</u>

The Department has pledged future transportation excise taxes to repay \$717,225,000 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. 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 \$900.5 million. Principal and interest paid for the current year and total pledged revenues were \$103.6 million and \$263 million, respectively. The annual principal and interest payments on the bonds required 39.4% of the pledged revenues.

Arizona Transportation Board Grant Anticipation Notes (GARVEE)

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The balance of Grant Anticipation Notes (GARVEE bonds) issued in prior years and outstanding at the start of the fiscal year was \$194.67 million.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Grant Anticipation Notes (GARVEE) currently outstanding are as follows:

Series 2011A			
Maturity (7/1)	Principal	Coupon	
2017	\$ 3,365,000	4.000%	
2017	8,405,000	5.000%	
2018	1,830,000	4.000%	
2018	10,495,000	5.000%	
2019	2,800,000	4.000%	
2019	10,125,000	5.000%	
2020	260,000	4.000%	
2020	13,285,000	5.000%	
2021	270,000	4.000%	
2021	13,945,000	5.000%	
2022	1,085,000	4.000%	
2022	13,840,000	5.000%	
2023	275,000	4.125%	
2023	15,385,000	5.000%	
2024	16,440,000	5.250%	
2025	600,000	4.500%	
2025	16,705,000	5.250%	
2026	18,210,000	5.250%	
Totals	\$ 147,320,000		

Annual debt service requirements to maturity for Grant Anticipation Notes (GARVEE) are as follows:

Fiscal year ending June 30,	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2017	\$ 11,770,000	\$ 7,392,881	\$ 19,162,881
2018	12,325,000	6,838,031	19,163,031
2019	12,925,000	6,240,081	19,165,081
2020	13,545,000	5,621,831	19,166,831
2021	14,215,000	4,947,181	19,162,181
2022-2026	82,540,000	13,282,063	95,822,063
	<u>\$ 147,320,000</u>	<u>\$ 44,322,068</u>	<u>\$ 191,642,068</u>

The Department has pledged federal revenues to repay \$147,320,000 in outstanding Grant Anticipation Notes (GARVEE bonds). Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona. The bonds are payable solely from federal revenues and are payable through 2026. The total principal and interest remaining to be paid on the bonds is \$191.6 million. Principal and interest paid for the current year and total pledged revenues were \$56.9 million and \$998.3 million, respectively. The annual principal and interest payments on the bonds required 5.7% of the pledged revenues.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Refunded Bonds Deposited with Escrow Agents

In prior fiscal years, the Transportation Board refinanced various bond issues through 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 issues 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 issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for these legally defeased bonds are not reflected in the financial statements of the Department.

Advances and Notes Payable

The Department's outstanding advances and notes payable as of June 30, 2016, were \$22,178,643 in governmental activities. The advances and notes payable represent amounts for other intergovernmental advances.

Annual debt service requirements to maturity for advances and notes payable are as follows:

Fiscal year ending June 30,	Governmental Activities	
	Principal	Interest
2020	\$ 151,430	\$ -
2021	22,027,213	-
	<u>\$ 22,178,643</u>	<u>\$ -</u>

Changes in Noncurrent Liabilities

The activity for the fiscal year ended June 30, 2016, was as follows:

	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Due Within One Year
<i>Governmental activities</i>					
<i>Bonds and notes</i>					
Highway Revenue bonds	\$ 1,589,965,000	\$ -	\$ (70,195,000)	\$ 1,519,770,000	\$ 72,785,000
Transportation Excise Tax Revenue bonds	782,810,000	-	(65,585,000)	717,225,000	67,495,000
Grant Anticipation notes	194,670,000	-	(47,350,000)	147,320,000	11,770,000
Unamortized premium on bonds	401,520,619	-	(34,377,794)	367,142,825	29,762,543
Total bonds and notes	2,968,965,619	-	(217,507,794)	2,751,457,825	181,812,543
Capital leases	30,944,653	17,979,013	(11,178,006)	37,745,660	11,943,492
Compensated absences	18,899,085	10,639,508	(11,231,265)	18,307,328	11,234,002
Advances and notes payable	22,178,643	-	-	22,178,643	-
Total governmental activities	<u>\$ 3,040,988,000</u>	<u>\$ 28,618,521</u>	<u>\$ (239,917,065)</u>	<u>\$ 2,829,689,456</u>	<u>\$ 204,990,037</u>

The Internal Service Fund predominantly serves the governmental funds. Accordingly, long-term liabilities for that fund are included as part of the above totals for governmental activities. At year-end, \$730,171 of the Internal Service Fund's compensated absences is included in the above amounts.

The capital leases will be liquidated by the General Fund (State Highway Fund). The General Fund (State Highway Fund) has paid compensated absences in the past while the advances and notes payable will be

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

repaid with funds from the General Fund (State Highway Fund) and the Maricopa Regional Area Road Construction Fund.

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

F. Fund Balances

The fund balance classifications of the governmental funds as of June 30, 2016, were as follows:

	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Debt Service Fund	Capital Projects Funds	Nonmajor Governmental Funds	Total
Fund Balances							
Nonspendable							
Inventories	\$ 6,178,810	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,178,810
Total nonspendable	<u>6,178,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,178,810</u>
Restricted for							
Highway	337,533,974	390,856,373	-	232,883	139,283,804	17,708,713	885,615,747
Total restricted	<u>337,533,974</u>	<u>390,856,373</u>	<u>-</u>	<u>232,883</u>	<u>139,283,804</u>	<u>17,708,713</u>	<u>885,615,747</u>
Committed to							
Administration	-	-	-	-	-	10,964,804	10,964,804
Highway	276,411,976	-	-	-	-	-	276,411,976
Highway maintenance	5,900,273	-	-	-	-	-	5,900,273
Motor vehicle	-	-	-	-	-	6,300,584	6,300,584
Total committed	<u>282,312,249</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,265,388</u>	<u>299,577,637</u>
Unassigned							
Total fund balances	<u>\$ 626,025,033</u>	<u>\$ 390,856,373</u>	<u>\$ (8,128,423)</u>	<u>\$ 232,883</u>	<u>\$ 139,283,804</u>	<u>\$ 34,974,101</u>	<u>\$ 1,183,243,771</u>

The (\$8.1) million in the unassigned portion of the fund balance is due to Arizona Revised Statutes, §28-6542 (B), which prohibits adjustments more than 24 months after the original distribution.

6) Other Information

A. Loop 202 South Mountain Freeway Project

On February 26, 2016 the Department entered into a design-build-maintain contract with Connect 202 Partners (private partner) for the design, construction, and 30 year maintenance of the Loop 202 South Mountain Freeway totaling \$1.1 billion. The South Mountain Freeway is a 22 mile, 8 lane freeway that will complete the Loop 202 and Loop 101 freeway system. This is the largest highway project in Arizona history. Pre-construction activities, including geotechnical, utility work, property acquisition and preparation, have been underway since spring 2015. Construction is scheduled to begin in summer 2016 with an anticipated project completion of late 2019.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Cost and Funding Sources

The anticipated cost of this project is approximately \$1.837 billion, not including financing costs. Right-of-way cost estimates are not contractually committed, but are necessary costs to complete the project. The significant cost components of this project are as follows:

Design and construction	\$ 916,549,178
Preliminary engineering and right of way	729,297,401
Capital asset replacement	103,192,057
Maintenance (30-year period)	<u>87,961,364</u>
Total anticipated cost of project	<u>\$ 1,837,000,000</u>

Actual costs incurred by the Department through June 30, 2016 for this project is \$314,328,383.

Anticipated funding for the Loop 202 South Mountain Freeway Project will be provided from the following sources (in millions):

Regional Area Road Fund (1/2 - cent sales tax)	\$ 702
Federal Funds	494
Regional Area Road Fund Bonds	435
State Highway User Revenue Funds	<u>206</u>
Total funding by source	<u>\$ 1,837</u>

Maintenance Services – 30-Year Period

Upon completion of the construction phase of the project, Connect 202 Partners will maintain the freeway corridor for a period of 30 years. The average annual maintenance cost to the Department is approximately \$2,932,045. Connect 202 Partners will invoice the Department on a monthly basis for maintenance services provided.

B. Contingent Liabilities

Risk Management Insurance Losses

The Department is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the State's self-insurance program and, in the opinion of the Department's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the State of Arizona's Comprehensive Annual Financial Report.

Claims

The Department has a variety of claims pending against it that arose during the normal course of its activities. Management of the Department believes, based on the advice of legal counsel, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department.

Arizona Department of Transportation

Notes to the Financial Statements

June 30, 2016

Grants

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 Department expects such amounts, if any, to be immaterial.

Light Rail Transit System

Arizona Revised Statutes, §28-9201, requires the Department to establish, implement, and enforce minimum safety standards for light rail transit systems. If a violation of the safety standards is discovered, the Department shall report the violation in writing to the Federal Transit Administration. Furthermore, the organization that operates a light rail transit system shall include a safety oversight function and pay the Department's costs resulting from administration.

C. Pension and Other Postemployment Benefits

Arizona State Retirement System

Plan Descriptions – Employees of the Department participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB). The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to received benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survival benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47% (11.35% for retirement and 0.12% for long-term disability) of the members' annual covered payroll, and the Department was required by statute to contribute at the actuarially determined rate of 11.47% (10.85% for retirement, 0.50% for the health insurance premium benefit, and 0.12% for long-term disability) of the active members' annual covered payroll. In addition, the Department was required by statute to contribute at the actuarially determined rate of 9.36% (9.17% for retirement, 0.13% for health insurance premium benefit, and 0.06% for long-term disability) of annual covered payroll of retired members who worked for the Department in positions that would typically be filled by an employee who contributes to the ASRS. The Department's contributions to the pension plan for the year ended June 30, 2016, were \$20,193,753. The Department's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Year ended June 30	Health Benefit Supplement Fund	Long-Term Disability Fund
2016	\$ 922,181	\$ 219,684
2015	1,123,313	224,308
2014	1,123,160	440,942

During the fiscal year ended June 30, 2016, the Department paid for ASRS pension and OPEB contributions as follows: 93% from the General Fund, 3% from major funds, and 4% from other nonmajor funds.

The Department's total payroll for fiscal year 2016 was \$186,117,539. The System is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits, health care benefits, and long term disability benefits are obligations of the System and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The contribution requirement for fiscal year 2016 was \$20,193,753 each by both the employees and the Department.

Presentation of Deferred Outflows and Deferred Inflows of Resources

Deferred outflows and inflows of resources are reported in the basic statements of net position in a separate section following assets and liabilities, respectively. The Department elected the optional statement of net position presentation.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

The Department recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. The deferred outflows of resources are related to the Department's pension plan.

The Department recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. The deferred inflows of resources relate to the Department's pension plan.

Retirement Plans

The Department contributes to the Arizona Statement Retirement System plan described below. The plan is a component unit of the State of Arizona. At June 30, 2016, the Department reported the following amounts related to the pension plan to which it contributes:

<u>Statement of Net Position and Statement of Activities</u>	<u>Governmental Activities</u>
Net pension liabilities	\$ 322,028,132
Deferred outflows of resources	31,877,605
Deferred inflows of resources	28,720,206
Pension expense	18,890,222

Changes in the Department's net pension liability during the fiscal year ended June 30, 2016, were as follows:

	<u>Governmental Activities</u>
Beginning balance	\$ 307,848,005
Increases	53,385,532
Decreases	<u>(39,205,405)</u>
Ending balance	<u>\$ 322,028,132</u>

Pension Liability – At June 30, 2016, the Department reported a liability of \$322,028,132 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015.

The Department's reported liability at June 30, 2016, increased by \$14,180,127 from the prior year liability of \$307,848,005 because of changes in the ASRS' net pension liability and the Department's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	3.94%
Fixed income	25%	0.93%
Multi-asset	5%	0.17%
Real estate	10%	0.42%
Commodities	2%	0.08%
Total	100%	5.54%
Inflation		3.25%
Total long-term expected rate of return		8.79%

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.79%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2016

current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the Department's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
DOT's proportionate share of the net pension liability	\$ 421,966,901	\$ 322,028,132	\$ 253,537,325

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910, by calling (602) 240-2000 or (800) 621-3778 or visiting the website at www.azasrs.gov/content/annual-reports.

D. Subsequent Events

Grant Anticipation Refunding Notes, Series 2016

On October 6, 2016, the Department issued \$90,410,000 in Grant Anticipation Refunding Notes, Series 2016. Proceeds from the notes were used to refund the Grant Anticipation Notes, Series 2011A. The notes bear an interest rates range from 4.000% to 5.250% over the term of the notes. The refunding will save the Department \$10,650,129 of debt service interest over the life of the notes and will result in an economic gain of \$9,825,487.

Highway Revenue Refunding Bonds, Series 2016

On October 6, 2016, the Department issued \$203,050,000 in Highway Revenue Refunding Bonds, Series 2016. Proceeds from the bonds were used to refund the Highway Revenue Bonds, Series 2011A and 2013A. The bonds bear an interest rates range from 4.000% to 5.250% over the term of the bonds. The refunding will save the Department \$21,822,194 of debt service interest over the life of the notes and will result in an economic gain of \$17,625,047.

Transportation Excise Tax Revenue Refunding Bonds

On October 6, 2016, the Department issued \$109,850,000 in Transportation Excise Tax Revenue Bonds. Proceeds from the bonds were used to refund the Transportation Excise Tax Revenue Bonds Series 2009, Series 2010 and Series 2011. The bonds bear an interest rates range from 3.000% to 5.250% over the term of the bonds. The refunding will save the Department \$8,156,379 of debt service interest over the life of the notes and will result in an economic gain of \$7,647,042.

REQUIRED SUPPLEMENTARY INFORMATION

(OTHER THAN MD&A)

Budgetary Comparison Schedule – General Fund (State Highway Fund)

Note to Required Supplementary Information

Information about Infrastructure Assets Reported Using the Modified Approach

Pension Liability and Pension Contributions

Arizona Department of Transportation
Required Supplementary Information
June 30, 2016

Budgetary Comparison Schedule
General Fund (State Highway Fund) – Budgetary Basis
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget – Positive (Negative)
	Original	Final		
Expenditures appropriated by State legislature in 2016 budget				
Department of Transportation	\$ 341,899,700	\$ 341,899,700	\$ 322,089,942	\$ 19,809,758
Timing differences:				
Prior-year appropriation expenditures expended in current budget			13,388,117	
Basis differences:				
Net increase (decrease) from cash basis for budgeting purposes and modified accrual basis for financial reporting purposes			35,319,114	
Entity differences:				
Funds not appropriated, but included for financial reporting purposes			1,071,273	
Perspective differences:				
Expenditures on modified accrual basis and not recognized on budgetary basis:				
Capital outlay and asset preservation			511,143,401	
Distributions to Arizona counties and cities			48,472,050	
Distributions to other state agencies			9,012,551	
Interest expense			647,403	
Principal repayment of debt			11,178,006	
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (General Fund) - Exhibit 4			\$ 952,321,857	

The accompanying note to required supplementary information is an integral part of this schedule.

Arizona Department of Transportation
Required Supplementary Information
June 30, 2016

Note to Required Supplementary Information

1. Budgets and Budgetary Accounting

An annual budget for the operating expenditures of the General Fund (State Highway Fund) is submitted to the governor in accordance with state law. The budget is legally enacted as appropriations after approval by the state legislature and signature of the governor. The legal level of control for operating expenditures is set at the agency level and expenditure budgets are appropriated using a lump-sum by agency format. Revenue budgets are developed internally by the Department and are not part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation by agency, the allocation of funds between personal services, employee-related expenditures, and other operating expenditures is an internal decision. Accordingly, transfers between line items such as personal services and other operating expenditures within a particular program may be made by the program manager. Expenditures may not exceed appropriations. All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the first month of the subsequent fiscal year are charged against the prior fiscal year's budget. The Department's appropriations lapse at fiscal year-end unless exempted by the legislature.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for the operations of the General Fund (State Highway Fund) that is subject to legislative appropriation.

In addition, budgets for capital outlay, including land, building, and improvements for the General Fund (State Highway Fund) and State Aviation Fund, are also submitted to the governor in accordance with state law. The capital outlay appropriation includes state highway construction and land, building, and improvements for the General Fund (State Highway Fund). A legal limitation is adopted for land, building, and improvements; however, legislation allows the Department to spend in excess of its appropriation for state highway construction up to the current fund balance. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board.

Arizona Department of Transportation
Required Supplementary Information
June 30, 2016

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), as amended, the Arizona Department of Transportation (the “Department”) reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,822 center line miles (21,532 travel lane miles) of roads and 4,858 bridges that the Department is responsible to maintain.

In order to utilize the modified approach, the Department is required to:

- Maintain an asset management system that includes an up to date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department.
- Document that the assets are being preserved approximately at or above the established condition level.

As adopted by the Transportation Board of the State of Arizona Department of Transportation (the “Transportation Board”) on an annual basis, the Five-Year Transportation Facilities Construction Program (the “Program”) contains estimated expenditures for highway system improvements and the preservation of existing roadway and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2016 and beyond was adopted by the Transportation Board on June 19, 2015.

This Program is a dynamic instrument and adjustments are made to the annual plans based on the needs of the Department to maintain the condition level of the roads and bridges at a level equal to, or greater than, the goals established by the Department. In addition, not only are adjustments made during the life of the Program, circumstances may require that refinements to the individual components of the Program be made during the fiscal year.

In comparing Estimated to Actual Expenditures in the tables that follow, significant variances can occur. These variances are primarily due to the methodology used in the preparation of the Program. In this Program, the Estimated Expenditures for the current year are based on “programmed” projects which may or may not be spent in the current year of the Program. Programmed expenditures consist of those items that are planned for the future, with contracts that have not yet been awarded. Furthermore, the Actual Expenditures will include projects that were programmed for a prior year’s Estimated Expenditures, but which did not occur, or were not completed, in the prior year.

Arizona Department of Transportation
Required Supplementary Information
June 30, 2016

The following information pertains to the condition assessment and maintenance of infrastructure assets and reflects the Department’s success in achieving condition levels that exceed the established levels.

Roads

The mission of the Department’s Pavement Management Section (PMS) is to develop and provide a cost effective pavement rehabilitation construction program that preserves the state’s investment in its highway system and enhances public transportation and safety. The requirements of GASB 34 and the PMS both work toward the same basic goal, the efficient, effective management of the Department’s assets to produce long-term benefits while minimizing expenditures.

The PMS has developed performance goals for the condition level of the pavement in the state highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called “Serviceability” which can be defined as the ability of a pavement to serve the traveling public (as documented in 1961 after American Association of State Highway and Transportation Officials (AASHTO) Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement. Many surveys since the original road test have shown that these measurements closely track the subjective opinion of the traveling public. Most commonly, this number is called Present Serviceability Rating and abbreviated as PSR. PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

Numerical Rating	PSR	Weaver/AASHTO Scale
5	Excellent	Perfect
4	Good	Very Good
3	Fair	Good
2	Poor	Fair
1	Very Poor	Poor
0	Impassable	Very Poor

Arizona Department of Transportation
Required Supplementary Information
June 30, 2016

The goal of the Department is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the state highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2016, an overall rating of 3.66 was achieved, as shown in the following graph:

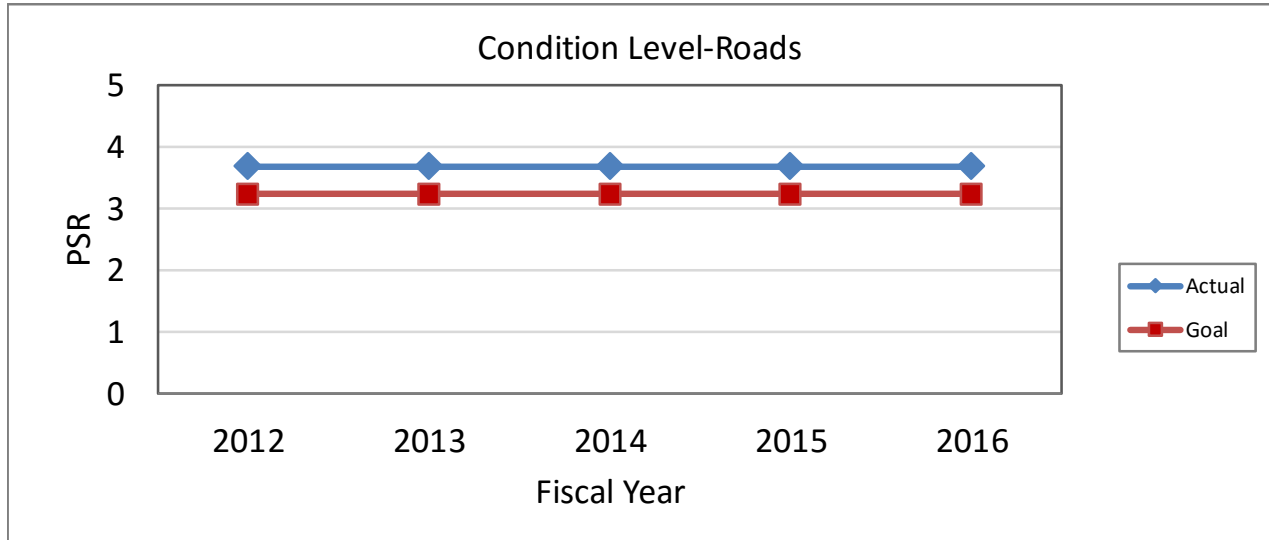


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the Department’s PMS, as well as other units within the Department. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2012 through 2016 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2012	\$261.9	\$373.6
2013	276.3	291.3
2014	271.2	287.2
2015	249.5	300.6
2016	272.0	317.0

Arizona Department of Transportation
Required Supplementary Information
June 30, 2016

Bridges

The Department's bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2016, the Department owned and maintained 4,858 bridges with an approximate total deck area of 49,764,611 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

Historically, a Condition Rating Index (CRI) has been used to track the condition of the bridge network. The CRI was based on four selected bridge inspection condition ratings, which in turn were based on standards established in the FHWA's "Recording and Coding Guide for the Structural Inventory of the Nation's Bridges."

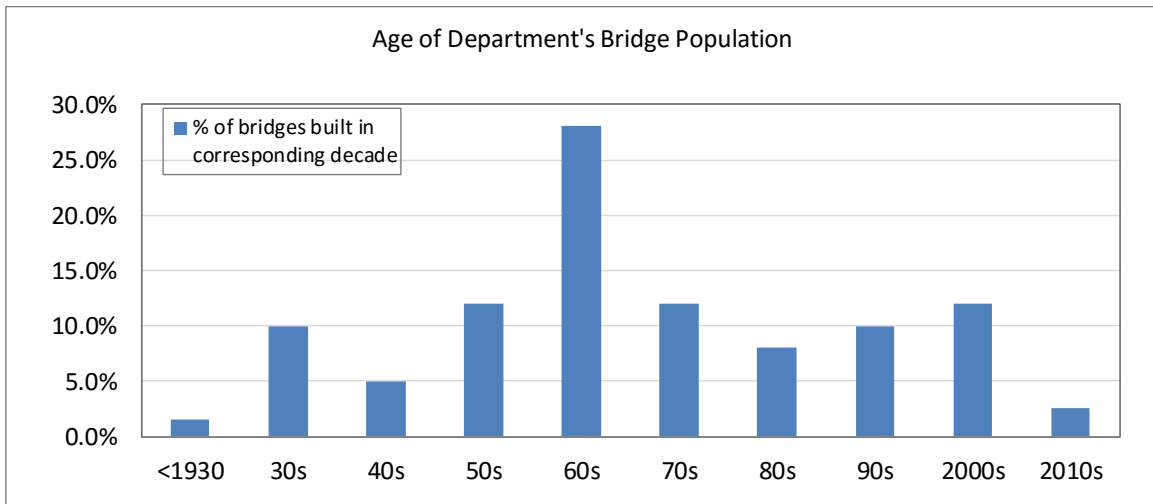
In 2015, FHWA issued new rules which have had the effect of replacing CRI as the summary statistic for bridge condition. Instead, the Departments of Transportation of the various States are expected to maintain their bridges so that no more than 10% are classified as Poor. Financial sanctions are held against States that do not comply with this standard. Management of the bridge inventory is a major function of the Department's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections.

In fiscal year 2016, 2.9% of bridges maintained by the Department were classified as Poor. As this is the first year this measurement has been used, long-term trend data is not available, but will be accumulated over time.

Arizona Department of Transportation
Required Supplementary Information
June 30, 2016

Figure 2

Bridges represent a major public investment, and their inspection and maintenance is an essential function of the Department in its mission of providing products and services for a safe, efficient, and cost effective transportation system. Figure 2 indicates that approximately 56% of the bridges in the state were constructed prior to the 1970s while only 15% have been constructed since 2000.



Each bar represents % of bridges built in corresponding decade.

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2012 through 2016 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2012	\$12.5	\$20.6
2013	14.7	10.7
2014	21.2	20.5
2015	13.7	21.9
2016	11.6	39.8

Arizona Department of Transportation
Required Supplementary Information
June 30, 2016

Pension Liability and Pension Contributions

In 2015, the Department implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. Required supplementary information as a result of this implementation is:

Schedule of the Proportionate Share of the Net Pension Liability

For the last two fiscal years ended ⁽¹⁾

	Fiscal Year 2016	Fiscal Year 2015
Proportion of the net pension liability	2.07%	2.08%
Proportion share of the net pension liability	\$ 322,028,132	\$ 307,848,006
Covered-employee payroll	\$ 186,117,539	\$ 187,545,346
Proportion share of the net pension liability as a percentage of its covered-employee payroll	173.02%	164.15%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

Schedule of Pension Contributions

For the last three fiscal years ended ⁽¹⁾

	Fiscal Year		
	2016	2015	2014
Statutorily required contribution	\$ 20,193,753	\$ 20,753,085	\$ 20,067,352
Contributions in relation to the statutorily required contribution	<u>20,193,753</u>	<u>20,753,085</u>	<u>20,067,352</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 186,117,539	\$ 190,570,110	\$ 187,545,346
Contributions as a percentage of covered-employee payroll	10.85%	10.89%	10.70%

(1) The Department implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

FINANCIAL STATEMENTS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

The State Aviation Fund is appropriated by the legislature and receives monies from aviation gasoline taxes, sale of abandoned or seized aircraft, flight property taxes, and the operation of the Grand Canyon National Park Airport. The State Aviation Fund monies are used to build and maintain airport facilities throughout Arizona.

The Safety Enforcement and Transportation Infrastructure Fund is appropriated by the legislature and receives monies from registration fees for non-resident vehicles and single trip and limited use fuel tax permits. Monies are used for enforcement of vehicle safety requirements, and construction and maintenance of transportation facilities within twenty-five miles of the border between Arizona and Mexico.

The Motor Vehicle Liability Insurance Enforcement Fund is appropriated by the legislature and receives reinstatement fees for insurance-related driver license and vehicle registration suspensions. Monies are used to administer the State's Mandatory Liability Insurance Program.

The Motor Vehicle Inspection and Title Enforcement Fund is appropriated by the legislature and receives monies from the fees charged for certain vehicle inspections. Monies are used to defray the cost of investigations involving certificates of title, licensing fraud, registration enforcement, and other enforcement related issues.

The Motor Carrier Safety Revolving Fund receives fees to administer and enforce the rules governing the safety operations of motor carriers, shippers, and vehicles transporting hazardous materials, substances, or waste.

The Underground Storage Tank Fund receives certain Department revenues for distribution to the Department of Environmental Quality.

The Economic Strength Project Fund receives monies from the Highway User Revenue Fund for use on approved economic strength projects recommended by the Department of Commerce and Economic Development Commission.

The Grant Anticipation Notes Fund receives revenues from the Federal Highway Administration under various grant agreements for the repayment of Grant Anticipation Notes (GARVEE bonds).

The Local Agency Deposits Fund receives monies from the U.S. Government and local agencies for the payment of local agency sponsored county secondary road construction projects.

Arizona Department of Transportation

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Motor Vehicle Inspection and Title Enforcement Fund
Assets				
Unrestricted cash on deposit with the State Treasurer	\$ 8,234,228	\$ 518,972	\$ 4,703,789	\$ 1,948,639
Receivables				
Interfund	37,256	33,652	63,756	44,690
Notes and loans	2,910,777	-	-	-
Other, net	1,064,379	-	-	-
Amounts due from U.S. government	1,106,204	-	-	-
Restricted cash on deposit with the State Treasurer	-	-	-	-
Total assets	<u>\$ 13,352,844</u>	<u>\$ 552,624</u>	<u>\$ 4,767,545</u>	<u>\$ 1,993,329</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,534,522	\$ 111,524	\$ 1,159	\$ 431,644
Accrued payroll and other accrued expenditures	44,060	25,744	34,006	44,166
Amounts due to				
Other state agencies	-	-	-	-
Arizona counties and cities	2,236,815	-	-	-
Total liabilities	<u>3,815,397</u>	<u>137,268</u>	<u>35,165</u>	<u>475,810</u>
Fund balances				
Restricted	-	-	-	-
Committed	9,537,447	415,356	4,732,380	1,517,519
Total fund balances	<u>9,537,447</u>	<u>415,356</u>	<u>4,732,380</u>	<u>1,517,519</u>
Total liabilities and fund balances	<u>\$ 13,352,844</u>	<u>\$ 552,624</u>	<u>\$ 4,767,545</u>	<u>\$ 1,993,329</u>

Exhibit 8

Motor Carrier Safety Revolving Fund	Underground Storage Tank Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Funds	Total Nonmajor Governmental Funds
\$ 50,685	\$ -	\$ 1,012,001	\$ -	\$ -	\$ 16,468,314
-	2,934,702	-	-	-	3,114,056
-	-	-	-	-	2,910,777
-	-	-	-	7,807,023	8,871,402
-	-	-	-	6,898,890	8,005,094
-	3,054,325	-	-	19,622,771	22,677,096
<u>\$ 50,685</u>	<u>\$ 5,989,027</u>	<u>\$ 1,012,001</u>	<u>\$ -</u>	<u>\$ 34,328,684</u>	<u>\$ 62,046,739</u>
\$ -	\$ -	\$ -	\$ -	\$ 12,685,853	\$ 14,764,702
-	-	-	-	152,958	300,934
-	5,989,027	-	-	-	5,989,027
-	-	-	-	3,781,160	6,017,975
-	5,989,027	-	-	16,619,971	27,072,638
-	-	-	-	17,708,713	17,708,713
50,685	-	1,012,001	-	-	17,265,388
50,685	-	1,012,001	-	17,708,713	34,974,101
<u>\$ 50,685</u>	<u>\$ 5,989,027</u>	<u>\$ 1,012,001</u>	<u>\$ -</u>	<u>\$ 34,328,684</u>	<u>\$ 62,046,739</u>

Arizona Department of Transportation
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances — Nonmajor Governmental Funds
For the Year Ended June 30, 2016

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Motor Vehicle Inspection and Title Enforcement Fund
Revenues				
Vehicle registration, title, license, and related taxes and fees	\$ 8,600,668	\$ 2,637,288	\$ 3,273,307	\$ 2,018,158
Fuel and motor carrier taxes and fees	325,479	-	-	-
Flight property taxes	9,620,180	-	-	-
Reimbursement of construction expenditures – federal aid	4,511,495	-	-	-
Other federal grants and reimbursements	-	-	-	-
Reimbursements from Arizona counties and cities	63,923	-	-	-
Interest on loans receivable	159,142	-	-	-
Income from investments	101,635	4,598	-	-
Grand Canyon National Park Airport	343,849	-	-	-
Rental income	306,146	-	-	-
Other	791,875	-	-	18,750
Total revenues	<u>24,824,392</u>	<u>2,641,886</u>	<u>3,273,307</u>	<u>2,036,908</u>
Expenditures				
Current				
Administration	4,782,435	295	-	-
Highway	1,962,200	-	-	-
Highway maintenance	-	109,238	-	-
Motor vehicle	-	1,125,325	1,205,463	1,448,349
Total current expenditures	<u>6,744,635</u>	<u>1,234,858</u>	<u>1,205,463</u>	<u>1,448,349</u>
Intergovernmental				
Distributions to other state agencies	15,000,000	1,219,687	2,329,400	-
Distributions to Arizona counties and cities	23,203,590	-	-	-
Noncapital, including asset preservation	-	230,139	-	-
Capital outlay	1,231,515	-	-	-
Total expenditures	<u>46,179,740</u>	<u>2,684,684</u>	<u>3,534,863</u>	<u>1,448,349</u>
Revenues over (under) expenditures	<u>(21,355,348)</u>	<u>(42,798)</u>	<u>(261,556)</u>	<u>588,559</u>
Other Financing Sources (Uses)				
Transfers out for debt service	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(21,355,348)	(42,798)	(261,556)	588,559
Fund balances, beginning of year	30,892,795	458,154	4,993,936	928,960
Fund balances, end of year	<u>\$ 9,537,447</u>	<u>\$ 415,356</u>	<u>\$ 4,732,380</u>	<u>\$ 1,517,519</u>

Exhibit 9

Motor Carrier Safety Revolving Fund	Underground Storage Tank Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Funds	Total Nonmajor Governmental Funds
\$ -	\$ 2,934,702	\$ -	\$ -	\$ -	\$ 19,464,123
-	39,383,248	1,000,000	-	-	40,708,727
-	-	-	-	-	9,620,180
-	-	-	56,902,629	6,898,890	68,313,014
-	-	-	-	85,959,020	85,959,020
-	-	-	-	18,593,387	18,657,310
-	-	-	-	-	159,142
-	12,735	20,057	-	-	139,025
-	-	-	-	-	343,849
-	-	-	-	-	306,146
<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>815,625</u>
<u>5,000</u>	<u>42,330,685</u>	<u>1,020,057</u>	<u>56,902,629</u>	<u>111,451,297</u>	<u>244,486,161</u>
-	882	2,467	-	1,798,992	6,585,071
-	-	5,589	-	51,743,119	53,710,908
-	-	-	-	-	109,238
-	-	-	-	-	<u>3,779,137</u>
-	<u>882</u>	<u>8,056</u>	-	<u>53,542,111</u>	<u>64,184,354</u>
-	42,329,803	-	-	85,167	60,964,057
-	-	-	-	60,930,397	84,133,987
-	-	-	-	92,046	322,185
-	-	-	-	-	<u>1,231,515</u>
-	<u>42,330,685</u>	<u>8,056</u>	-	<u>114,649,721</u>	<u>210,836,098</u>
<u>5,000</u>	<u>-</u>	<u>1,012,001</u>	<u>56,902,629</u>	<u>(3,198,424)</u>	<u>33,650,063</u>
-	-	-	(56,902,631)	-	(56,902,631)
-	-	-	(56,902,631)	-	(56,902,631)
5,000	-	1,012,001	(2)	(3,198,424)	(23,252,568)
<u>45,685</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>20,907,137</u>	<u>58,226,669</u>
<u>\$ 50,685</u>	<u>\$ -</u>	<u>\$ 1,012,001</u>	<u>\$ -</u>	<u>\$ 17,708,713</u>	<u>\$ 34,974,101</u>

Statistical Section



Arizona Department of Transportation

Overview — Statistical Section For the Year Ended June 30, 2016

This part of the Arizona Department of Transportation's (the "Department") Comprehensive Annual Financial Report provides detail in the form of graphs and tables intended to assist the reader of the report with understanding the information presented in the financial statements, note disclosures, and required supplementary information regarding the overall financial health of the Department.

Financial Trends

These schedules show trend information that gives an insight into the Department's financial well-being and performance over time.

Revenue Capacity

Information about the Motor Vehicle Fuel Tax and the Highway User Revenue Fund, the Department's most significant own-source revenues, is presented in these tables.

Debt Capacity

These tables present information to help the reader assess the affordability of the Department's current levels of outstanding debt as well as the Department's ability to issue additional debt in the future.

Demographic and Economic Information

The demographic and economic indicators presented in this section offer an understanding of the environment in which the Department's financial activities take place.

Operating Information

The Department's relationship of the financial report to the services provided as well as its activities is illustrated in these tables depicting service and infrastructure information.

Sources: Unless otherwise stated, all information in the following tables is derived from the Comprehensive Annual Financial Reports for the years shown.

Arizona Department of Transportation

Index — Statistical Section For the Year Ended June 30, 2016

	<u>Page</u>
Financial Trends	
Change in Net Position (Table A-1)	79-82
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Table A-2)	83-86
Fund Balances of Governmental Funds (Table A-3)	87-88
Expenditures of Federal Awards (Table A-4)	89
Government-wide Expenses by Function (Table A-5)	90-91
Government-wide Revenues (Table A-6)	92-93
Net Position by Component (Table A-7)	94-95
Revenue Capacity	
Highway User Revenue Fund Collections (Table B-1)	96
Highway User Revenue Fund Distributions (Table B-2)	97
Fuel Tax Rates (Table B-3)	98
Motor Vehicle Fuel Tax – Top Ten Suppliers (Table B-4)	99
Gasoline Volume Sold – Top Twenty-Five Suppliers (Table B-5)	100-101
Debt Capacity	
Highway User Revenue Fund – Legal Debt Margin (Table C-1)	102
Highway Revenue Bonds – Bond Coverage (Table C-2)	103
Transportation Excise Tax Revenue Bonds – Bond Coverage (Table C-3)	104
Transportation Excise Tax Revenue Bonds – Debt Service Revenue and Cost Per Capita (Table C-4)	105
Ratios of Outstanding Debt by Type (Table C-5)	106-107
Demographic and Economic Information	
Number of Vehicle Registrations Per Year (Table D-1)	108
Vehicle Registrations Per Year Compared to Fuel Sales (Table D-2)	109
Demographic and Economic Statistics (Table D-3)	110
Principal Employers (Table D-4)	111
Operating Information	
Full-Time Equivalents (FTEs) (Table E-1)	112
Capital Assets – Schedule by Function and Activity (Table E-2)	113
Capital Assets – Schedule of Changes by Function and Activity (Table E-3)	114
Total Public Road Mileage by Highway Class and Governmental Ownership (Table E-4)	115
Vehicle Miles Traveled with Population Data (Table E-5)	116

FINANCIAL TRENDS

Arizona Department of Transportation

Change in Net Position For the Year Ended June 30, (Thousands of Dollars)

	2007	2008	2009
Expenses			
Governmental activities			
Administration	\$ 51,667	\$ 54,918	\$ 56,066
Aeronautics	5,418	4,373	10,993
Highway ¹	138,788	132,874	116,742
Highway maintenance	120,163	137,100	110,963
Motor vehicle	105,961	112,880	133,415
Noncapital, including asset preservation ¹	113,569	187,004	216,198
Distributions to other state agencies	114,795	176,692	413,940
Distributions to Arizona counties and cities	1,219,208	1,238,383	1,091,893
Local government assistance	48,760	37,285	48,571
Issuance cost on long-term debt ²	-	-	-
Interest on long-term debt	82,450	92,295	114,683
Total governmental activities expenses	<u>2,000,779</u>	<u>2,173,804</u>	<u>2,313,464</u>
Business-Type Activities			
Arizona Highways Magazine	8,072	7,712	7,410
Highway Expansion and Extension Loan Program	4,355	4,053	2,112
Total business-type activities expenses	<u>12,427</u>	<u>11,765</u>	<u>9,522</u>
Total primary government expenses	<u>\$ 2,013,206</u>	<u>\$ 2,185,569</u>	<u>\$ 2,322,986</u>
Program Revenues			
Governmental activities			
Charges for services			
Administration	\$ 8,843	\$ 9,706	\$ 8,752
Aeronautics	1,133	940	936
Highway	2,953	1,451	1,765
Highway maintenance	577	1,765	887
Motor vehicle	132,274	127,900	117,267
Local governmental assistance	12,239	8,263	9,789
Operating grants and contributions	72,679	79,747	90,619
Capital grants and contributions	354,024	523,728	552,488
Total governmental activities program revenues	<u>584,722</u>	<u>753,500</u>	<u>782,503</u>
Business-type activities			
Charges for services			
Arizona Highways Magazine	8,060	7,624	6,291
Highway Expansion and Extension Loan Program	2,909	1,755	1,128
Total business-type activities program revenues	<u>10,969</u>	<u>9,379</u>	<u>7,419</u>
Total primary government program revenues	<u>\$ 595,691</u>	<u>\$ 762,879</u>	<u>\$ 789,922</u>
Net (expenses)/revenues			
Governmental activities	\$ (1,416,057)	\$ (1,420,304)	\$ (1,530,961)
Business-type activities	<u>(1,458)</u>	<u>(2,386)</u>	<u>(2,103)</u>
Total primary government net expense	<u>\$ (1,417,515)</u>	<u>\$ (1,422,690)</u>	<u>\$ (1,533,064)</u>

NOTES: ¹Adjustments were made to Highway and Noncapital, including asset preservation, for the year 2007 to conform to the current year's presentation.

²Notes to Financial Statement (A), New Accounting Pronouncements, Statement Number 65.

Table A-1

2010	2011	2012	2013	2014	2015	2016
\$ 65,781	\$ 93,040	\$ 94,075	\$ 101,370	\$ 106,200	\$ 98,855	\$ 88,899
-	-	-	-	-	-	-
34,721	37,070	39,632	46,076	51,074	41,836	122,025
102,932	129,700	125,331	139,762	122,977	137,473	116,067
102,926	99,949	116,095	107,655	111,397	92,520	113,029
122,747	345,590	351,116	257,126	312,519	315,349	373,006
251,392	254,702	307,885	213,394	216,675	189,517	232,905
1,057,720	1,024,756	1,005,114	1,074,086	1,065,798	1,155,651	1,260,019
83,230	163,035	93,557	102,332	90,376	98,371	114,650
-	-	-	-	13,554	-	-
<u>129,626</u>	<u>128,768</u>	<u>164,081</u>	<u>187,315</u>	<u>114,406</u>	<u>94,956</u>	<u>93,840</u>
<u>1,951,075</u>	<u>2,276,610</u>	<u>2,296,886</u>	<u>2,229,116</u>	<u>2,204,976</u>	<u>2,224,528</u>	<u>2,514,440</u>
6,288	5,664	4,979	4,637	4,821	4,739	-
<u>147</u>	<u>126</u>	<u>75</u>	<u>46</u>	<u>46</u>	<u>43</u>	<u>20,037</u>
<u>6,435</u>	<u>5,790</u>	<u>5,054</u>	<u>4,683</u>	<u>4,867</u>	<u>4,782</u>	<u>20,037</u>
<u>\$ 1,957,510</u>	<u>\$ 2,282,400</u>	<u>\$ 2,301,940</u>	<u>\$ 2,233,799</u>	<u>\$ 2,209,843</u>	<u>\$ 2,229,310</u>	<u>\$ 2,534,477</u>
\$ 9,766	\$ 10,770	\$ 11,947	\$ 12,254	\$ 12,400	\$ 8,145	\$ 13,185
-	-	-	-	-	-	-
1,266	2,798	1,681	842	864	2,157	2,597
1,858	2,667	2,290	1,887	2,418	2,676	6,302
111,412	117,427	111,429	119,733	122,042	132,837	145,899
5	-	-	-	-	-	-
146,936	220,759	161,992	168,436	157,705	172,279	134,446
<u>575,448</u>	<u>743,718</u>	<u>775,976</u>	<u>651,798</u>	<u>546,680</u>	<u>696,877</u>	<u>856,434</u>
<u>846,691</u>	<u>1,098,139</u>	<u>1,065,315</u>	<u>954,950</u>	<u>842,109</u>	<u>1,014,971</u>	<u>1,158,863</u>
5,975	5,619	5,581	5,188	5,164	5,073	-
<u>556</u>	<u>154</u>	<u>2</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>6,531</u>	<u>5,773</u>	<u>5,583</u>	<u>5,194</u>	<u>5,164</u>	<u>5,073</u>	<u>-</u>
<u>\$ 853,222</u>	<u>\$ 1,103,912</u>	<u>\$ 1,070,898</u>	<u>\$ 960,144</u>	<u>\$ 847,273</u>	<u>\$ 1,020,044</u>	<u>\$ 1,158,863</u>
\$ (1,104,384)	\$ (1,178,471)	\$ (1,231,571)	\$ (1,274,166)	\$ (1,362,867)	\$ (1,209,557)	\$ (1,355,577)
<u>96</u>	<u>(17)</u>	<u>529</u>	<u>511</u>	<u>297</u>	<u>291</u>	<u>(20,037)</u>
<u>\$ (1,104,288)</u>	<u>\$ (1,178,488)</u>	<u>\$ (1,231,042)</u>	<u>\$ (1,273,655)</u>	<u>\$ (1,362,570)</u>	<u>\$ (1,209,266)</u>	<u>\$ (1,375,614)</u>

Arizona Department of Transportation

Change in Net Position For the Year Ended June 30, (Thousands of Dollars)

	2007	2008	2009
General Revenues and Other Changes in Net Position			
Governmental activities			
Transportation excise taxes	\$ 262,264	\$ 253,742	\$ 219,165
Motor vehicle registration, title, and related taxes	1,029,001	1,033,505	976,075
Fuel and motor carrier taxes and fees	790,909	766,394	667,200
Flight property taxes	15,303	13,822	11,975
Income from investments	55,760	59,528	33,588
Other	9,998	38,772	22,831
Transfers	-	-	(500)
Governmental activities before accounting change	2,163,235	2,165,763	1,930,334
Special Item – State appropriation for Statewide Transportation			
Acceleration Needs (STAN)	245,000	-	-
Total governmental activities	2,408,235	2,165,763	1,930,334
Business-type activities			
Income from investments	5,563	4,788	1,612
Other	(3)	(17)	(1)
Transfers	-	-	500
Total business-type activities	5,560	4,771	2,111
Total primary government	\$ 2,413,795	\$ 2,170,534	\$ 1,932,445
Changes in Net Position			
Governmental activities	\$ 992,178	\$ 745,459	\$ 399,373
Business-type activities	4,102	2,385	8
Total primary government	\$ 996,280	\$ 747,844	\$ 399,381

Table A-1 — continued

2010	2011	2012	2013	2014	2015	2016
\$ 199,672	\$ 206,545	\$ 216,281	\$ 227,800	\$ 243,786	\$ 254,871	\$ 262,971
893,287	874,191	899,345	913,326	963,221	1,036,502	1,134,913
690,503	704,727	700,620	708,062	714,852	686,042	735,928
9,527	9,798	10,735	8,084	12,975	8,595	9,620
16,347	9,415	11,388	11,781	11,634	9,989	9,064
8,966	16,095	10,442	13,411	13,931	10,415	7,050
-	(851)	-	-	-	-	-
<u>1,818,302</u>	<u>1,819,920</u>	<u>1,848,811</u>	<u>1,882,464</u>	<u>1,960,399</u>	<u>2,006,414</u>	<u>2,159,546</u>
-	-	-	-	-	-	-
<u>1,818,302</u>	<u>1,819,920</u>	<u>1,848,811</u>	<u>1,882,464</u>	<u>1,960,399</u>	<u>2,006,414</u>	<u>2,159,546</u>
514	554	783	747	735	613	560
-	-	-	-	-	-	-
-	851	-	-	-	-	-
<u>514</u>	<u>1,405</u>	<u>783</u>	<u>747</u>	<u>735</u>	<u>613</u>	<u>560</u>
<u>\$ 1,818,816</u>	<u>\$ 1,821,325</u>	<u>\$ 1,849,594</u>	<u>\$ 1,883,211</u>	<u>\$ 1,961,134</u>	<u>\$ 2,007,027</u>	<u>\$ 2,160,106</u>
\$ 713,918	\$ 641,449	\$ 617,240	\$ 608,298	\$ 597,532	\$ 796,857	\$ 803,969
610	1,388	1,312	1,258	1,032	904	(19,477)
<u>\$ 714,528</u>	<u>\$ 642,837</u>	<u>\$ 618,552</u>	<u>\$ 609,556</u>	<u>\$ 598,564</u>	<u>\$ 797,761</u>	<u>\$ 784,492</u>

Arizona Department of Transportation

Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds For the Year Ended June 30, (Thousands of Dollars)

	2007	2008	2009
Revenues			
Transportation excise taxes	\$ 262,264	\$ 253,742	\$ 219,165
Vehicle registration, title, license, and related taxes and fees	1,159,379	1,159,474	1,064,147
Fuel and motor carrier taxes and fees	792,717	768,046	696,075
Flight property taxes	15,303	13,822	11,975
Reimbursement of construction expenditures – federal aid	334,376	494,584	531,981
Other federal grants and reimbursements	72,548	79,747	94,521
Reimbursements from Arizona counties and cities	34,971	38,609	27,498
Distributions from other state agencies	1,799	463	876
Interest on loans receivable	928	697	427
Income from investments	55,393	59,197	33,221
Sales and charges for services	-	-	-
Grand Canyon National Park Airport	1,133	940	936
Rental income	1,434	1,367	1,788
Other	<u>7,088</u>	<u>6,206</u>	<u>21,579</u>
Total revenues	<u>2,739,333</u>	<u>2,876,894</u>	<u>2,704,189</u>
Expenditures			
Current			
Transportation			
Administration	44,875	44,322	46,056
Aeronautics	3,876	4,089	10,471
Highway	184,240	171,134	163,570
Highway maintenance	118,940	135,629	111,346
Motor vehicle	<u>103,801</u>	<u>110,982</u>	<u>131,665</u>
Total transportation	<u>455,732</u>	<u>466,156</u>	<u>463,108</u>
Intergovernmental			
Distributions to other state agencies	114,795	173,405	404,569
Distributions to Arizona counties and cities	1,217,883	1,241,110	1,100,959
Debt service			
Principal	100,395	192,663	199,687
Interest	90,836	102,583	126,932
Bond issuance costs	1,592	3,447	3,967
Noncapital, including asset preservation	63,273	158,991	142,604
Capital outlay	<u>741,506</u>	<u>989,882</u>	<u>1,077,835</u>
Total expenditures	<u>2,786,012</u>	<u>3,328,237</u>	<u>3,519,661</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(46,679)</u>	<u>(451,343)</u>	<u>(815,472)</u>

Table A-2

	2010	2011	2012	2013	2014	2015	2016
\$	199,672	\$ 206,545	\$ 216,281	\$ 227,800	\$ 243,786	\$ 254,871	\$ 262,971
	1,002,312	991,335	1,010,548	1,021,441	1,085,166	1,169,339	1,280,812
	692,632	704,727	700,620	613,607	714,852	686,042	735,928
	9,527	9,799	10,735	-	12,975	8,595	9,620
	544,498	736,803	770,900	597,762	536,192	685,823	859,985
	146,936	219,743	157,437	66,217	148,902	162,701	106,660
	31,503	10,078	9,645	(2,380)	19,314	20,632	24,235
	936	845	1,842	989	915	1,338	744
	596	436	351	93	228	179	207
	15,853	9,083	11,130	11,282	11,500	9,989	9,064
	-	-	-	-	-	-	9,189
	866	798	821	-	1,170	1,295	344
	1,800	2,554	3,096	5,244	6,025	6,671	5,556
	6,370	9,913	8,177	7,779	11,959	10,264	6,990
	<u>2,653,501</u>	<u>2,902,659</u>	<u>2,901,583</u>	<u>2,549,834</u>	<u>2,792,984</u>	<u>3,017,739</u>	<u>3,312,305</u>
	52,971	81,477	80,627	80,612	92,966	93,309	81,191
	-	-	-	-	-	-	-
	115,061	200,216	135,908	42,996	128,196	136,527	163,011
	94,014	120,716	118,230	125,199	133,572	130,599	108,882
	101,142	98,115	114,327	100,993	109,553	87,296	106,030
	<u>363,188</u>	<u>500,524</u>	<u>449,092</u>	<u>349,800</u>	<u>464,287</u>	<u>447,731</u>	<u>459,114</u>
	244,836	254,210	305,218	132,685	216,482	189,517	232,990
	1,046,576	1,022,512	1,004,768	1,053,543	1,065,798	1,155,651	1,320,949
	144,232	201,219	196,338	160,415	216,879	272,053	194,308
	143,133	144,748	137,213	142,524	140,259	121,404	122,449
	121	2,099	3,043	2,455	-	3,026	-
	217,338	313,179	286,217	242,039	223,572	251,953	356,753
	998,502	709,250	701,657	677,236	563,428	634,303	689,613
	<u>3,157,926</u>	<u>3,147,741</u>	<u>3,083,546</u>	<u>2,760,697</u>	<u>2,890,705</u>	<u>3,075,638</u>	<u>3,376,176</u>
	<u>(504,425)</u>	<u>(245,082)</u>	<u>(181,963)</u>	<u>(210,863)</u>	<u>(97,721)</u>	<u>(57,899)</u>	<u>(63,871)</u>

Arizona Department of Transportation

Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds For the Year Ended June 30, (Thousands of Dollars)

	2007	2008	2009
Other Financing Sources (Uses)			
Transfers in	\$ 225,499	\$ 303,513	\$ 239,447
Transfers out for debt service	(186,856)	(231,563)	(221,232)
Transfers out other	(38,643)	(71,950)	(17,252)
Capital leases	2,129	-	-
Sale of capital assets	10,162	28,233	2,127
Insurance recovery	577	1,765	887
Debt issuance	325,000	711,479	796,819
Debt issuance – refunding bond	-	-	-
Amortized premium from debt issuance	26,201	31,862	58,123
Payment to refunded bond escrow agent	-	-	-
Total other financing sources (uses)	364,069	773,339	858,919
Net change in fund balances before accounting change	317,390	321,996	43,447
Special item – State appropriation for Statewide Transportation Acceleration Needs (STAN)	245,000	-	-
Net change in fund balances	562,390	321,996	43,447
Fund balances, beginning of year	482,419	1,044,809	1,366,805
Fund balances, end of year	\$ 1,044,809	\$ 1,366,805	\$ 1,410,252
Debt service as a percentage of noncapital expenditures	11.1%	9.4%	12.8%
Debt service as a percentage of total revenues	9.2%	7.0%	10.4%

Table A-2 — continued

	2010	2011	2012	2013	2014	2015	2016
\$	271,408	\$ 331,547	\$ 330,856	\$ 283,066	\$ 303,030	\$ 305,410	\$ 304,311
	(266,934)	(331,547)	(330,856)	(227,996)	(303,030)	(305,410)	(304,311)
	(9,013)	(2,400)	-	-	-	-	-
	-	-	-	-	-	-	-
	3,088	3,712	1,815	1,636	900	259	60
	1,765	2,529	1,818	1,679	2,328	2,676	6,302
	32,628	349,698	269,001	767,020	42,366	783	-
	-	-	499,725	92,477	-	754,285	-
	-	38,876	90,753	36,385	-	149,554	-
	-	-	(560,228)	(611,874)	-	(900,813)	-
	<u>32,942</u>	<u>392,415</u>	<u>302,884</u>	<u>342,393</u>	<u>45,594</u>	<u>6,744</u>	<u>6,362</u>
	(471,483)	147,333	120,921	131,530	(52,127)	(51,155)	(57,509)
	-	-	-	-	-	-	-
	(471,483)	147,333	120,921	131,530	(52,127)	(51,155)	(57,509)
	<u>1,410,252</u>	<u>938,769</u>	<u>1,086,102</u>	<u>1,169,853</u>	<u>1,341,636</u>	<u>1,289,508</u>	<u>1,240,753</u>
\$	<u>938,769</u>	<u>\$ 1,086,102</u>	<u>\$ 1,207,023</u>	<u>\$ 1,301,383</u>	<u>\$ 1,289,509</u>	<u>\$ 1,238,353</u>	<u>\$ 1,183,244</u>
	13.5%	13.3%	14.1%	14.5%	15.3%	16.1%	11.8%
	12.2%	10.8%	12.1%	10.4%	12.8%	13.0%	9.6%

Arizona Department of Transportation

Fund Balances of Governmental Funds

As of June 30,
(Thousands of Dollars)

	2007	2008	2009	2010
General Fund (State Highway Fund)				
Reserved	\$ 507,723	\$ 505,691	\$ 230,885	\$ 270,550
Unreserved	(10,032)	57,899	94,686	80,251
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Total general fund	<u>497,691</u>	<u>563,590</u>	<u>325,571</u>	<u>350,801</u>
All other governmental funds				
Reserved				
Debt service	2,688	3,212	2,692	1,894
Capital projects	495,428	774,644	1,078,478	576,331
Unreserved, reported in				
Nonmajor special revenue funds	49,002	25,359	3,574	9,743
Unassigned	-	-	-	-
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Total all other governmental funds	<u>547,118</u>	<u>803,215</u>	<u>1,084,744</u>	<u>587,968</u>
Total general and other governmental funds	<u>\$ 1,044,809</u>	<u>\$ 1,366,805</u>	<u>\$ 1,410,315</u>	<u>\$ 938,769</u>

NOTES: ¹GASB 54 rules state that fund balances should be reported with the categories listed in the above table for years beginning in 2011. Years 2007–2010 will continued to be reported in the old format until 10 years of information is available.

²Estimated in 2012 CAFR and have been revised for 2012 actuals.

Table A-3

2011 ¹	2012 ²	2013	2014	2015	2016
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
9,765	8,235	7,207	6,833	6,341	6,179
229,559	240,444	267,414	295,361	344,347	337,534
<u>102,350</u>	<u>25,229</u>	<u>123,662</u>	<u>129,115</u>	<u>177,384</u>	<u>282,312</u>
<u>341,674</u>	<u>273,908</u>	<u>398,283</u>	<u>431,309</u>	<u>528,072</u>	<u>626,025</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	(8,128)	(8,128)	(8,128)	(8,128)	(8,128)
-	-	-	-	6,341	-
719,966	903,891	870,678	816,591	490,664	548,082
<u>24,462</u>	<u>37,352</u>	<u>40,550</u>	<u>49,737</u>	<u>221,404</u>	<u>17,265</u>
<u>744,428</u>	<u>933,115</u>	<u>903,100</u>	<u>858,200</u>	<u>710,281</u>	<u>557,219</u>
<u>\$ 1,086,102</u>	<u>\$ 1,207,023</u>	<u>\$ 1,301,383</u>	<u>\$ 1,289,509</u>	<u>\$ 1,238,353</u>	<u>\$ 1,183,244</u>

Arizona Department of Transportation

Table A-4

Expenditures of Federal Awards¹ For the Year Ended June 30, (Thousands of Dollars)

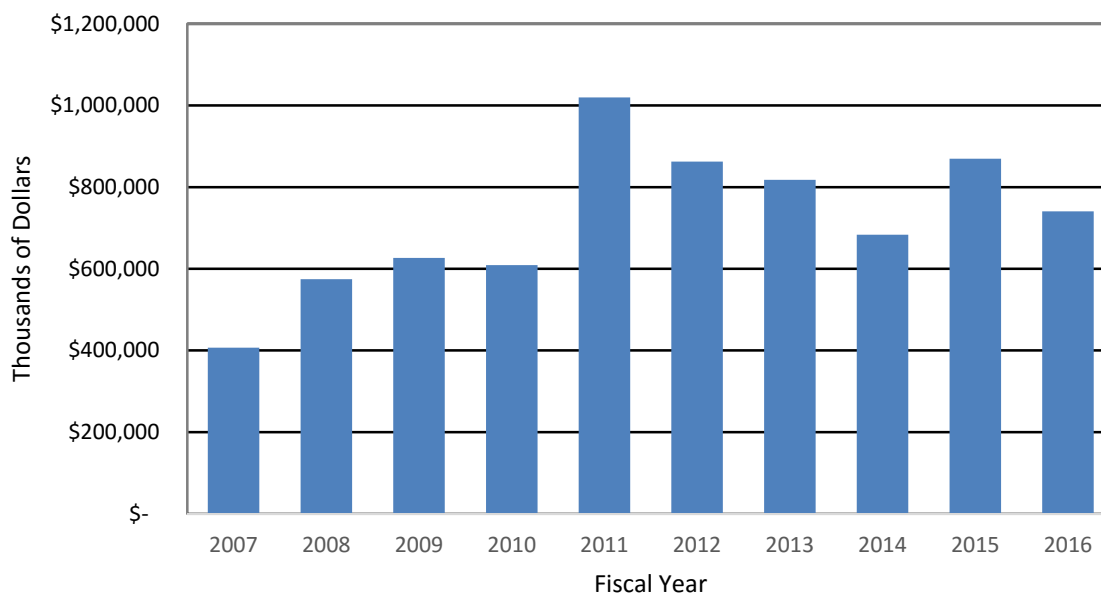
Fiscal Year	Federal Agencies ¹												Total Federal Expenditures
	BIA	BJA	BLM	FAA	FHWA	FMCSA	FRA	FTA	GSA	NHTSA	OST	USDA	
2016	\$ -	\$ -	\$ -	\$ 3,292	\$ 713,270	\$ 760	\$ 53	\$ 14,279	\$ -	\$ 175	\$ 8,671	\$ -	\$ 740,500
2015	-	-	-	428	837,698	2,122	48	18,644	-	103	10,417	-	869,460
2014	-	-	-	454	660,644	2,204	65	18,107	234	112	1,512	-	683,332
2013	-	13	-	198	794,912	2,747	611	19,056	-	123	344	-	818,004
2012	-	-	-	488	840,649	1,518	-	19,261	541	-	-	80	862,537
2011	-	-	1,004	3,844	988,403	3,891	-	21,451	-	1,143	-	-	1,019,736
2010	-	-	124	7,938	574,068	4,148	-	22,769	-	120	-	-	609,167
2009	-	-	268	3,902	603,643	4,734	-	13,853	-	101	-	-	626,501
2008	-	-	57	715	555,282	2,642	-	15,530	-	106	-	-	574,332
2007	(21)	-	544	610	393,751	1,769	-	10,169	-	101	-	-	406,923

SOURCE: Arizona Department of Transportation Schedule of Expenditures of Federal Awards – fiscal years 2007 through 2016

NOTES: ¹Bureau of Indian Affairs (BIA); Bureau of Justice Assistance (BJA); Bureau of Land Management (BLM); Federal Aviation Administration (FAA); Federal Highway Administration (FHWA); Federal Motor Carrier Safety Administration (FMCSA); Federal Railroad Administration (FRA); Federal Transit Administration (FTA); General Services Administration (GSA); National Highway Transportation Safety Administration (NHTSA); Office of the Secretary (OST) Administration Secretariate; United States Department of Agriculture (USDA).

²The 2016 total federal expenditures are prepared on the other comprehensive basis of accounting using the cash basis.

Total Expenditures of Federal Awards



Arizona Department of Transportation

Government-Wide Expenses by Function

For the Year Ended June 30,

(Thousands of Dollars)

Fiscal Year	Admin.	Aeronautics	Highway	Highway Maintenance ¹	Motor Vehicle	Distributions to Arizona Counties, Cities and Other State Agencies
2016	\$ 88,899	\$ -	\$ 122,025	\$ 116,067	\$ 113,029	\$ 1,492,924
2015	98,855	-	41,836	137,473	92,520	1,345,168
2014	106,200	-	51,074	122,977	111,397	1,282,473
2013	101,370	-	46,076	139,762	107,655	1,287,481
2012	94,075	-	39,632	476,447	116,095	1,312,999
2011	93,040	-	37,070	475,290	99,949	1,279,459
2010	65,781	-	34,721	225,679	102,926	1,309,112
2009	56,282	10,993	116,697	311,605	133,243	1,505,835
2008	54,918	4,373	132,874	324,104	112,880	1,415,075
2007	51,667	5,418	138,788	233,732	105,961	1,334,003

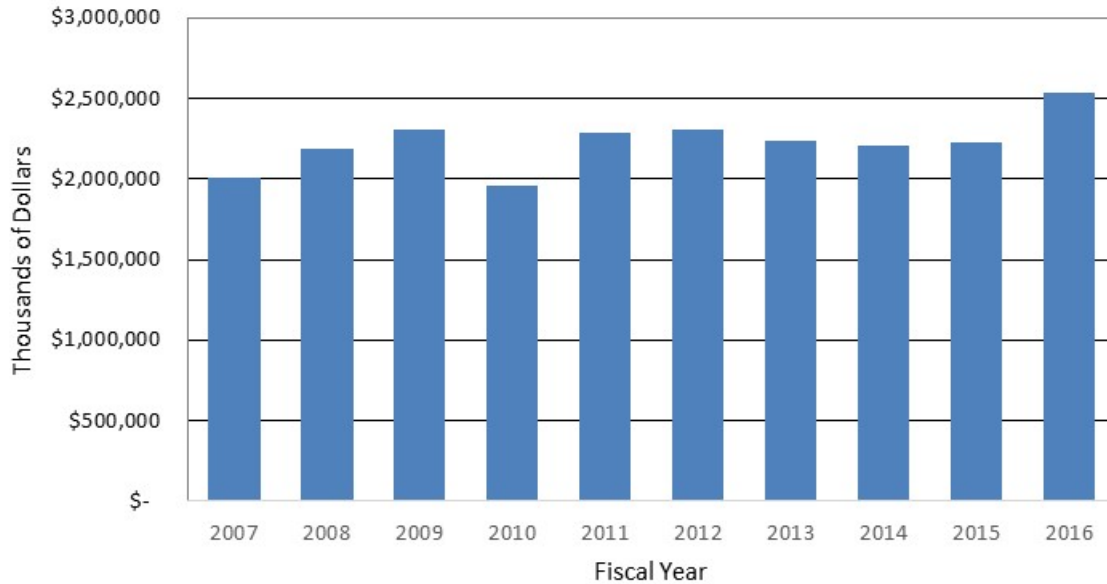
NOTES: ¹Includes noncapital, including asset preservation.

²Arizona Highways Magazine was included in the general fund starting in 2016.

Table A-5

	Local Governmental Assistance	Premium on Long-Term Debt	Interest on Long-Term Debt	Other	Arizona Highways Magazine ²	Highway Expansion and Extension Loan Program	Total
\$	114,650	\$ -	\$ 93,840	\$ 373,006	\$ -	\$ 20,037	\$ 2,534,477
	98,371	-	94,956	315,349	4,739	43	2,229,310
	90,376	-	114,406	326,073	4,821	46	2,209,843
	102,332	-	187,315	257,126	4,637	46	2,233,800
	93,557	1,419	162,662	-	4,978	75	2,301,939
	163,035	-	128,768	-	5,664	126	2,282,401
	83,230	-	129,626	-	6,288	147	1,957,510
	48,571	-	114,683	-	7,410	2,110	2,307,429
	37,285	-	92,295	-	7,712	4,053	2,185,569
	48,760	-	82,450	-	8,072	4,355	2,013,206

Government-Wide Expenses



Arizona Department of Transportation
Government-Wide Revenues
For the Year Ended June 30,
(Thousands of Dollars)

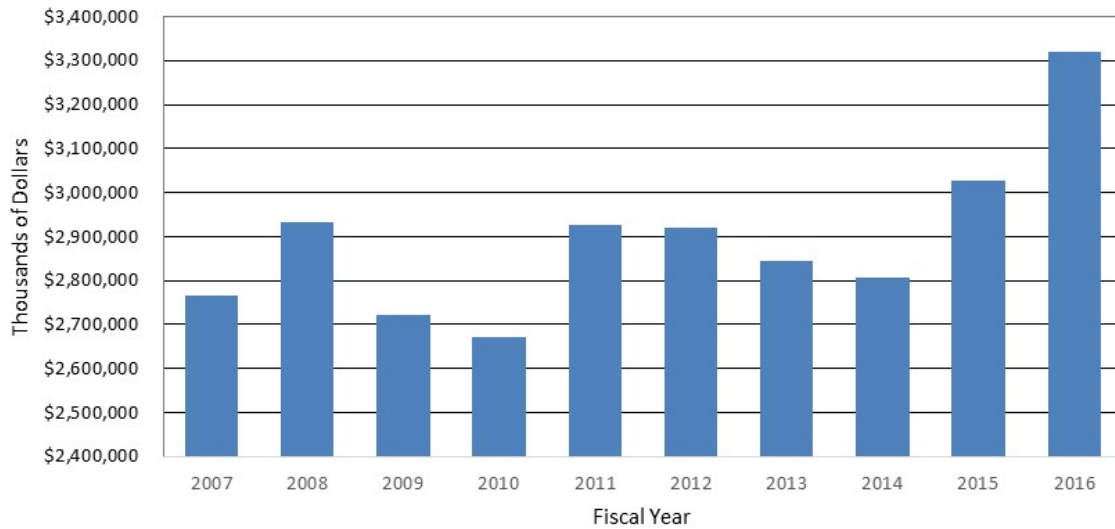
Fiscal Year	Program Revenues			
	Governmental		Business-Type	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Charges for Services
2016	\$ 167,983	\$ 134,446	\$ 856,434	\$ -
2015	145,815	172,279	696,877	5,073
2014	137,725	157,705	546,680	5,164
2013	134,716	168,436	651,798	5,194
2012	127,347	161,992	776,814	5,583
2011	133,661	220,759	743,718	5,773
2010	124,307	146,936	575,448	6,541
2009	139,396	90,619	552,488	7,418
2008	150,024	79,747	523,728	9,379
2007	158,019	72,679	354,024	10,969

NOTE: ¹Includes transfers for multiple years.

Table A-6

General Revenues						Total
Governmental			Business-Type			Government-Wide Revenues
Taxes	Other Revenues ¹	Income from Investments	Other Revenues ¹	Income from Investments		
\$ 2,143,432	\$ 7,050	\$ 9,064	\$ -	\$ 560	\$ 3,318,969	
1,986,010	10,264	9,989	151	613	3,027,071	
1,934,835	13,905	11,634	26	735	2,808,409	
1,857,273	13,290	11,781	121	747	2,843,356	
1,826,980	9,604	11,388	-	783	2,920,491	
1,795,291	16,079	9,402	851	555	2,926,089	
1,792,989	8,965	16,347	-	514	2,672,047	
1,874,415	22,331	33,588	500	1,612	2,722,367	
2,067,464	38,772	59,528	(18)	4,788	2,933,412	
2,097,476	9,998	57,760	(3)	5,563	2,766,485	

Government-Wide Revenues



Arizona Department of Transportation
Net Position by Component
As of June 30,
(Thousands of Dollars)

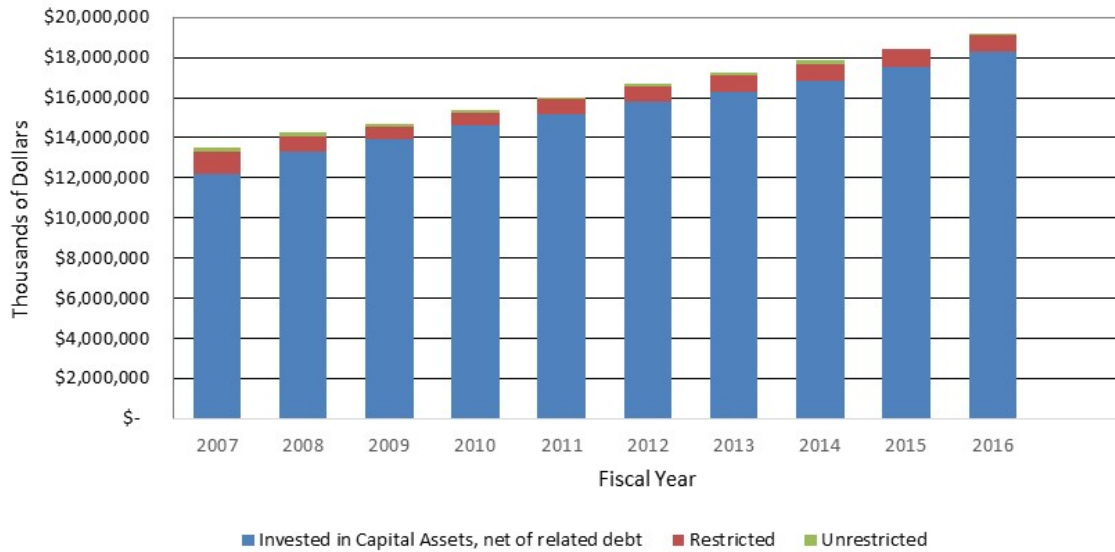
Fiscal Year	Governmental Activities				Business-Type	
	Net Investment in Capital Assets	Restricted	Unrestricted	Total	Net Investment in Capital Assets	Restricted
2016	\$ 18,305,646	\$ 746,099	\$ 10,659	\$ 19,062,404	\$ -	\$ 59,293
2015	17,496,122	819,446	(57,534)	18,258,034	18	78,770
2014	16,812,808	805,893	159,127	17,777,828	24	78,226
2013	16,290,605	738,969	150,721	17,180,295	30	77,564
2012	15,818,053	666,828	106,932	16,591,813	43	76,882
2011	15,159,086	669,811	125,860	15,954,757	54	76,192
2010	14,620,099	566,794	126,415	15,313,308	92	75,619
2009	13,951,802	534,535	113,053	14,599,390	131	74,703
2008	13,285,438	704,929	209,650	14,200,017	173	74,115
2007	12,211,861	1,006,512	236,186	13,454,559	225	71,708

NOTE: ¹Includes transfers for multiple years.

Table A-7

Business-Type			Primary Government		
Unrestricted	Total	Net Investment in Capital Assets	Restricted	Unrestricted	Total
\$ -	\$ 59,293	\$ 18,305,646	\$ 805,392	\$ 10,659	\$ 19,121,697
383	79,171	17,496,140	898,216	(57,151)	18,337,205
1,790	80,040	16,812,832	884,119	160,917	17,857,868
1,414	79,008	16,290,635	816,533	152,135	17,259,303
825	77,750	15,818,096	743,710	107,757	16,669,563
192	76,438	15,159,140	746,003	126,052	16,031,195
(663)	75,048	14,620,191	642,413	125,752	15,388,356
(406)	74,428	13,951,933	609,238	112,647	14,673,818
132	74,420	13,285,611	779,044	209,782	14,274,437
102	72,035	12,212,086	1,078,220	236,288	13,526,594

Primary Government Net Assets by Component



REVENUE CAPACITY

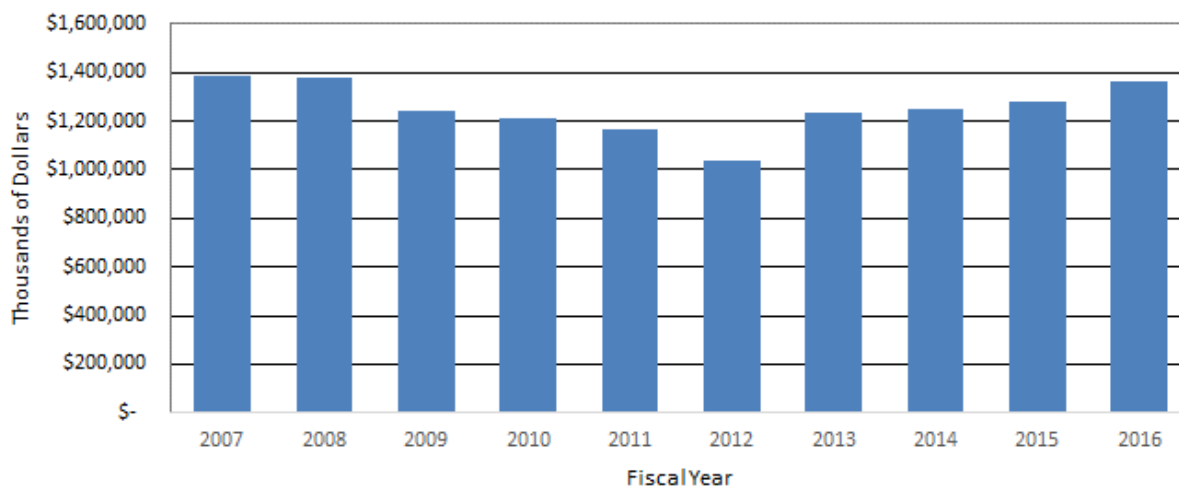
Arizona Department of Transportation

Table B-1

Highway User Revenue Fund Collections For the Year Ended June 30, (Thousands of Dollars)

Fiscal Year	Motor Vehicle Fuel Tax Revenues	Motor Vehicle Reg. Fee Revenues	Motor Carrier Tax Revenues	Motor Vehicle Operators' License Fees and Other Fees	Motor Vehicle License (In Lieu) Tax Revenues	Total Deposited to Arizona HURF
2016	\$ 688,105	\$ 184,564	\$ 41,058	\$ 57,943	\$ 395,952	\$ 1,367,622
2015	634,245	188,793	18,623	69,245	366,607	1,277,513
2014	632,544	182,492	17,953	68,452	345,603	1,247,044
2013	647,858	180,115	17,103	67,373	321,864	1,234,313
2012	538,352	180,685	17,085	69,765	228,317	1,034,204
2011	636,507	175,179	17,466	64,361	275,132	1,168,645
2010	633,771	170,453	17,157	59,431	331,080	1,211,892
2009	637,054	178,953	18,930	58,500	349,399	1,242,836
2008	697,771	196,151	21,758	60,630	400,787	1,377,097
2007	725,787	194,308	22,473	57,085	389,503	1,389,156

Highway User Revenue Fund Collections



Arizona Department of Transportation

Table B-2

Highway User Revenue Fund Distributions

For the Year Ended June 30,

(Thousands of Dollars)

Fiscal Year	State Highway Fund	Cities and Towns	Counties	Department of Public Safety	Economic Strength Project Fund	Other ¹	Total
2016	\$ 621,182	\$ 405,169	\$ 233,712	\$ 95,035	\$ 1,000	\$ 11,524	\$ 1,367,622
2015	580,993	364,260	226,928	89,255	1,000	15,077	1,277,513
2014	559,765	340,718	212,251	119,247	1,000	14,063	1,247,044
2013	555,030	327,732	219,228	119,965	1,000	11,358	1,234,313
2012	401,172	306,376	190,857	123,211	1,000	11,588	1,034,204
2011	522,556	341,502	212,739	79,216	1,000	11,631	1,168,644
2010	520,484	399,900	211,741	78,626	1,000	60,141	1,271,892
2009	513,379	346,443	215,817	84,950	1,000	81,247	1,242,836
2008	680,530	415,556	258,871	10,000	1,000	11,140	1,377,097
2007	688,451	417,541	260,107	10,000	1,000	12,057	1,389,156

The Highway User Revenue Fund receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed: 50.5% to the State Highway Fund, 27.5% to cities and towns, 3% to cities with population over 300,000, and 19% to counties based on Arizona Revised Statutes – Section 28-6538.

SOURCE: Basic Financial Statements – fiscal years 2007 through 2016

NOTE: ¹An appropriation for Arizona State Parks is included. Fiscal years 2009, 2010, 2011 and 2012 include distributions to the State General Fund.

Arizona Department of Transportation

Table B-3

Fuel Tax Rates For the Year Ended June 30, (Cents per Gallon)

Fiscal Year	Gasoline Tax	Use Fuel Tax ¹
2016	\$ 0.18	\$ 0.26
2015	0.18	0.26
2014	0.18	0.26
2013	0.18	0.26
2012	0.18	0.26
2011	0.18	0.26
2010	0.18	0.26
2009	0.18	0.26
2008	0.18	0.26
2007	0.18	0.26

SOURCE: Arizona Revised Statutes §28-5606
Imposition of Motor Fuel Taxes

NOTE: Gasohol is currently taxed at the same rate as gasoline and use fuel. Use fuel is primarily diesel.

¹Light class motor vehicles with a declared vehicle weight <26,001 pounds and have less than three axles pay \$.18 per gallon.

Arizona Department of Transportation

Table B-4

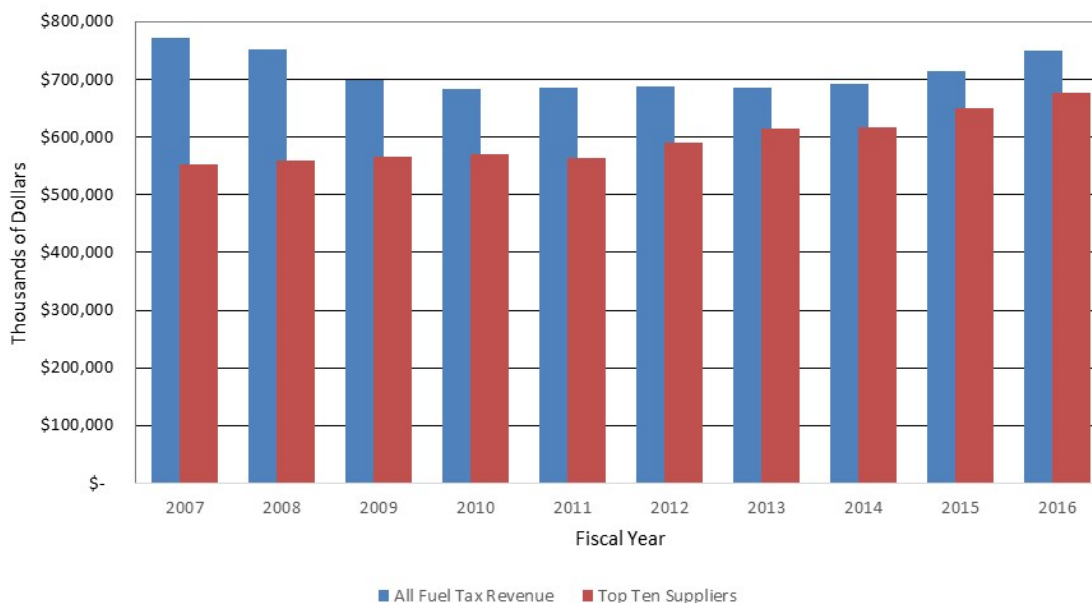
Motor Vehicle Fuel Tax – Top Ten Suppliers For the Year Ended June 30, (Thousands)

Fiscal Year	Gallons from Top Ten Suppliers	Revenue from Top Ten Suppliers	All Motor Vehicle Fuel Tax Revenue	Revenue Percentage from Top Ten Suppliers
2016	3,466,062	\$ 677,464	\$ 749,433	90.4%
2015	3,298,612	650,714	715,248	91.0%
2014	3,138,450	617,134	691,250	89.3%
2013	3,110,955	613,799	685,320	89.6%
2012	3,025,722	589,607	688,642	85.6%
2011	2,898,241	564,353	686,591	82.2%
2010	2,905,890	569,974	683,880	83.3%
2009	2,871,995	565,889	698,959	81.0%
2008	2,839,622	559,609	753,036	74.3%
2007	2,807,989	552,997	772,100	71.6%

SOURCE: Revenue & Fuel Tax Administration reporting, based on gallonage data reported by fuel suppliers

NOTE: Above data reflects a change in gasoline and use fuel gallons reported by the Revenue & Fuel Tax Administration for 2007 – 2016

Motor Vehicle Fuel Tax Sources



Arizona Department of Transportation
Gasoline Volume Sold – Top Twenty-Five Suppliers
For the Year Ended June 30,

Range – in Millions of Gallons	2007		2008		2009		2010		2011	
	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold
< 25	6	2.0%	8	1.5%	7	3.3%	7	2.7%	7	3.2%
26–50	1	1.0%	6	4.2%	5	5.2%	8	9.2%	5	4.9%
50–100	5	11.1%	3	12.1%	2	3.2%	1	1.5%	3	4.6%
101–200	6	24.5%	5	11.1%	3	11.4%	2	9.8%	3	15.3%
201–300	3	18.2%	3	34.8%	3	17.9%	3	21.7%	3	19.0%
>300	4	40.4%	–	32.7%	5	55.8%	4	51.6%	4	49.8%
	25	97.2%	25	96.4%	25	96.8%	25	96.5%	25	96.8%
<hr/>										
Total Gallons of Gasoline (Thousands)		2,871,528		2,797,714		2,634,840		2,607,660		2,616,186
Gasoline % of Total		74.5%		74.5%		75.3%		76.0%		75.9%
Total Gallons of Use Fuel (Diesel) (Thousands)		981,647		959,406		864,455		824,996		829,530
Diesel % of Total		25.5%		25.5%		24.7%		24.0%		24.1%

NOTE: Above data reflects a change in gasoline and use fuel gallon reported by the Revenue & Fuel Tax Administration for 2007 – 2016.

Table B-5

Range – in Millions of Gallons	2012		2013		2014		2015		2016	
	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold
< 25	15	5.9%	14	5.9%	13	4.8%	13	3.9%	13	3.8%
26–50	1	1.3%	2	2.4%	2	2.0%	3	3.4%	2	2.0%
50–100	1	1.8%	1	2.0%	2	4.2%	1	1.6%	2	3.8%
101–200	3	16.1%	2	10.2%	3	15.0%	2	9.1%	2	8.5%
201–300	1	7.7%	2	12.7%	1	6.2%	2	13.7%	2	13.9%
>300	4	65.3%	4	64.2%	4	65.0%	4	66.1%	4	66.4%
	25	98.1%	25	97.4%	25	97.2%	25	97.8%	25	98.4%
<hr/>										
Total Gallons of Gasoline (Thousands)		2,616,570		2,612,577		2,644,667		2,745,426		2,882,788
Gasoline % of Total		75.8%		76.0%		76.0%		76.0%		76.0%
Total Gallons of Use Fuel (Diesel) (Thousands)		837,151		827,138		827,731		850,274		886,658
Diesel % of Total		24.2%		24.0%		24.0%		24.0%		24.0%

NOTE: Above data reflects a change in gasoline and use fuel gallon reported by the Revenue & Fuel Tax Administration for 2007 – 2016.

DEBT CAPACITY

Arizona Department of Transportation

Table C-1

Highway User Revenue Fund Legal Debt Margin For the Year Ended June 30, (Thousands of Dollars)

Fiscal Year	Debt Limit ^{1,2}	Total Principal Applicable to Limit	Legal Debt Margin	Total Principal Applicable to the Limit as a Percentage of Debt Limit
2016	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A

NOTES: ¹The statutory limitation on the issuance of bonds, as outlined in ARS §28-7510, applies only to the Highway User Revenue Fund (HURF). The only limitation on Maricopa County Regional Area Road Fund (RARF) and Grant Anticipation Notes (GARVEE) is the ability to secure the debts with available excise tax monies and available grant revenues, respectively, pursuant to the applicable bond resolutions.

²As stated in House Bill 2206 of the Second Regular Session of the Forty-seventh Legislature, the \$1.3 billion debt limit is eliminated from ARS §28-7510. The general effective date of this change was September 21, 2006.

Arizona Department of Transportation

Table C-2

Highway Revenue Bonds Bond Coverage For the Year Ended June 30, (Thousands of Dollars)

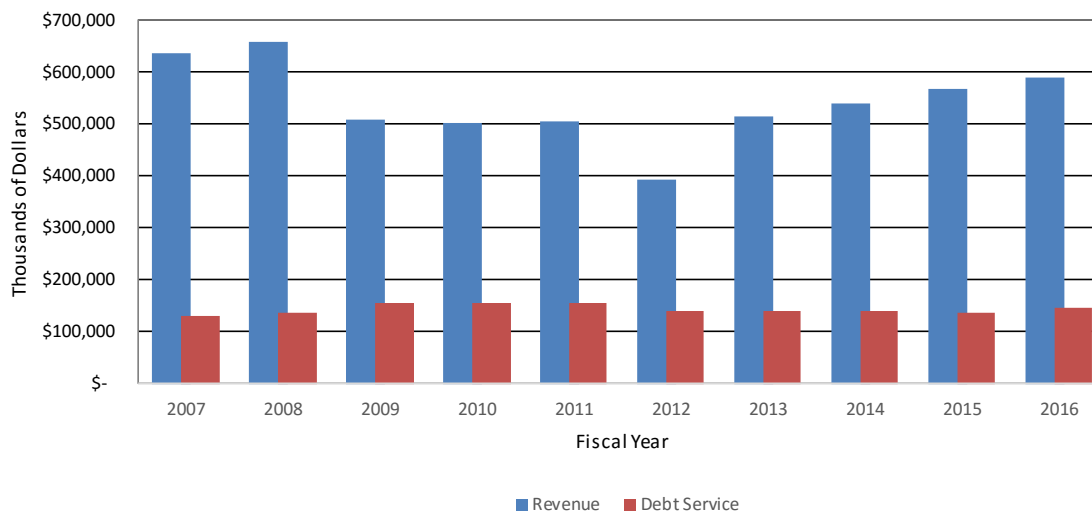
Fiscal Year	Principal	Interest	Total	Pledged Revenues ^{1,2}	Coverage
2016	\$ 70,195	\$ 74,248	\$ 144,443	\$ 589,476	4.1
2015	61,660	75,937	137,597	566,352	4.1
2014	58,485	80,495	138,980	537,768	3.9
2013	60,540	78,198	138,738	512,971	3.7
2012	67,885	71,113	138,998	392,648	2.8
2011	71,770	83,960	155,730	504,175	3.2
2010	68,140	87,661	155,801	502,874	3.2
2009	64,190	89,825	154,015	509,183	3.3
2008	60,645	75,538	136,183	658,616	4.8
2007	57,825	73,785	131,610	635,140	4.8

SOURCES: Highway User Revenue Fund Schedule fiscal years 2007 through 2016, Debt Service Funds fiscal years 2007 through 2016.

NOTES: ¹Includes vehicle license tax revenues distributed directly to the State Highway Fund. Fiscal year 2009 is net of \$66 million, 2010 is net of \$44 million and 2011 is net of \$45 million distribution to the State General Fund.

²The Highway Revenue Bonds are secured by a prior lien on and pledge of motor vehicle and related fuel fees and taxes.

Highway Revenue Bonds – Bond Coverage



Arizona Department of Transportation

Table C-3

Transportation Excise Tax Revenue Bonds

Bond Coverage

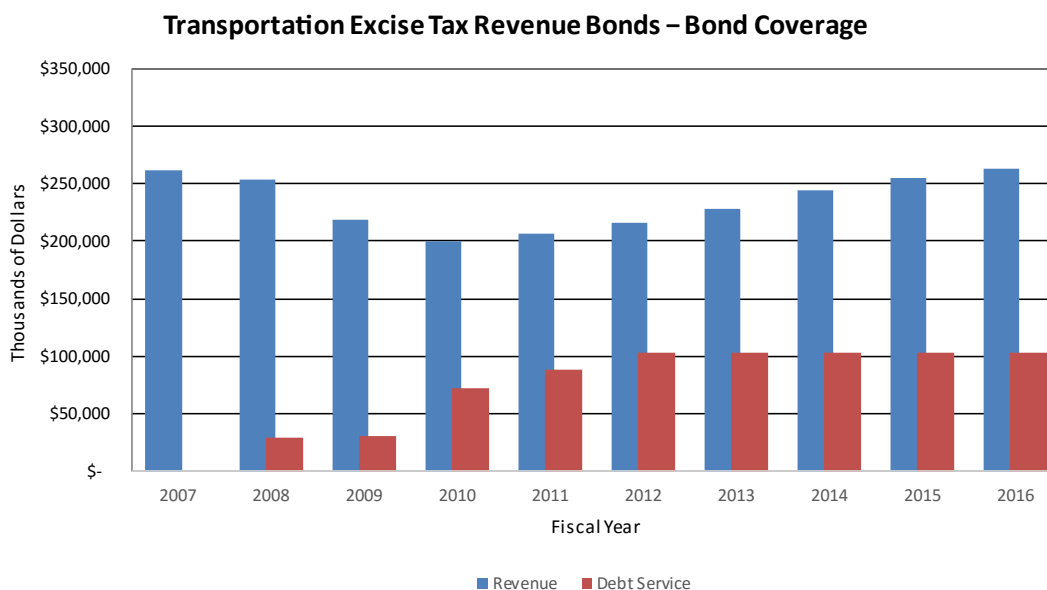
**For the Year Ended June 30,
(Thousands of Dollars)**

Fiscal Year	Principal	Interest	Total	Pledged Revenues ^{1,2}	Coverage
2016	\$ 65,585	\$ 38,001	\$ 103,586	\$ 262,971	2.5
2015	70,940	32,652	103,592	254,871	2.5
2014	58,600	44,988	103,588	243,786	2.4
2013	55,870	47,721	103,591	227,800	2.2
2012	55,460	48,129	103,589	216,281	2.1
2011	45,970	42,496	88,466	206,545	2.3
2010	33,315	38,225	71,540	199,672	2.8
2009	13,825	17,193	31,018	219,165	7.1
2008	19,045	10,673	29,718	253,742	8.5
2007	-	-	-	262,264	N/A

SOURCE: Maricopa County Regional Area Road Fund Report

NOTES: Bond coverage ratio is based upon total Maricopa County Transportation Excise Tax collections.

¹The Transportation Excise Tax Revenue Bonds are secured by transportation excise taxes collected by the Department of Revenue on behalf of Maricopa County.



Arizona Department of Transportation

Table C-4

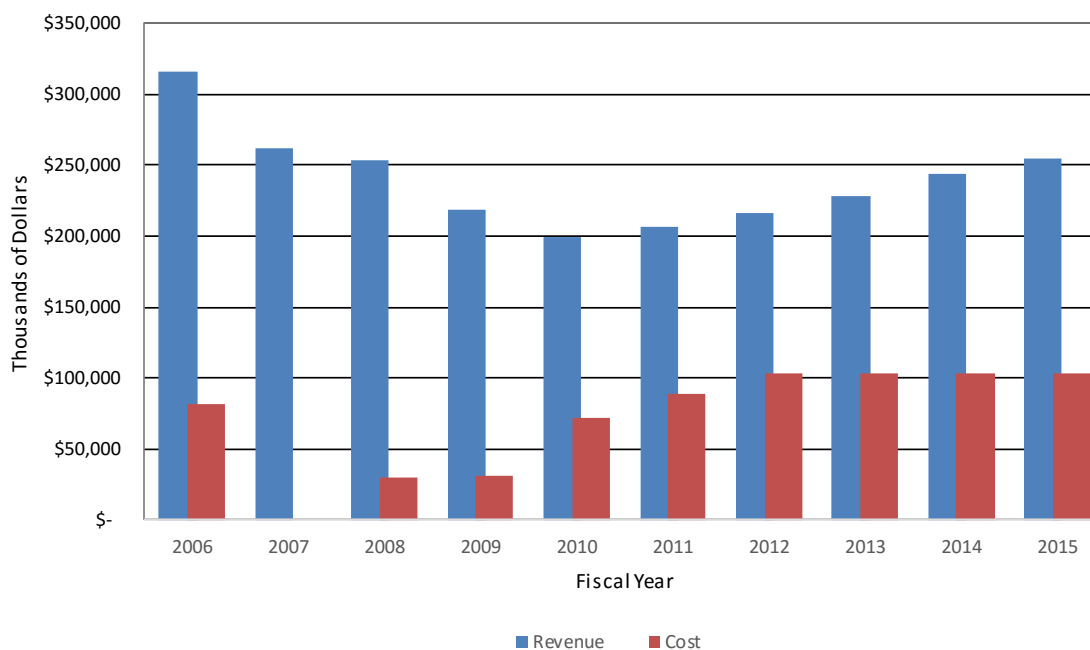
Transportation Excise Tax Revenue Bonds Debt Service Revenue and Cost Per Capita For the Year Ended June 30, (Thousands)

Fiscal Year	Principal	Interest	Total Cost	Revenues ¹	Maricopa County Population	Cost per Capita	Revenue per Capita
2015	\$ 65,585	\$ 38,001	\$ 103,586	\$ 254,871	4087	\$ 25	\$ 62
2014	58,600	44,988	103,588	243,786	4087	25	60
2013	55,870	47,721	103,591	227,800	4009	26	57
2012	55,460	48,129	103,589	216,281	3942	26	55
2011	45,970	42,496	88,466	206,545	3880	23	53
2010	33,315	38,225	71,540	199,672	3817	19	52
2009	13,825	17,193	31,018	219,165	4023	8	54
2008	19,045	10,673	29,718	253,742	3955	8	64
2007	-	-	-	262,264	3907	-	67
2006	80,375	1,567	81,942	316,491	3793	22	83

SOURCE: Maricopa County Regional Area Road Fund Report; population data from the U.S. Census Bureau available only through 2015.

NOTE: ¹Based upon total Maricopa County Transportation Excise Tax collections.

Transportation Excise Tax Revenue and Cost Per Capita



Arizona Department of Transportation

Ratios of Outstanding Debt by Type For the Year Ended June 30, (Thousands of Dollars)

	2006	2007	2008	2009
Governmental Activities				
Highway Revenue Bonds	\$ 1,223,425	\$ 1,490,600	\$ 1,623,905	\$ 1,740,765
Transportation Excise Tax Revenue Bonds	-	-	350,955	777,130
Grant Anticipation Notes (GARVEE)	325,430	282,860	298,280	329,650
Premium on bonds	90,852	108,034	128,586	173,313
Capital leases	11,130	10,601	7,535	4,326
Advances and notes payable	<u>195,018</u>	<u>168,287</u>	<u>56,739</u>	<u>42,668</u>
Total governmental activities	<u>1,845,855</u>	<u>2,060,382</u>	<u>2,466,000</u>	<u>3,067,852</u>
Business-Type Activities				
Notes payable	<u>150,494</u>	<u>154,534</u>	<u>2,170</u>	<u>-</u>
Total business-type activities	<u>150,494</u>	<u>154,534</u>	<u>2,170</u>	<u>-</u>
Total primary government	<u>\$ 1,996,349</u>	<u>\$ 2,214,916</u>	<u>\$ 2,468,170</u>	<u>\$ 3,067,852</u>
Debt as a Percentage of Personal Income	0.96%	1.01%	1.10%	1.40%
Amounts of Debt per Capita ¹	\$ 322	\$ 348	\$ 380	\$ 465

SOURCES:

U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures);

U.S. Bureau of the Census (also for population) population data only available through 2015.

NOTE:

¹The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Year 2006 through 2009 have been revised to reflect revisions made by the U.S. Bureau of the Census. Per capital personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions in personal income and population estimates.

Table C-5

2010	2011 ¹	2012 ²	2013	2014	2015
\$ 1,672,625	\$ 1,600,855	\$ 1,619,965	\$ 1,733,285	\$ 1,674,800	\$ 1,589,965
743,815	877,845	981,845	925,975	867,375	782,810
304,480	392,495	335,230	296,240	247,710	194,670
158,601	180,225	248,892	350,739	323,356	401,520
1,304	4,910	10,729	22,271	29,324	30,944
<u>60,711</u>	<u>59,892</u>	<u>55,666</u>	<u>105,816</u>	<u>108,096</u>	<u>40,921</u>
<u>2,941,536</u>	<u>3,116,222</u>	<u>3,252,327</u>	<u>3,434,326</u>	<u>3,250,661</u>	<u>3,040,830</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 2,941,536</u>	<u>\$ 3,116,222</u>	<u>\$ 3,252,327</u>	<u>\$ 3,434,326</u>	<u>\$ 3,250,661</u>	<u>\$ 3,040,830</u>
1.31%	1.37%	1.38%	1.40%	1.27%	1.14%
\$ 441	\$ 481	\$ 496	\$ 518	\$ 483	\$ 445

DEMOGRAPHIC AND ECONOMIC INFORMATION

Arizona Department of Transportation

Table D-1

Number of Vehicle Registrations Per Year For the Year Ended June 30, (Thousands)

Fiscal Year	Total Vehicles	Change in Number of Registered Vehicles	Arizona Population ¹	Change in Population	Vehicles per Person
2015	7,520	67	6,828	97	1.101
2014	7,453	272	6,731	105	1.107
2013	7,181	205	6,627	73	1.084
2012	6,975	136	6,553	71	1.064
2011	6,840	99	6,483	69	1.055
2010	6,741	48	6,413	(183)	1.051
2009	6,693	(41)	6,596	96	1.015
2008	6,734	125	6,499	137	1.036
2007	6,609	290	6,362	170	1.039
2006	6,318	373	6,192	217	1.020

SOURCE: Vehicle registrations from Motor Vehicle Division's annual reports.

NOTES: ¹The Arizona population data are midyear population estimates of the U.S.

Bureau of the Census. Year 2010 has been revised to reflect revisions made by the U.S. Bureau of the Census. Year 2012 Vehicles has been revised to reflect revisions made by MVD. Population data available only through fiscal year 2015.

Change in Vehicles Registered Compared to Population Change



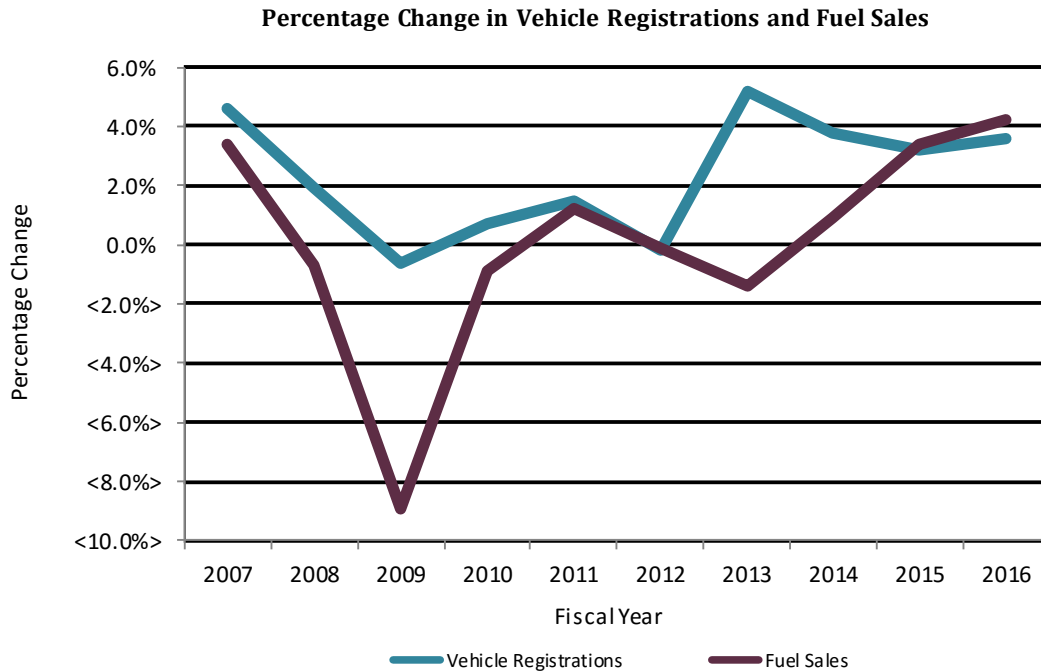
Arizona Department of Transportation
Vehicle Registrations Per Year Compared to Fuel Sales
For the Year Ended June 30,
(Thousands)

Table D-2

Fiscal Year	Vehicle Registrations	Percentage Change	Fuel Sales ¹	Percentage Change
2016	7,971	3.6%	3,652,363	4.2%
2015	7,694	3.2%	3,506,176	3.4%
2014	7,453	3.8%	3,389,934	0.9%
2013	7,181	5.2%	3,360,587	-1.4%
2012	6,824	-0.2%	3,409,594	-0.1%
2011	6,840	1.5%	3,411,652	1.2%
2010	6,741	0.7%	3,369,732	-0.9%
2009	6,693	-0.6%	3,398,866	-8.9%
2008	6,734	1.9%	3,731,808	-0.7%
2007	6,609	4.6%	3,759,465	3.4%

SOURCES: Vehicle registrations from Motor Vehicle Division's annual reports.
 fuel sales from Motor Vehicle Division data reported by fuel suppliers

NOTES: ¹Fuel sales include both gasoline and use fuel (primarily diesel) sales.
 Fuel Sales numbers for 2009 and 2010 have been revised to reflect revisions made to the Motor Vehicle Division data.



Arizona Department of Transportation
Demographic and Economic Statistics
For the Last Ten Calendar years

Table D-3

Calendar Year Ended December 31	Population ¹	Personal Income ² (in thousands)	Per Capita Personal Income ³	Unemployment Rate ⁴
2015	6,828,065	\$ 267,361,132	\$ 39,156	6.1%
2014	6,731,484	255,092,928	37,895	6.9%
2013	6,626,624	245,070,457	36,983	7.8%
2012	6,553,255	235,780,739	35,979	8.4%
2011	6,482,505	227,286,519	35,062	9.5%
2010	6,676,627	223,716,314	33,507	10.4%
2009	6,587,653	219,026,704	33,248	9.9%
2008	6,499,207	223,961,131	34,460	6.1%
2007	6,360,238	218,587,551	34,368	3.9%
2006	6,190,987	206,958,398	33,429	4.2%

SOURCES: U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures); U.S. Bureau of the Census (also for population); Arizona Department of Economic Security's website, www.workforce.az.gov (for unemployment rates).

NOTES: ¹The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions made by the U.S. Bureau of the Census.

²Personal income estimates for previous years were revised to reflect revisions made by the U.S. Bureau of the Census.

³Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions in personal income and population estimates.

⁴The unemployment rates were revised to reflect a revision made by the Arizona Department of Commerce website, www.workforce.az.gov.

Arizona Department of Transportation
Principal Employers
Current and Ten Years Ago

Table D-4

Employer	Calendar Year Ended December 31, 2015			Calendar Year Ended December 31, 2005		
	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment
State of Arizona	50,816	1	1.61%	49,958	1	1.73%
Banner Health	35,406	2	1.12%	19,250	3	0.67%
Wal-Mart Stores Inc.	32,373	3	1.03%	28,246	2	0.98%
Fry's Food Stores	17,286	4	0.55%	-	-	-
City of Phoenix	14,585	5	0.46%	13,844	4	0.48%
Wells Fargo	14,480	6	0.46%	11,533	6	0.40%
Maricopa County	13,567	7	0.43%	13,002	5	0.45%
Arizona State University	12,676	8	0.40%	11,202	7	0.39%
Dignity Health	12,100	9	0.38%	-	-	-
U.S. Postal Service	11,442	10	0.36%	11,000	8	0.38%
Honeywell Aerospace	-	-	-	10,700	9	0.37%
Raytheon Co.	-	-	-	10,300	10	0.36%
Total	214,731		6.80%	179,035		6.21%

SOURCES: Bizjournals.com for 2015 employers, Business Journal, Book of Lists 2005 for employers; Arizona Department of Commerce website, www.workforce.az.gov (for annual State employment). The sources are those most current at the time of printing.

NOTE: Beginning with fiscal year 2015, a 10-year range is used. Prior years reflect a 9-year range.

OPERATING INFORMATION

Arizona Department of Transportation
Full-Time Equivalents (FTEs)
For the Year Ended June 30,

Table E-1

Fiscal Year	Appropriated						Non-appropriated				Total All FTEs
	Admin.	Highways	Multimodal Planning Division	Motor Vehicle Division	Enforcement & Compliance Division ¹	Total Appropriated FTEs	Arizona Highways Magazine	HELP	Other	Total Non-Appropriated FTEs	
2016	792	2,235	78	1,075	368	4,548	18	1	44	63	4,611
2015	792	2,235	78	1,075	368	4,548	18	1	44	63	4,611
2014	792	2,235	78	1,060	383	4,548	20	1	44	65	4,613
2013	792	2,235	78	1,075	368	4,548	18	-	45	63	4,611
2012	756	2,262	87	1,075	368	4,548	23	1	44	68	4,616
2011	745	2,267	52	1,111	373	4,548	22	2	44	68	4,616
2010	692	2,153	46	1,657	-	4,548	23	2	43	68	4,616
2009	692	2,255	46	1,755	-	4,748	28	-	24	52	4,800
2008	692	2,255	46	1,751	-	4,744	28	-	24	52	4,796
2007	692	2,223	46	1,730	-	4,691	60	3	49	112	4,803

NOTE: ¹ECD FTE total was included in the Motor Vehicle Division 2007-2010.

Arizona Department of Transportation
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity¹
June 30, 2016
(Thousands of Dollars)

Table E-2

Function and Activity	Land	Buildings and Improvements	Improvements Other Than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
Administration	\$ 6,333	\$ 56,615	\$ 9,779	\$ 18,540	\$ -	\$ -	\$ 91,267
Highway	3,217,211	63,875	11,033	20,919	16,095,094	1,422,492	20,830,624
Highway maintenance	4,772	42,660	7,368	13,969	-	-	68,769
Motor vehicle	4,647	41,543	7,175	13,603	-	-	66,968
Total governmental funds capital assets	<u>\$ 3,232,963</u>	<u>\$ 204,693</u>	<u>\$ 35,355</u>	<u>\$ 67,031</u>	<u>\$ 16,095,094</u>	<u>\$ 1,422,492</u>	<u>\$ 21,057,628</u>

NOTE:

¹This schedule presents only the cost of the capital asset balances related to governmental funds. Accordingly, the cost of the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net position.

Reconciliation of Governmental Funds Capital Assets – acquisition cost

Capital assets not subject to depreciation – cost	\$ 20,750,549
Capital assets subject to depreciation – cost	<u>489,737</u>
Subtotal	21,240,286
Less EQR – cost	<u>(182,658)</u>
Total	<u>\$ 21,057,628</u>

Arizona Department of Transportation
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity¹
For the Year Ended June 30, 2016
(Thousands of Dollars)

Table E-3

Function and Activity	Governmental Funds Capital Assets July 1, 2015	Additions	Deductions	Governmental Funds Capital Assets June 30, 2016
Administration	\$ 86,407	\$ 5,182	\$ (322)	\$ 91,267
Highway	20,169,483	677,748	(16,607)	20,830,624
Highway maintenance	65,107	3,905	(243)	68,769
Motor vehicle	<u>63,401</u>	<u>3,803</u>	<u>(236)</u>	<u>66,968</u>
Total governmental funds capital assets	<u>\$ 20,384,398</u>	<u>\$ 690,638</u>	<u>\$ (17,408)</u>	<u>\$ 21,057,628</u>

NOTE: ¹This schedule presents only the capital asset balances (not net of depreciation) related to governmental funds.

Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net position.

Reconciliation of Governmental Funds Capital Assets – acquisition cost

Capital assets not subject to depreciation – cost	\$ 20,750,549
Capital assets subject to depreciation – cost	<u>489,737</u>
Subtotal	21,240,286
Less EQR – cost	<u>(182,658)</u>
Total	<u>\$ 21,057,628</u>

Arizona Department of Transportation

Total Public Road Mileage by Highway Class and Governmental Ownership For the Calendar Year Ended December 31, (In Center Line Miles)

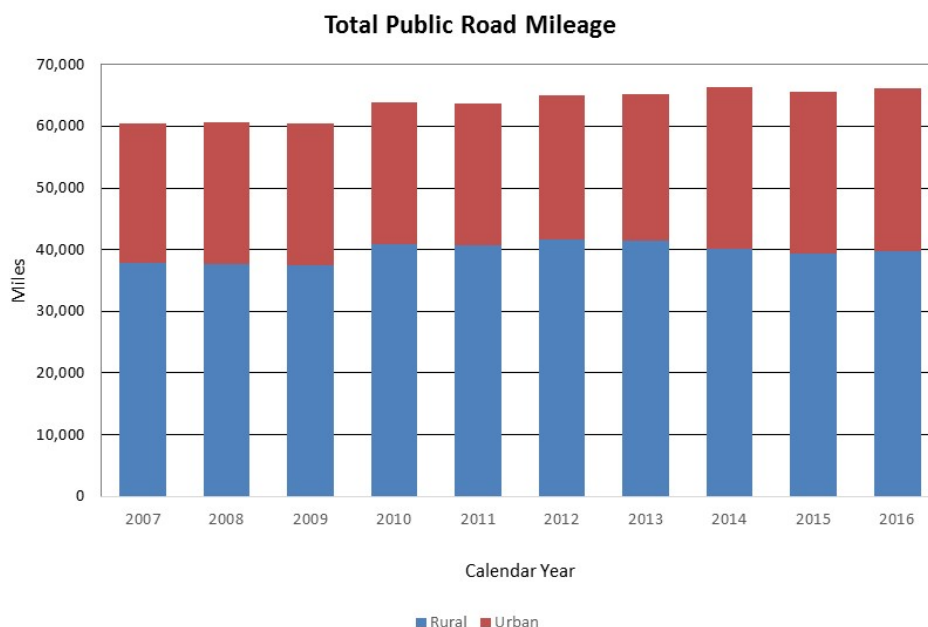
Table E-4

Functional Classification	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Rural										
Interstate Freeway	981	980	980	980	980	980	982	921	921	917
¹ Principal Arterial Freeways & Expressways	Additional categorization beginning 2011					25	43	18	18	18
Principal Arterial	1,168	1,167	1,167	1,167	1,259	1,267	-	1,174	1,207	1,210
Minor Arterial	1,359	1,357	1,358	1,378	1,276	1,328	1,267	1,173	1,200	1,284
Major Collector	4,303	4,301	4,302	4,342	4,338	4,413	1,308	4,179	4,127	4,204
Minor Collector	2,186	2,185	2,191	2,134	1,735	2,032	6,416	1,794	1,807	1,882
Local	27,819	27,685	27,525	30,845	31,157	31,548	31,370	30,870	30,104	30,285
Total Rural	37,816	37,675	37,523	40,846	40,745	41,593	41,386	40,129	39,384	39,800
Urban										
Interstate Freeway	188	188	188	188	188	188	187	248	248	252
² Principal Arterial Freeways & Expressways	168	171	176	176	175	178	181	208	215	214
Principal Arterial	1,400	1,400	1,399	1,400	1,390	1,435	1,437	1,491	846	843
Minor Arterial	1,791	1,792	1,807	1,808	1,752	1,788	1,786	1,957	2,633	2,635
Urban Collector	1,632	1,632	1,632	1,649	1,631	1,653	1,642	2,100	2,103	2,159
Local	17,380	17,735	17,735	17,817	17,806	18,256	18,645	20,308	20,165	20,219
Total Urban	22,559	22,918	22,937	23,038	22,942	23,498	23,878	26,312	26,210	26,322
Statewide composite										
Freeways and expressways	1,337	1,339	1,344	1,344	1,343	1,346	1,350	1,377	1,384	1,383
Arterials	5,718	5,716	5,731	5,753	5,677	5,843	4,533	5,813	5,904	5,990
Collectors	8,121	8,118	8,125	8,125	7,704	8,098	9,366	8,073	8,037	8,245
Locals	45,199	45,420	45,260	48,662	48,963	49,804	50,015	51,178	50,269	50,504
Total statewide composite	60,375	60,593	60,460	63,884	63,687	65,091	65,264	66,441	65,594	66,122

SOURCE: Arizona's Highway Performance Monitoring System (HPMS).

¹Additional category created for 2011 reporting.

²Before 2012 this category was titled "Urban Expressway".



Arizona Department of Transportation

Table E-5

Vehicle Miles Traveled With Population Data For the Calendar Year Ended December 31, (Thousands)

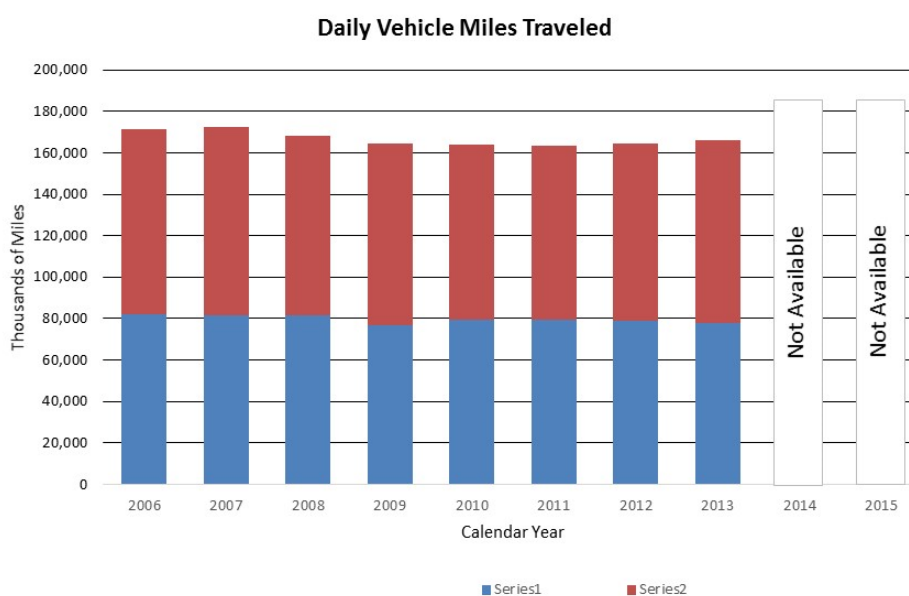
Calendar ¹ Year Ended December 31	Non-State ³ Highways	State ³ Highways	All Public Highways	Arizona ³ Population	Daily Miles per Capita
2015	-	-	178,205	6,828	26.1
2014	-	-	171,591	6,731	25.5
2013	88,153	77,837	165,990	6,627	25.0
2012	85,285	79,003	164,288	6,553	25.1
2011	83,955	79,312	163,267	6,467	25.2
2010	84,427	79,699	164,126	6,413	25.6
2009	87,608	76,714	164,322	6,588	24.9
2008	86,886	81,496	168,382	6,499	25.9
2007	91,042	81,456	172,498	6,360	27.1
2006	89,016	82,178	171,194	6,191	27.7

SOURCE: Arizona's Highway Performance Monitoring System (HPMS); ADOT Multimodal Planning Division office records. The Arizona population data are midyear population estimates of the U.S. Bureau of the Census.

NOTES: ¹Year 2015 is the latest population information available at the time of publication.

²Years 2006 through 2009 and 2011 population information has been revised to reflect revisions made by the U.S. Bureau of the Census.

³At the time of publishing, this information was not available.



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