

Comprehensive Annual Financial Report

for the fiscal year ended
June 30, 2008



State of Arizona
Department of Transportation



Comprehensive Annual Financial Report

for the fiscal year ended
June 30, 2008

Prepared by
Financial Management Services
Department of Transportation
State of Arizona



Arizona Department of Transportation
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TABLE OF CONTENTS

	Page
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.....	1-2
Management's Discussion and Analysis.....	3-14
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets (Exhibit 1).....	15
Statement of Activities (Exhibit 2).....	16
Governmental Funds Financial Statements:	
Balance Sheet - Governmental Funds (Exhibit 3).....	17-18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Exhibit 3.1).....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (Exhibit 4).....	20-23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Exhibit 4.1).....	24
Proprietary Funds Financial Statements:	
Statement of Net Assets (Exhibit 5).....	25
Statement of Revenues, Expenses, and Changes in Fund Net Assets (Exhibit 6).....	26
Statement of Cash Flows (Exhibit 7).....	27
Fiduciary Funds Financial Statement	
Statement of Net Assets – Agency Funds (Exhibit 8).....	28
Index of Notes to the Financial Statements.....	29
Notes to the Financial Statements.....	30-54
Required Supplementary Information (Other than MD&A):	
Budgetary Comparison Schedule – General Fund (State Highway Fund).....	55
Note to Required Supplementary Information.....	56
Information About Infrastructure Assets Reported Using the Modified Approach.....	57-61

Arizona Department of Transportation
 Comprehensive Annual Financial Report
 for the fiscal year ended June 30, 2008

TABLE OF CONTENTS
 (Continued)

	Page
Supplementary Information:	
Non-Major Governmental Funds Financial Statements:	
Combining Balance Sheet (Exhibit 9)	62-63
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Exhibit 10)	64-65
Fiduciary Funds Financial Statements:	
Combining Statement of Net Assets – Agency Funds (Exhibit 11)	66
Statement of Changes in Assets and Liabilities – Agency Funds (Exhibit 12)	67
 STATISTICAL SECTION	
Overview	68
Index of Statistical Section	69
Financial Trends:	
Change in Net Assets (Table 1)	70-71
Net Assets by Component (Table 2)	72
Statement of Revenues, Expenditures, and Changes in Fund Balances (Table 3)	73
Fund Balances of Governmental Funds (Table 4)	74
Expenditures of Federal Awards (Table 5)	75
Government-wide Expenses by Function (Table 6)	76
Government-wide Revenues (Table 7)	77
Revenue Capacity:	
Highway User Revenue Fund Collections (Table 8)	78
Highway User Revenue Fund Distributions (Table 9)	79
Fuel Tax Rates (Table 10)	80
Motor Vehicle Fuel Tax – Top Ten Suppliers (Table 11)	81
Gasoline Volume Sold – Top Twenty-Five Suppliers (Table 12)	82-83
Debt Capacity:	
Highway User Revenue Fund – Legal Debt Margin (Table 13)	84
Highway Revenue Bonds – Bond Coverage (Table 14)	85
Transportation Excise Tax Revenue Bonds – Bond Coverage (Table 15)	86
Transportation Excise Tax Revenue Bonds – Debt Service Revenue and Cost Per Capita (Table 16)	87

Arizona Department of Transportation
Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2008

TABLE OF CONTENTS
(Continued)

	Page
Demographic and Economic Information:	
Number of Vehicle Registrations Per Year (Table 17)	88
Vehicle Registrations Per Year Compared to Fuel Sales (Table 18)	89
Demographic and Economic Statistics (Table 19).....	90
Principal Employers (Table 20)	91
Operating Information:	
Appropriated Full Time Equivalents (FTEs) (Table 21).....	92
Capital Assets – Schedule by Function and Activity (Table 22)	93
Capital Assets – Schedule of Changes by Function and Activity (Table 23).....	94
Total Public Road Mileage by Highway Class and Governmental Ownership (Table 24).....	95
Daily Vehicle Miles Traveled with Population Data (Table 25).....	96
Acknowledgments	97

Introductory Section





Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

Richard Travis
Deputy Director

Victor M. Mendez
Director

November 28, 2008

The Honorable Janet Napolitano,
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, 2008. 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, require 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, 2008, and contracted with the independent auditing firm of Deloitte & Touche 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 unqualified opinion that the Department's financial statements for the fiscal year ended June 30, 2008, 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 require 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, beginning on page 3.

The CAFR includes all funds 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 State 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 products and services for a safe, efficient, cost-effective transportation system that links Arizona to the global economy, promotes economic prosperity, and demonstrates respect for Arizona's environment and quality of life. The Department has statutory responsibility for carrying out its programs under 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 revenue bonds, grant anticipation notes (GARVEE bonds), board funding obligations, and approval of privatization agreements for toll facilities.

The Department is organized into four operating divisions supported by the Transportation Services Group. The four operating divisions include: Intermodal Transportation Division, Motor Vehicle Division, Aeronautics Division, and Multimodal Planning Division.

- The Intermodal Transportation Division 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, collects motor vehicle fuel taxes, 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 Motor Vehicle Division also operates 22 ports-of-entry.
- The Aeronautics Division is responsible for registering and licensing all general aviation aircraft based in the State of Arizona. The Aeronautics Division is also responsible for managing the Grand Canyon National Park Airport and the administration of grants and loans to publicly owned and operated airports in Arizona. In addition, the Aeronautics Division promotes aviation through education and outreach programs.
- 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 being constructed in Maricopa County.
- In addition, the Department has a Transportation Services Group that provides support to the Department's operating and other divisions, and contains units for Financial Management, Budget and Strategic Planning, Information Technology, Physical Plant Operations, Human Resources, Civil Rights, Audit and Analysis, Procurement, Safety, Training, and Arizona Highways Magazine. Overall, the Department employs approximately 4,800 persons.

Budgetary Controls Upon receipt of the operating budget appropriations bill, allocations are made to organizational levels within each division. The result is 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. In addition, the Department utilizes several control features in its internal accounting system (ADVANTAGE™) to ensure budgetary compliance and management control. These features 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 The past year has seen Arizona's economy turn downward due to the fallout of the housing and credit markets along with sharp increases in food and gas prices that have financially strapped consumers. In addition, recent credit market freezes have impacted the level of credit available for home, auto, and other purchases. Arizona lost 33,000 jobs between June 2007 and June 2008 with a majority of the loss centered in the construction sector. Employment growth over the next year is projected to be flat or negative. With fewer new jobs in Arizona, population growth has weakened to 2.8 percent in calendar year 2007 and is expected to further weaken to an estimated 2.5 percent in calendar year 2008. Personal income growth is forecast to slow from 6.3 percent in calendar year 2007 to an estimated 5.0 percent for calendar year 2008. The concerns voiced last year held true and continue with the housing and credit market uncertainty and higher food and fuel prices straining the Arizona and national economies.

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax were not immune to the slowdown in the economy as is evidenced by their posting negative growth in fiscal year 2008. The HURF totaled approximately \$1.4 billion, a decrease of 0.9 percent from fiscal year 2007 and 6.6 percent below the forecast. This decrease represents the first year-over-year negative growth in HURF due to the economy since fiscal year 1992, except for fiscal year 1998 which posted negative growth due to a one-time revenue recognition procedure change. Maricopa County Transportation Excise Tax collections totaled \$380.1 million, a decrease of 3.2 percent from fiscal year 2007 and 7.0 percent below the forecast. This decrease represents the first time since the inception of the Maricopa County Transportation Excise Tax that year-over-year collections posted negative growth.

Arizona's economy will continue to be pressured in fiscal year 2009 due mainly to the prolonged slowdown in the housing market along with volatile food and fuel prices that will strain consumers' budgets. In addition, tight credit conditions will most likely persist as lending institutions conserve cash and lend only to the most credit-worthy customers. Arizona employment may see additional weakening as the commercial and retail construction sectors begin to slow because of lower new home building. The lower employment growth will translate to slower population growth during fiscal year 2009. Leading national economists project little or no growth in the second half of calendar year 2008 with improvement not expected until the first half of calendar year 2009.

The Department's fiscal year 2009 HURF estimate amounts to approximately \$1.4 billion, an increase of 3.2 percent over fiscal year 2008. The HURF average compound growth rate for fiscal years 1999 through 2008 was 3.5 percent. The distribution of HURF revenues in fiscal year 2009 is estimated to be as follows: State Highway Fund \$645.2 million; Arizona cities and towns \$396.6 million; Arizona counties \$247.1 million; Department of Public Safety \$85.0 million; Economic Strength Project Fund \$1.0 million; and Motor Vehicle Division for registration compliance \$0.6 million. An additional \$11.5 million will be allocated from the State Highway Fund's share of HURF vehicle license tax revenues to the Department of Public Safety Parity Compensation Fund and the State General Fund.

The Maricopa County Transportation Excise Tax revenue forecast for FY 2009 totals \$380.5 million, an increase of 0.1 percent over fiscal year 2008. The Maricopa County Transportation Excise Tax average compound growth rate for fiscal

years 1999 through 2008 was 5.8 percent. The distribution of the Maricopa County Transportation Excise Tax revenue in fiscal year 2009 is estimated to be as follows: Maricopa County Regional Area Road Fund \$213.8 million for highways and \$40.0 million for arterial streets, and Public Transportation Fund \$126.7 million.

The Department's third major funding source, federal funds, is also expected to see increases in funding over the next several years. On August 10, 2005, President Bush signed the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users (SAFETEA-LU), a multi-year transportation funding bill. Under the bill, Arizona is expected to receive approximately 40% more in average apportionments for the years 2004 – 2009 than it received under the prior reauthorization bill Transportation Equity Act for the 21st Century (TEA-21) for the years 1998 – 2003. On an inflation-adjusted basis, this increase should result in a 17-20 percent higher funding level. However, the Highway Account of the Federal Highway Trust Fund was projected to reach a zero balance as early as 2009. In fact, the Highway Account of the Highway Trust Fund very nearly reached a zero balance in September of 2008. Congress, working in conjunction with the President, transferred over \$8 billion of federal funds from the General Fund to the Highway Trust Fund to maintain adequate funding to the states. However, current revenue and spending trends could lead to a zero balance in the Highway Trust Fund once again before the end date of SAFETEA-LU.

Planned Construction Activity In June 2008, the Transportation Board approved a \$6.4 billion Highway Construction Program (Program) as part of the Five-Year Transportation Facilities Construction Program for fiscal years 2009 through 2013. 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 and the completion of the Regional Freeway System Life Cycle Program. Altogether (including Maricopa County), the program includes \$4.8 billion for system improvements, \$0.5 billion for system management, and \$1.1 billion for system preservation.

The Program includes approximately \$3.8 billion for the Regional Transportation Plan and the completion of the Regional Freeway System Life Cycle Program (Proposition 300) of freeway and expressway construction in Maricopa County, funded in large part from the Maricopa County Regional Area Road Fund. The final segment of the Proposition 300 Program on the Red Mountain Freeway (SR202L) from Power Road to University Drive opened to traffic on July 21, 2008. The Regional Freeway System Life Cycle Program in Maricopa County opened 137 miles of new freeways.

As part of the Five-Year Transportation Facilities Construction Program, the Transportation Board also adopted a \$118.6 million (state share) Five-Year Airport Development Program that includes 949 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 Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The Department's Single Audit information is included in the Single Audit of the State of Arizona for the fiscal year ended June 30, 2008.

A requirement of the Single Audit is to ensure that adequate internal controls are in place and that the Department is in compliance with applicable Federal laws and regulations. The United States Department of Transportation's (U.S. DOT) Inspector General has reviewed the internal controls on several occasions. The U.S. DOT auditors typically rely on the Department's internal audit staff in determining the scope of their review.

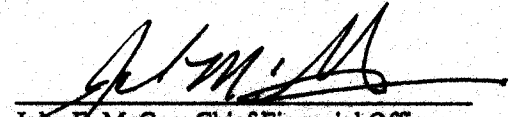
Awards The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Arizona Department of Transportation for the fiscal year ended June 30, 2007. This was the eighteenth consecutive year that the Department 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 timely preparation of the fiscal year 2008 Comprehensive Annual Financial Report.

Respectfully Submitted,


Victor M. Mendez, Director
Arizona Department of Transportation


John E. McGee, Chief Financial Officer
Arizona Department of Transportation

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, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emmer

Executive Director

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

Victor M. Mendez
Director

Richard L. Travis
Deputy Director

John A. Bogert
Chief of Staff

Floyd P. Roehrich, Jr.
State Engineer
Intermodal Transportation Division

Stacey K. Stanton
Assistant Director
Motor Vehicle Division

Rakesh Tripathi
Assistant Director
Multimodal Planning Division

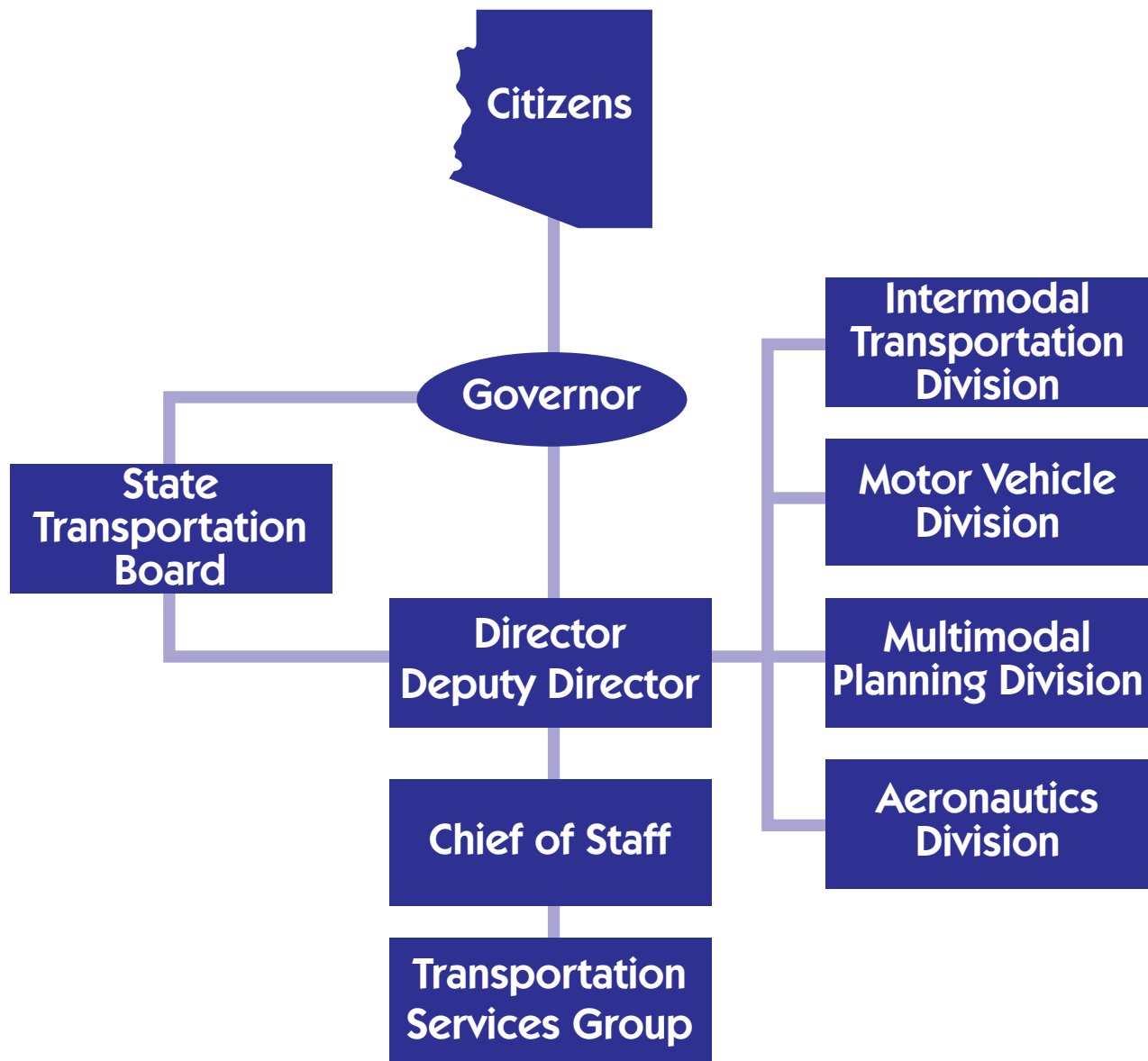
Barclay L. Dick
Assistant Director
Aeronautics Division

John E. McGee
Chief Financial Officer

Arizona State Transportation Board

Member	Counties	Term Expires
Si L. Schorr, Chairman	District 2 (Pima County)	2009
Delbert Householder, Vice Chairman	District 4 (Gila, Graham and Pinal Counties)	2010
Robert M. Montoya	District 5 (Navajo, Apache and Coconino Counties)	2011
Felipe Andres Zubia	District 1 (Maricopa County)	2012
William (Bill) J. Feldmeier	District 6 (Yavapai, Yuma, Mohave, and LaPaz Counties)	2012
Barbara (Bobbie) Ann Lundstrom	District 3 (Cochise, Greenlee, and Santa Cruz Counties)	2013
Victor Flores	District 1 (Maricopa County)	2014

State of Arizona Department of Transportation Organization Chart



Financial Section



INDEPENDENT AUDITORS' REPORT

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

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

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

As discussed in Note 1, the financial statements of the Department of the State of Arizona (the "State") are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2008, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, general fund budgetary comparison information, and infrastructure assets reported using the modified approach as listed in the table of contents are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the

Department's management. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Department's respective financial statements that collectively comprise the Department's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Department's management. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2008, on our consideration of the Department's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

November 28, 2008

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2008

As management of the Arizona Department of Transportation (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, 2008. 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 15, with the accompanying notes and Required Supplementary Information (RSI).

Financial Highlights

Government-wide:

- The net assets of the Department at the close of the fiscal year are \$14.3 billion, compared to \$13.5 billion for fiscal year 2007, an increase of 5.5 percent. Of this amount, \$209.8 million represents *unrestricted net assets* and may be used to meet the Department's ongoing obligations to citizens and creditors as compared to \$236.3 million at the end of 2007.
- The Department's capital assets are \$15.2 billion, compared to \$14.3 billion for fiscal year 2007, an increase of 6.7 percent. This increase is primarily attributable to highway construction activity. The Department's *invested in capital assets, net of related debt*, is \$13.3 billion, compared to \$12.2 billion for fiscal year 2007, an increase of 8.8 percent.
- The Department's non-current liabilities are \$2.5 billion, compared to \$2.0 billion in 2007. The Department had \$499.7 million more in bonds outstanding in 2008 than in 2007. During 2008, there were \$632.0 million in bonds issued and \$132.3 million in bonds repaid.

Fund Level:

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of \$1.4 billion, as compared to \$1.0 billion in 2007, a 30.8 percent increase over the prior fiscal year.
- The total reserved fund balance is \$1.3 billion; of this, approximately \$1.3 billion (97.6 percent) is reserved for capital projects. Approximately \$83.3 million (6.1 percent) is available for spending at the government's discretion (unreserved fund balance) as compared to \$39.0 million (3.7 percent) in 2007. At the end of the fiscal year, the unreserved fund balance for the General Fund (State Highway Fund) was \$57.9 million.
- The proprietary funds reported net assets at year-end of \$74.4 million, as compared to \$72.0 million in 2007, an increase of 3.3 percent.

Overview of the 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 Assets and the Statement of Activities, and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets combines and consolidates the 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.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2008

Net assets are the difference between the Department's assets and liabilities, and represent one measure of the Department's financial health.

- An increase or decrease in the Department's net assets 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 Assets 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, aeronautics, highway, highway maintenance, motor vehicle division, and other activities. 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 most or all of the costs of certain services it provides are reported as business-type activities. The Department's Arizona Highways Magazine and Highway Expansion and Extension Loan Program are reported here.

The government-wide financial statements can be found on pages 15-16 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) reporting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Other 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 capitalized and amortized to expense as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, notes payable, and others only appear as liabilities on the government-wide statements.
- 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 17 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

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 to 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 non-major governmental funds are provided in the form of combining statements elsewhere in this report.

The legislature appropriates an annual budget for 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 17-24 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 private sector businesses. Enterprise funds report activities that provide supplies and services to outside customers, other agencies, or to other divisions of the Department. The Department's enterprise funds are the Arizona Highways Magazine Fund and 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 Fund is the Department's only internal service fund. Internal service fund activities are reported as governmental activities on the government-wide statements.

The proprietary funds financial statements can be found on pages 25-27 of this report.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs.

The fiduciary funds financial statement can be found on page 28.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2008

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 29-54 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) and the modified approach to reporting infrastructure assets. Required Supplementary Information can be found on pages 55-61 of this report.

Supplementary Information Other Supplementary Information includes the combining statements for the non-major governmental funds and agency funds and is presented immediately following the Required Supplementary Information on budget and infrastructure assets. Combining and individual fund statements and schedules can be found on pages 62-67 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial health. The following tables, graphs, and analyses discuss the financial position and changes to financial position for the Department as a whole as of and for the fiscal years ended June 30, 2008 and 2007.

The Department's combined net assets increased by \$747.8 million over the course of this fiscal year's operations, an increase of 5.5 percent. The net assets of the governmental activities increased by \$745.4 million or 5.5 percent and business-type activities increased by \$2.4 million, an increase of 3.3 percent over the previous year. The overall increase in the Department's net assets was due to an increase in the Department's infrastructure resulting from more construction and more money received in federal grants.

The following table reflects the condensed Statement of Net Assets as of June 30, 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	\$ 1,791,104,044	\$ 1,503,637,083	\$ 129,735,062	\$ 230,081,584	\$ 1,920,839,106	\$ 1,733,718,667
Capital assets	15,249,215,994	14,290,099,071	172,725	225,179	15,249,388,719	14,290,324,250
Total assets	17,040,320,038	15,793,736,154	129,907,787	230,306,763	17,170,227,825	16,024,042,917
Liabilities:						
Other liabilities	358,846,843	330,461,935	53,172,272	158,120,905	412,019,115	488,582,840
Non-current liabilities	2,481,455,779	2,008,715,222	2,315,611	151,201	2,483,771,390	2,008,866,423
Total liabilities	2,840,302,622	2,339,177,157	55,487,883	158,272,106	2,895,790,505	2,497,449,263
Net assets:						
Invested in capital assets, net of related debt	13,285,437,940	12,211,861,155	172,725	225,179	13,285,610,665	12,212,086,334
Restricted	704,929,654	1,006,511,853	74,115,046	71,707,711	779,044,700	1,078,219,564
Unrestricted	209,649,822	236,185,989	132,133	101,767	209,781,955	236,287,756
Total net assets	\$14,200,017,416	\$13,454,558,997	\$ 74,419,904	\$ 72,034,657	\$14,274,437,320	\$13,526,593,654

Prior year numbers have been reclassified to reflect current and non-current liabilities for the Board Funding Obligations.

The total assets of the Department were \$17.2 billion, while total liabilities were \$2.9 billion, resulting in a net assets balance of \$14.3 billion. By far, the largest portion of the Department's net assets, \$13.3 billion (93.0 percent), 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.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2008

As of June 30, 2008, the Department is able to report positive balances in all three categories of net assets for the governmental activities. The same situation held true for the prior fiscal year. The governmental activities reported an increase in capital assets with the largest increase being in the area of construction in progress. The Department also issued new Highway Revenue Bonds and Transportation Excise Tax Revenue Bonds which caused the non-current liabilities to increase for the governmental activities. Both the current assets and other liabilities decreased for the business-type activities due to the repayment of \$140 million and the issuance of \$50 million in board funding obligations. The business-type activities also reported a small increase in unrestricted net assets for the second year in a row. The Arizona Highways Magazine Fund's contribution to this increase was primarily due to improved earnings as a result of a reduction in workforce associated with outsourcing of several services, a reduction in the amount of inventory (both finished goods and creative content), revising contracts with key suppliers to achieve more competitive pricing, and a price increase in the magazine subscription rate. The benefit of these changes was reduced by an overall decline in magazine subscription revenue.

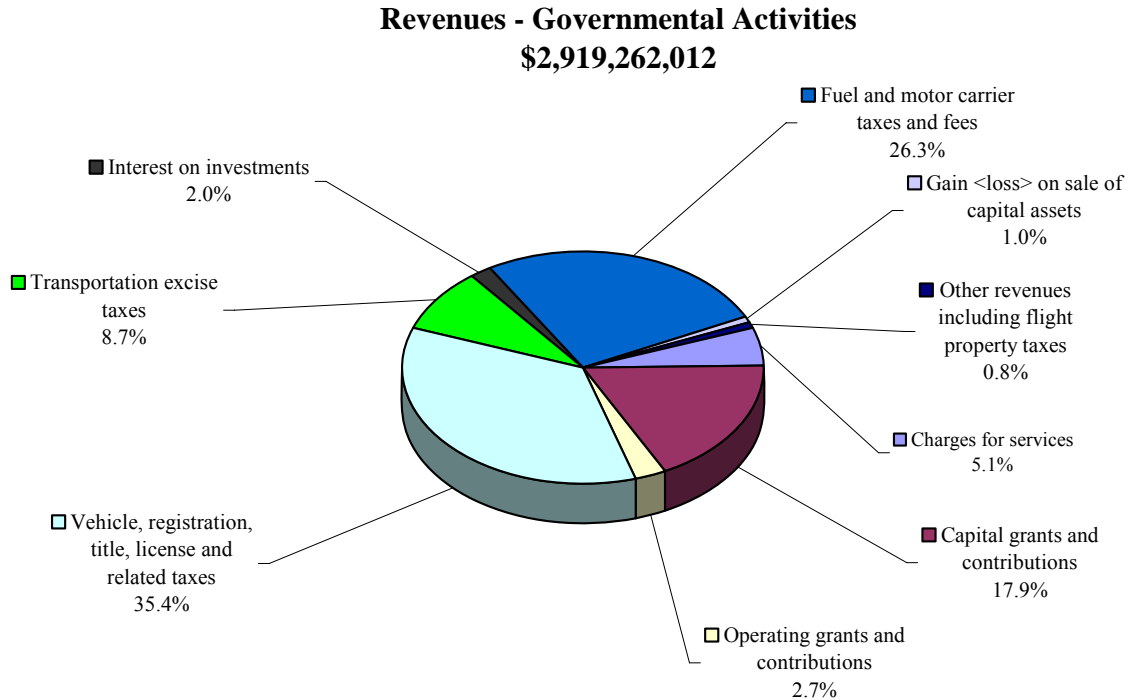
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net assets changed during the year, compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 150,024,350	\$ 158,019,080	\$ 9,379,457	\$ 10,969,360	\$ 159,403,807	\$ 168,988,440
Operating grants and contributions	79,747,102	72,678,913	-	-	79,747,102	72,678,913
Capital grants and contributions	523,727,885	354,023,589	-	-	523,727,885	354,023,589
General revenues:						
Transportation excise taxes	253,741,944	262,263,939	-	-	253,741,944	262,263,939
Vehicle, registration, title, license and related taxes	1,033,504,644	1,029,000,817	-	-	1,033,504,644	1,029,000,817
Fuel and motor carrier taxes and fees	766,393,661	790,908,552	-	-	766,393,661	790,908,552
Flight property taxes	13,821,790	15,302,697	-	-	13,821,790	15,302,697
Interest on investments	59,528,386	55,760,406	4,788,328	5,563,036	64,316,714	61,323,442
Gain <loss> on sale of capital assets	30,515,557	<464,317>	<17,518>	<2,749>	30,498,039	<467,066>
Other	8,256,693	10,462,131	-	-	8,256,693	10,462,131
Total revenues	2,919,262,012	2,747,955,807	14,150,267	16,529,647	2,933,412,279	2,764,485,454
Expenses:						
Administration	54,918,357	51,666,715	-	-	54,918,357	51,666,715
Aeronautics	4,372,514	5,417,937	-	-	4,372,514	5,417,937
Highway	132,873,981	138,788,381	-	-	132,873,981	138,788,381
Highway maintenance	137,099,909	120,162,937	-	-	137,099,909	120,162,937
Motor Vehicle	112,879,673	105,961,064	-	-	112,879,673	105,961,064
Non-capital, including asset preservation	187,004,474	113,568,933	-	-	187,004,474	113,568,933
Distributions to Arizona counties and cities	1,238,382,891	1,219,208,067	-	-	1,238,382,891	1,219,208,067
Distributions to other state agencies	176,691,851	114,795,378	-	-	176,691,851	114,795,378
Local governmental assistance	37,285,011	48,760,126	-	-	37,285,011	48,760,126
Interest on long-term debt	92,294,932	82,449,597	-	-	92,294,932	82,449,597
Arizona Highways Magazine	-	-	7,711,629	8,071,836	7,711,629	8,071,836
Highway Expansion and Extension Loan Program	-	-	4,053,391	4,354,619	4,053,391	4,354,619
Total expenses	2,173,803,593	2,000,779,135	11,765,020	12,426,455	2,185,568,613	2,013,205,590
Change in net assets before special item	745,458,419	747,176,672	2,385,247	4,103,192	747,843,666	751,279,864
Special item - State appropriation	-	245,000,000	-	-	-	245,000,000
Change in net assets	745,458,419	992,176,672	2,385,247	4,103,192	747,843,666	996,279,864
Net assets - July 1	13,454,558,997	12,462,382,325	72,034,657	67,931,465	13,526,593,654	12,530,313,790
Net assets - June 30	\$ 14,200,017,416	\$ 13,454,558,997	\$74,419,904	\$72,034,657	\$ 14,274,437,320	\$ 13,526,593,654

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2008

Governmental Activities:

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2008:



\$2.6 billion (or 88.3 percent) of the Department's revenues are from the following four revenue sources:

- Vehicle, registration, title, license, and related taxes comprise the Department's largest revenue source of \$1.0 billion (35.4 percent).
- Fuel and motor carrier taxes and fees represent the Department's second largest revenue source of \$766.4 million (26.3 percent).
- Capital grants and contributions total \$523.7 million (17.9 percent).
- Transportation excise taxes total \$253.7 million (8.7 percent).

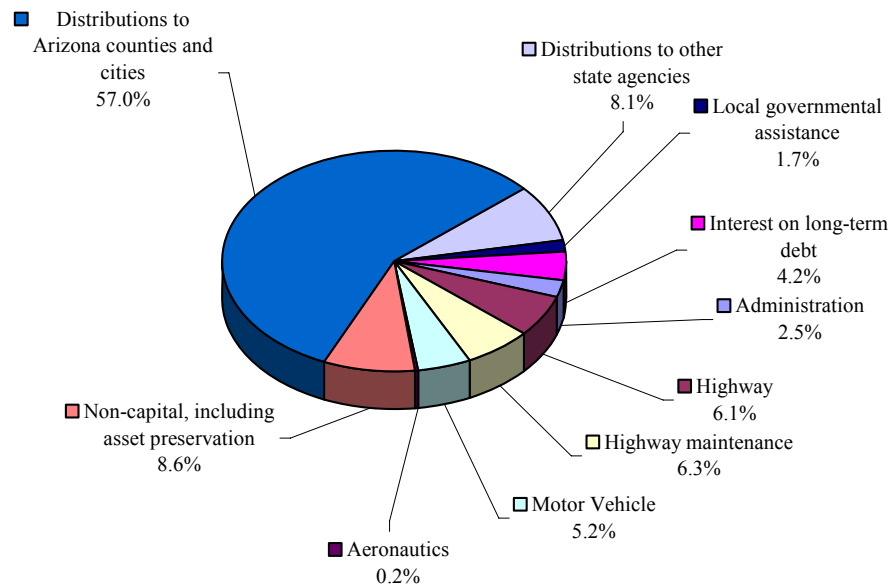
The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax, posted no gains in fiscal year 2008. HURF collections totaled approximately \$1.4 billion, basically the same as in fiscal year 2007. Maricopa County Transportation Excise Tax collections totaled \$380.1 million, a decrease of 3.2 percent from fiscal year 2007, and 7.0 percent below the forecast. However, the Transportation Excise Tax distribution to the Department was \$253.7 million compared to \$262.3 million for fiscal year 2007. This decrease is the first year-over-year decrease in revenues since the inception of the tax in 1986. The Transportation Excise Tax revenues were negatively impacted by the persistently weak housing and credit markets, higher fuel and food prices, and slower employment and population growth. All of these factors caused consumers to restrain their spending in fiscal year 2008. The fuel and motor carrier tax percentage also decreased due to consumer restraint on spending.

Arizona Department of Transportation
 Management's Discussion and Analysis
 June 30, 2008

Capital grants and contributions increased from fiscal year 2007 due to an increase in the amount received in federal aid for fiscal year 2008. The Grant Anticipation Notes Fund, General Fund (State Highway Fund), and Maricopa Regional Area Road Construction Fund each reported an increase in fiscal year 2008. The majority of the increase this fiscal year was due to using federal funding on a larger percentage of projects, and therefore, increasing the capital grants and contributions revenue figure. The Department also had a gain on sale of capital assets due to the sale of two parcels of land that were no longer needed for highway development.

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2008:

Expenses - Governmental Activities
\$2,173,803,593



\$1.7 billion (or 80.0 percent) of the Department's expenses were for the following:

- Distributions to Arizona counties and cities \$1.2 billion (57.0 percent).
- Non-capital, including asset preservation \$187.0 million (8.6 percent).
- Distributions to other state agencies \$176.7 million (8.1 percent).
- Highway maintenance \$137.1 million (6.3 percent).

Distributions to Arizona counties and cities increased in fiscal year 2008. The distributions to Arizona counties and cities was impacted by a decline in Highway User Revenue Fund's (HURF) collections, but was offset by an increase in grants to the Arizona counties and cities by the General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, and State Aviation Fund. Non-capital, including asset preservation increased this fiscal year primarily due to the funds spent on pavement and bridge preservation. House Bill 2620 addressed statewide budget adjustments to help balance the State General Fund budget, in part by sweeping funds from state agencies. There was a \$29.7 million sweep from the Department, which accounts for the Department's increased distributions to other state agencies. The increase in Highway maintenance represents the Proposition 400 monies that the Department is now allowed to spend on landscape, litter, and sweeping and charge as maintenance expenses instead of as capital outlay. Local governmental assistance decreased in fiscal year 2008 primarily as a result of budget constraints and the availability of cash.

Business-type Activities:

Net assets for business-type activities increased by \$2.4 million in fiscal year 2008. Total revenues were \$14.2 million, with charges for services representing 66.2 percent and interest on investments 33.8 percent. The total expenses for business-type activities were \$11.8 million.

The Highway Expansion and Extension Loan Program had a decrease in revenues of \$1.9 million which was primarily due to the Department using cash to pay off the board funding obligations and, therefore, not having the funds available for investment purposes. Interest revenue decreased this fiscal year due to a lower average principal balance outstanding on loans that were issued by the Department.

The Arizona Highways Magazine had a decrease in revenues of \$476 thousand primarily due to a decline in the number of subscriptions for the monthly publication. This decline in demand is consistent with industry trending for many other consumer periodicals with revenues based predominantly on annual subscriptions.

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 17-24) 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 non-major governmental funds are combined into a single column. Combining statements for the non-major governmental funds may be found on pages 62-65.

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$1.4 billion, an increase of \$322.0 million over the previous fiscal year. Of this \$1.4 billion balance, \$83.3 million or 6.1 percent constitutes the unreserved fund balance, which was available for spending for the general purposes of the Department. The remaining fund balance of \$1.3 billion, or 93.9 percent, was reserved for the following: 1) \$7.1 million for inventories, 2) \$3.2 million to pay debt service, 3) \$1.3 billion to pay for capital projects, and 4) \$20 million for the repayment of an advance from the Highway Expansion and Extension Loan Program Fund.

The General Fund (State Highway Fund) is the primary operating fund of the Department. At the end of the current fiscal year, the unreserved fund balance of the General Fund (State Highway Fund) was \$57.9 million and the reserved fund balance was \$505.7 million. As a measure of the General Fund's (State Highway Fund) liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. Unreserved fund balance represents 5.2 percent of total General Fund (State Highway Fund) expenditures, while total fund balance represents 50.8 percent of the same amount.

The Maricopa Regional Area Road Construction Fund is a major special revenue fund that receives 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, improvements to the arterial street system, regional bus service, and high capacity transit services such as light rail. Total revenues collected in fiscal year 2008 were \$342.1 million; Transportation Excise Tax revenue of \$253.7 million (or 74.2 percent) was the bulk of the revenue. The remaining revenue was mainly federal revenue and interest on investments. Fiscal year 2008 saw the first new Transportation Excise Tax Revenue Bonds issuance since August 1, 2002.

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 \$231.6 million were transferred in from the General Fund (State Highway Fund) (\$134.2 million), Maricopa Regional Area Road Construction Fund (\$29.7 million), and Grant Anticipation Notes Fund (\$67.6 million), and were used to pay the debt service. The remaining fund balance of \$3.2 million is restricted for future debt service payments.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2008

The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities of the governmental funds. During the fiscal year, the Department's expenditures were \$326.3 million. Capital outlay expenditures of \$263.6 million (80.8 percent) 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. The fund balance increased by \$348.8 million due to unspent bond proceeds from three new bond issues.

Budget Variances

As a consequence of lower revenue collections and legislative fund sweeps, the Department reduced its fiscal year 2008 spending levels in certain key areas in order to cover contractor payments and daily operational expenses. The actual expenditures for fiscal year 2008 were less than the Department's final budgeted amounts. A factor that contributed to the reduction in expenditures was the Governor of the State issuing a hiring freeze on February 21, 2008. With the hiring freeze in place, only those positions that are directly involved in providing for the health or safety of the public, or the collection or investment of state revenues are exempt from the hiring freeze.

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, 2008, amounts to \$15.2 billion (net of accumulated depreciation), a \$950.8 million increase over the previous fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,351,812,086	\$ 2,217,183,763	\$ 7,900	\$ 7,900	\$ 2,351,819,986	\$ 2,217,191,663
Buildings and improvements	92,264,229	92,815,639	136,315	170,133	92,400,544	92,985,772
Improvements other than buildings	20,300,630	20,122,366	-	-	20,300,630	20,122,366
Mobile fleet and aircraft	54,522,212	51,132,300	-	-	54,522,212	51,132,300
Machinery and equipment	20,981,704	21,026,496	28,510	47,146	21,010,214	21,073,642
Infrastructure	10,101,407,936	9,855,140,388	-	-	10,101,407,936	9,855,140,388
Construction in progress	2,607,927,197	2,032,678,119	-	-	2,607,927,197	2,032,678,119
Total	<u>\$ 15,249,215,994</u>	<u>\$ 14,290,099,071</u>	<u>\$ 172,725</u>	<u>\$ 225,179</u>	<u>\$ 15,249,388,719</u>	<u>\$ 14,290,324,250</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. Assets accounted for under the modified approach include 6,785 center lane miles (18,546 travel lane miles) and 4,637 bridges that the Department is responsible for maintaining.

The Five-Year Transportation Facilities Construction Program (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 most recent assessment from the Transportation Material Technicians indicated that an overall rating of 3.91 was achieved for fiscal year 2008.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). The Department determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the Department to maintain a Condition Rating Index (CRI) of 92.5 percent or better. In fiscal year 2008, a CRI of 93.4 percent was achieved.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2008

In addition to many smaller projects, each of the following major highway construction contracts in excess of \$20 million was started during fiscal year 2008:

Description	Contract Start Date	Contract Amount	Fiscal Year 2008 Expenditures
Major median widening on Interstate 10 from Sarival to State Route 101 loop in Maricopa County.	12/24/2007	\$ 80,600,323	\$ 15,234,622
Major widening of Interstate 17 from Jomax Road to Carefree Highway at State Route 74 in Maricopa County.	01/23/2008	74,381,601	10,774,525
Major widening of Interstate 17 from State Route 101 Loop to Jomax Road in Maricopa County.	12/24/2007	67,864,266	14,407,578
Construction of HOV lanes on State Route 101 from Princess Drive to State Route 202 Loop (Red Mountain Freeway) in Maricopa County.	07/24/2007	47,467,400	16,574,638
Major widening of Interstate 10 from the Picacho Peak traffic interchange to the Pinal Air Park in Pinal County north of Tucson.	09/24/2007	44,121,695	11,534,408
Construction of new roads at State Route 179 at the north forest boundary to city of Sedona in Coconino County.	10/22/2007	39,921,373	9,566,900
Major widening of State Route 101 from State Route 202 loop (Red Mountain) to State Route 202 Loop (Santan) in Maricopa County.	06/23/2008	31,241,376	-
Construction of a 3-way roadway and bridge approach on US 191 south of Clifton in Greenlee County.	08/20/2007	27,709,119	15,538,910
Construction of new roadway on US 93 at the Wickenburg bypass in Maricopa County.	11/19/2007	26,970,653	7,077,969
Construction of 64th Street traffic interchange on State Route 101 in Maricopa County.	09/24/2007	23,642,706	19,366,040
Capacity additions at the intersections of State Route 89 and State Route 69 in Yavapai County.	10/22/2007	23,589,901	8,239,964

In addition to many smaller projects, the following major highway construction projects had expenditures in excess of \$20 million in fiscal year 2008. These project expenditures include payments made to construction contractors (as shown above) as well as utility, design, right-of-way, and landscaping costs.

Location Description	Project Expenditures
Interstate 10 from Price Road to 29th Street within the City of Tucson in Pima County.	\$ 80,225,610
State Route Loop 202 (Red Mountain) from Power Road to University Drive within the City of Mesa in Maricopa County.	71,499,641
State Route Loop 101 (Agua Fria) and Interstate 17 interchange in Maricopa County.	39,308,201
US 60 roadway widening from Apache Junction to Globe in Pinal County.	38,736,599
State Route Loop 303 from Happy Valley Road to Interstate 17, north of Surprise in Maricopa County.	34,906,259
Interstate 17 Jomax Road and Dixiletta Drive Interchanges in Maricopa County.	34,461,667
State Route 179 south of Sedona in Coconino and Yavapai Counties.	32,046,857
State Route 51 from Shea Boulevard to State Route Loop 101 (Pima) in Maricopa County	28,445,574
Interstate 17 from Jomax Road to Carefree Highway in Maricopa County.	28,325,870
Interstate 10 from the Marana interchange to the Cortaro Road interchange in Pima County	20,443,465
State Route 101 (Pima) in the city of Phoenix in Maricopa County	20,232,600

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2008

Non-Current Liabilities (See Note 5G to the financial statements for additional information):

The Department's non-current liabilities for its governmental and business-type activities as of June 30, 2008, amount to \$2.5 billion, an increase of \$474.9 million from the previous fiscal year. The decrease in advances and notes payable in governmental activities was due primarily to the repayment of loans to the Highway Expansion and Extension Loan Program by the General Fund (State Highway Fund).

Governmental Activities	2008	2007
Highway revenue bonds	\$1,623,905,000	\$1,490,600,000
Transportation excise tax revenue bonds	350,955,000	-
Grant anticipation notes (GARVEE bonds)	298,280,000	282,860,000
Premium on bonds	128,586,354	108,034,322
Compensated absences	15,455,342	14,410,376
Capital leases	7,535,394	10,600,742
Advances and notes payable	56,738,689	102,209,782
Total governmental activities	<u>2,481,455,779</u>	<u>2,008,715,222</u>
<u>Business-type Activities</u>		
Accrued interest payable	2,170,356	-
Compensated absences	145,255	151,201
Total business-type activities	<u>2,315,611</u>	<u>151,201</u>
Total non-current liabilities	<u>\$ 2,483,771,390</u>	<u>\$ 2,008,866,423</u>

The Department has issued revenue bonds in 42 separate issues between 1980 and 2008. All bonds outstanding as of June 30, 2008, are scheduled to mature on various dates, but not later than July 1, 2033. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and are not obligations of the State of Arizona. This data was gathered from the various bond records on file since the 1980s.

Of the \$6.5 billion total in bonds issued between 1980 and 2008, \$1.4 billion, or approximately 22 percent, have been refunding issues to lower debt service costs. These efforts have resulted in cumulative debt service savings of \$82.4 million in current dollars and \$60.5 million on a present value basis.

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, as a result of a rating increase on September 26, 2006, are rated AAA/Aa2. The Department's Transportation Excise Tax Revenue bonds are rated AA+/Aa2. The Grant Anticipation Notes (GARVEE bonds) are rated AA-/Aa3/AA with the additional rating provided by Fitch Ratings.

Arizona Revised Statutes, §28-7678, authorized the Transportation Board to issue non-negotiable Board Funding Obligations (BFOs) for purchase by the Arizona State Treasurer. Laws 2005, Chapter 150 (HB 2123), authorized the Transportation Board to issue BFOs in the principal amount of \$200 million in any fiscal year from fiscal years 2006 through 2020, and that mature no later than four calendar years after the date of issuance. The distribution of this authority is \$60 million to the General Fund (State Highway Fund) and \$140 million to the Highway Expansion and Extension Loan Program Fund. The BFOs are used to help capitalize Arizona's State Infrastructure Bank, which allows the Department and political subdivisions to apply for loans from the fund established by this legislation. Because of State General Fund cash requirements, the Transportation Board lowered the amount of outstanding BFOs from \$200 million, as of the end of fiscal year 2007, to \$110 million as of the end of fiscal year 2008.

In fiscal year 2008, the Department issued Highway Revenue Bonds totaling \$193,950,000 to (i) finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program and (ii) pay costs of issuing the bonds. In fiscal year 2007, the State Transportation Board received legislative authority to begin issuing

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2008

Highway Revenue Bonds with maturities up to 30 years in length, replacing the 20 year maturity requirement that had been in place since 1980, and these were the first bonds issued under this new authority. Also in fiscal year 2008, the Department issued Transportation Excise Tax Revenue bonds totaling \$370,000,000 to pay (i) the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County and (ii) the costs of issuing the bonds, and issued Grant Anticipation Notes (GARVEE bonds) totaling \$68,000,000 for the purpose of (i) paying a portion of the costs of certain controlled-access highways in Maricopa County and (ii) paying the costs of issuing the note.

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/Inside_ADOT/fms/cafr/CAFR2008.pdf.

Basic Financial Statements

Government-wide Financial Statements - include the Statement of Net Assets and the Statement of Activities and use the accrual basis of accounting for financial reporting.

Governmental Funds Financial Statements - include the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances for the major governmental funds and use the modified accrual basis of accounting for financial reporting. Also include the reconciliations to the government-wide financial statements.

Proprietary Funds Financial Statements - include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Fund Net Assets and the Statement of Cash Flows for the business-type activities and use the accrual basis of accounting for financial reporting.

Fiduciary Funds Financial Statement - includes the Statement of Net Assets for assets being held for parties outside of the Department.

Notes to the Financial Statements

Arizona Department of Transportation
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Unrestricted cash on deposit with the State Treasurer	\$ 97,875,861	\$ 1,963,752	\$ 99,839,613
Receivables:			
Notes and loans	10,921,678	68,005,408	78,927,086
Subscriptions, net of allowance for doubtful accounts	-	226,753	226,753
Accrued interest	9,895,103	678,037	10,573,140
Taxes and fees	69,818,510	-	69,818,510
Other, net of allowance for doubtful accounts	22,318,406	271,839	22,590,245
Due from U.S. Government for reimbursable costs	50,603,460	-	50,603,460
Internal balances	19,996,904	<19,996,904>	-
Inventories	10,657,024	708,249	11,365,273
Prepaid items	-	247,820	247,820
Deferred charges	32,024,532	-	32,024,532
Restricted cash on deposit with the State Treasurer	1,466,992,566	77,630,108	1,544,622,674
Capital assets not subject to depreciation (Note 5A)	15,061,147,219	7,900	15,061,155,119
Capital assets subject to depreciation, net of accumulated depreciation (Note 5A)	<u>188,068,775</u>	<u>164,825</u>	<u>188,233,600</u>
Total assets	<u>17,040,320,038</u>	<u>129,907,787</u>	<u>17,170,227,825</u>
LIABILITIES			
Accounts payable and other current liabilities	14,743,230	99,438	14,842,668
Accrued payroll and other accrued expenses	20,329,156	98,932	20,428,088
Contracts and retainage payable	117,849,488	-	117,849,488
Due to Arizona counties and cities	139,513,554	-	139,513,554
Due to other state agencies	6,411,415	-	6,411,415
Board funding obligations (Note 5H)	60,000,000	50,000,000	110,000,000
Deferred revenues (Note 5C)	-	2,973,902	2,973,902
Non-current liabilities (Note 5G):			
Due within one year	165,846,297	145,255	165,991,552
Due in more than one year	<u>2,315,609,482</u>	<u>2,170,356</u>	<u>2,317,779,838</u>
Total liabilities	<u>2,840,302,622</u>	<u>55,487,883</u>	<u>2,895,790,505</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,285,437,940	172,725	13,285,610,665
Restricted:			
Loans and other financial assistance	-	74,115,046	74,115,046
Debt service	2,234,889	-	2,234,889
Capital projects	702,694,765	-	702,694,765
Unrestricted	<u>209,649,822</u>	<u>132,133</u>	<u>209,781,955</u>
Total net assets	<u>\$ 14,200,017,416</u>	<u>\$ 74,419,904</u>	<u>\$ 14,274,437,320</u>

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

Arizona Department of Transportation
Statement of Activities
for the fiscal year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net <Expenses> Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 54,918,357	\$ 9,705,539	\$ -	\$ -	\$ <45,212,818>
Aeronautics	4,372,514	939,946	697,317	-	<2,735,251>
Highway	132,873,981	1,450,940	47,577,304	523,727,885	439,882,148
Highway maintenance	137,099,909	1,765,126	-	-	<135,334,783>
Motor Vehicle	112,879,673	127,899,850	-	-	15,020,177
Non-capital, including asset preservation	187,004,474	-	-	-	<187,004,474>
Distributions to Arizona counties and cities	1,238,382,891	-	-	-	<1,238,382,891>
Distributions to other state agencies	176,691,851	-	-	-	<176,691,851>
Local governmental assistance	37,285,011	8,262,949	31,472,481	-	2,450,419
Interest on long-term debt	92,294,932	-	-	-	<92,294,932>
Total governmental activities	<u>2,173,803,593</u>	<u>150,024,350</u>	<u>79,747,102</u>	<u>523,727,885</u>	<u><1,420,304,256></u>
Business-type Activities:					
Arizona Highways Magazine	7,711,629	7,624,062	-	-	<87,567>
Highway Expansion and Extension Loan Program	4,053,391	1,755,395	-	-	<2,297,996>
Total business-type activities	<u>11,765,020</u>	<u>9,379,457</u>	<u>-</u>	<u>-</u>	<u><2,385,563></u>
Total	<u>\$ 2,185,568,613</u>	<u>\$ 159,403,807</u>	<u>\$ 79,747,102</u>	<u>\$ 523,727,885</u>	<u>\$ <1,422,689,819></u>
			Governmental Activities	Business-type Activities	Total
Net <expenses>			\$ <1,420,304,256>	\$ <2,385,563>	\$ <1,422,689,819>
General revenues:					
Transportation excise taxes			253,741,944	-	253,741,944
Vehicle, registration, title, license, and related taxes			1,033,504,644	-	1,033,504,644
Fuel and motor carrier taxes			766,393,661	-	766,393,661
Flight property taxes			13,821,790	-	13,821,790
Income from investments			59,528,386	4,788,328	64,316,714
Gain <loss> on sale of capital assets			30,515,557	<17,518>	30,498,039
Other			8,256,693	-	8,256,693
Total general revenues			<u>2,165,762,675</u>	<u>4,770,810</u>	<u>2,170,533,485</u>
Change in net assets			745,458,419	2,385,247	747,843,666
Net assets - July 1			<u>13,454,558,997</u>	<u>72,034,657</u>	<u>13,526,593,654</u>
Net assets - June 30			<u>\$ 14,200,017,416</u>	<u>\$ 74,419,904</u>	<u>\$ 14,274,437,320</u>

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

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 engineering, construction, improvement, 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 street system 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 Motor Vehicle Division 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 distributions.

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), and Board Funding Obligations. These monies are expended for the construction of projects in the Five-Year Transportation Facilities Construction Program.

Non-Major Funds

Other Governmental Funds are the non-major funds and are all special revenue funds. These funds can be found on Exhibit 9 and Exhibit 10.

Arizona Department of Transportation
Balance Sheet
Governmental Funds
June 30, 2008

	Special Revenue Funds			
General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund	
ASSETS				
Unrestricted cash on deposit with the State Treasurer	\$ 65,523,282	\$ -	\$ -	\$ -
Receivables:				
Accrued interest	3,121,232	1,830,988	-	288,749
Interfund (Note 5E)	108,569,888	2,264,550	-	45,534,940
Taxes and fees	-	-	12,545,902	57,272,608
Notes and loans	2,268,000	24,712	-	-
Other (net)	16,598,374	2,155,653	-	-
Amounts due from:				
U.S. Government	41,700,867	5,680,352	-	-
Inventories	7,131,814	-	-	-
Advance to other funds	20,000,000	-	-	-
Deferred charges	-	-	8,128,423	-
Land held for resale	13,184,013	-	-	-
Restricted cash on deposit with the State Treasurer	478,558,769	232,015,767	66,767,001	110,972,849
Total assets	\$ 756,656,239	\$ 243,972,022	\$ 87,441,326	\$ 214,069,146
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 8,491,971	\$ -	\$ 4,998,424	\$ -
Accrued payroll and other accrued expenditures	14,647,042	4,837,629	-	-
Contracts and retainage payable	67,478,262	39,547,689	-	-
Interfund payables (Note 5E)	2,603,667	475	48,790,246	107,981,931
Amounts due to:				
Arizona counties and cities	-	-	30,120,797	106,087,215
Other state agencies	-	-	3,510,359	-
Board funding obligations	60,000,000	-	-	-
Surety and rental deposits	368,369	-	21,500	-
Deferred revenue	2,268,000	24,712	-	-
Advances and notes payable	37,209,782	-	-	-
Total liabilities	193,067,093	44,410,505	87,441,326	214,069,146
Fund balances:				
Reserved for:				
Inventories	7,131,814	-	-	-
Advance to other funds	20,000,000	-	-	-
Debt service	-	-	-	-
Capital projects	478,558,769	199,561,517	-	-
Unreserved reported in:				
General fund	57,898,563	-	-	-
Non-major special revenue funds	-	-	-	-
Total fund balances	563,589,146	199,561,517	-	-
Total liabilities and fund balances	\$ 756,656,239	\$ 243,972,022	\$ 87,441,326	\$ 214,069,146

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

Debt Service Fund	Capital Projects Fund	Total Non-Major Governmental Funds (See Exhibit 9)	Total Governmental Funds
\$ -	\$ -	\$ 28,653,810	\$ 94,177,092
604,455	3,821,862	194,485	9,861,771
-	-	3,008,263	159,377,641
-	-	-	69,818,510
-	-	8,628,966	10,921,678
-	-	3,564,379	22,318,406
-	-	3,222,241	50,603,460
-	-	-	7,131,814
-	-	-	20,000,000
-	-	-	8,128,423
-	-	-	13,184,013
<u>2,607,901</u>	<u>559,614,482</u>	<u>16,455,797</u>	<u>1,466,992,566</u>
<u>\$ 3,212,356</u>	<u>\$ 563,436,344</u>	<u>\$ 63,727,941</u>	<u>\$ 1,932,515,374</u>
\$ -	\$ -	\$ 827,084	\$ 14,317,479
-	-	235,849	19,720,520
-	6,615,778	4,207,759	117,849,488
-	222	-	159,376,541
-	-	3,305,542	139,513,554
-	-	2,901,056	6,411,415
-	-	-	60,000,000
-	-	-	389,869
-	-	8,628,966	10,921,678
-	-	-	37,209,782
-	<u>6,616,000</u>	<u>20,106,256</u>	<u>565,710,326</u>
-	-	-	7,131,814
-	-	-	20,000,000
3,212,356	-	93	3,212,449
-	556,820,344	18,262,150	1,253,202,780
-	-	-	57,898,563
-	-	25,359,442	25,359,442
<u>3,212,356</u>	<u>556,820,344</u>	<u>43,621,685</u>	<u>1,366,805,048</u>
<u>\$ 3,212,356</u>	<u>\$ 563,436,344</u>	<u>\$ 63,727,941</u>	<u>\$ 1,932,515,374</u>

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

Total fund balances - governmental funds (Exhibit 3)	\$ 1,366,805,048
Amounts reported for governmental activities in the Statement of Net Assets (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 B).	15,193,591,198
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 Assets (Exhibit 5).	55,601,234
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds (Note 4 B).	10,921,678
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 B).	<u><2,426,901,742></u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 14,200,017,416</u>

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

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the fiscal year ended June 30, 2008

	General Fund (State Highway Fund)	Special Revenue Funds		
		Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Revenues:				
Transportation excise taxes	\$ -	\$ 253,741,944	\$ -	\$ -
Vehicle registration, title, license, and related taxes and fees	309,114,851	-	503,866,928	335,712,838
Fuel and motor carrier taxes and fees	373,892,981	-	5,918,026	353,582,197
Reimbursement of construction expenditures - federal aid	350,402,640	76,582,391	-	-
Other federal grants and reimbursements	47,577,304	-	-	-
Reimbursements from Arizona counties and cities	30,224,757	121,812	-	-
Distributions from other state agencies	462,792	-	-	-
Interest on loans receivable	255,493	148,002	-	-
Income from investments	25,847,077	10,751,043	-	2,684,248
Flight property taxes	-	-	-	-
Grand Canyon National Park Airport	-	-	-	-
Rental income	1,089,766	276,832	-	-
Other	2,827,413	440,018	-	2,854,331
Total revenues	<u>1,141,695,074</u>	<u>342,062,042</u>	<u>509,784,954</u>	<u>694,833,614</u>
Expenditures:				
Current:				
Transportation:				
Administration	43,517,358	303,054	-	-
Aeronautics	-	-	-	-
Highway	130,300,418	3,548,739	-	-
Highway maintenance	124,325,879	5,108,014	-	-
Motor Vehicle	105,258,378	-	-	1,821
Total transportation	<u>403,402,033</u>	<u>8,959,807</u>	<u>-</u>	<u>1,821</u>

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

Debt Service Fund	Capital Projects Fund	Total Non-Major Governmental Funds (See Exhibit 10)	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 253,741,944
-	-	10,779,391	1,159,474,008
-	-	34,653,057	768,046,261
-	-	67,599,433	494,584,464
-	-	32,169,798	79,747,102
-	-	8,262,949	38,609,518
-	-	-	462,792
-	-	293,242	696,737
2,446,021	15,539,226	1,929,609	59,197,224
-	-	13,821,790	13,821,790
-	-	939,946	939,946
-	-	-	1,366,598
-	-	84,288	6,206,050
<u>2,446,021</u>	<u>15,539,226</u>	<u>170,533,503</u>	<u>2,876,894,434</u>
48,475	453,237	-	44,322,124
-	-	4,088,494	4,088,494
-	-	37,285,011	171,134,168
-	6,195,246	-	135,629,139
-	-	5,722,144	110,982,343
<u>48,475</u>	<u>6,648,483</u>	<u>47,095,649</u>	<u>466,156,268</u>

(continued)

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the fiscal year ended June 30, 2008

	General Fund (State Highway Fund)	Special Revenue Funds		
		Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Intergovernmental:				
Distributions to Arizona counties and cities	\$ 45,030,296	\$ 31,121,828	\$ 471,457,051	\$ 674,427,121
Distributions to other state agencies	56,715,904	-	38,327,903	20,404,672
Debt service:				
Principal	60,393,159	-	-	-
Interest	1,416,562	-	-	-
Bond issuance costs	-	-	-	-
Non-capital, including asset preservation	76,222,090	30,106,228	-	-
Capital outlay	466,501,003	259,809,925	-	-
Total expenditures	<u>1,109,681,047</u>	<u>329,997,788</u>	<u>509,784,954</u>	<u>694,833,614</u>
Excess <deficiency> of revenues over <under> expenditures	32,014,027	12,064,254	-	-
Other financing sources <uses>:				
Transfers in	71,949,416	-	-	-
Transfers out for debt service	<134,245,911>	<29,718,101>	-	-
Transfers out other	-	<67,697,989>	-	-
Sale of capital assets	25,930,668	2,302,732	-	-
Insurance recovery	1,765,126	-	-	-
Debt issuance	68,484,365	11,044,542	-	-
Premium from debt issuance	-	-	-	-
Total other financing sources <uses>	<u>33,883,664</u>	<u><84,068,816></u>	<u>-</u>	<u>-</u>
Net change in fund balances	65,897,691	<72,004,562>	-	-
Fund balances - July 1	497,691,455	271,566,079	-	-
Fund balances - June 30	<u>\$ 563,589,146</u>	<u>\$ 199,561,517</u>	<u>\$ -</u>	<u>\$ -</u>

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

Debt Service Fund	Capital Projects Fund	Total Non-Major Governmental Funds (See Exhibit 10)	Total Governmental Funds
\$ -	\$ -	\$ 19,073,388	\$ 1,241,109,684
-	-	57,956,972	173,405,451
132,270,000	-	-	192,663,159
101,166,167	-	-	102,582,729
-	3,447,378	-	3,447,378
-	52,662,715	-	158,991,033
-	263,570,660	-	989,881,588
<u>233,484,642</u>	<u>326,329,236</u>	<u>124,126,009</u>	<u>3,328,237,290</u>
<231,038,621>	<310,790,010>	46,407,494	<451,342,856>
231,563,445	-	-	303,512,861
-	-	<67,599,433>	<231,563,445>
-	<4,188,471>	<62,956>	<71,949,416>
-	-	-	28,233,400
-	-	-	1,765,126
-	631,950,000	-	711,478,907
-	31,861,772	-	31,861,772
<u>231,563,445</u>	<u>659,623,301</u>	<u><67,662,389></u>	<u>773,339,205</u>
524,824	348,833,291	<21,254,895>	321,996,349
2,687,532	207,987,053	64,876,580	1,044,808,699
<u>\$ 3,212,356</u>	<u>\$ 556,820,344</u>	<u>\$ 43,621,685</u>	<u>\$ 1,366,805,048</u>

Arizona Department of Transportation
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 for the fiscal year ended June 30, 2008

Net change in fund balances - total governmental funds (Exhibit 4) \$ 321,996,349

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Capital outlays are reported as expenditures in governmental funds (Note 4C).	956,234,903
Bond proceeds provide current financial resources to governmental funds.	
However, issuing debt increases long-term liabilities in the statement of net assets. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (Note 4C).	<743,340,679>
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (Note 4C).	206,267,729
Internal service 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 4C).	2,310,056
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (Note 4C).	<u>1,990,061</u>

Change in net assets of governmental activities (Exhibit 2) \$ 745,458,419

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

Proprietary Funds Financial Statements

Major Funds

Arizona Highways Magazine Fund

The Department uses this fund in the publishing and marketing of the *Arizona Highways Magazine* and various other products that promote the State of Arizona.

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.

Non-Major Fund

Internal Service Fund

The Department's own internal service fund, known as the Equipment Fund, purchases and maintains equipment and materials to be used by other funds and state agencies.

Arizona Department of Transportation
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	
ASSETS				
Current assets:				
Unrestricted cash on deposit with the State Treasurer	\$ -	\$ 1,963,752	\$ 1,963,752	\$ 3,698,769
Restricted cash on deposit with the State Treasurer	77,630,108	-	77,630,108	-
Receivables:				
Subscriptions, net of allowance for doubtful accounts	-	226,753	226,753	-
Accrued interest	669,877	8,160	678,037	33,332
Loans	47,732,252	-	47,732,252	-
Other, net allowance for doubtful accounts	-	271,839	271,839	-
Inventories	-	708,249	708,249	3,525,210
Prepaid items	-	247,820	247,820	-
Total current assets	<u>126,032,237</u>	<u>3,426,573</u>	<u>129,458,810</u>	<u>7,257,311</u>
Non-current assets:				
Loans receivable	20,273,156	-	20,273,156	-
Capital assets not subject to depreciation	-	7,900	7,900	-
Capital assets subject to depreciation, net of accumulated depreciation	-	164,825	164,825	55,624,796
Total noncurrent assets	<u>20,273,156</u>	<u>172,725</u>	<u>20,445,881</u>	<u>55,624,796</u>
Total assets	<u>146,305,393</u>	<u>3,599,298</u>	<u>149,904,691</u>	<u>62,882,107</u>
LIABILITIES				
Current liabilities:				
Accounts payable	-	99,438	99,438	35,882
Accrued payroll and other accrued expenses	6,170	92,762	98,932	608,636
Interfund payables (Note 5E)	-	-	-	1,100
Board Funding Obligations (Note 5H)	50,000,000	-	50,000,000	-
Compensated absences	13,821	131,434	145,255	522,149
Advance from other funds	20,000,000	-	20,000,000	-
Deferred revenue	-	2,973,902	2,973,902	-
Capital leases payable (Note 5F)	-	-	-	2,768,919
Total current liabilities	<u>70,019,991</u>	<u>3,297,536</u>	<u>73,317,527</u>	<u>3,936,686</u>
Non-current liabilities:				
Accrued interest payable	2,170,356	-	2,170,356	-
Compensated absences	-	-	-	234,473
Capital leases payable (Note 5F)	-	-	-	3,109,714
Total noncurrent liabilities	<u>2,170,356</u>	<u>-</u>	<u>2,170,356</u>	<u>3,344,187</u>
Total liabilities	<u>72,190,347</u>	<u>3,297,536</u>	<u>75,487,883</u>	<u>7,280,873</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	172,725	172,725	49,746,163
Restricted for loans and other financial assistance	74,115,046	-	74,115,046	-
Unrestricted	-	129,037	129,037	5,855,071
Total net assets	<u>\$ 74,115,046</u>	<u>\$ 301,762</u>	<u>74,416,808</u>	<u>\$ 55,601,234</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			3,096	
Net assets of business-type activities			<u>\$ 74,419,904</u>	

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

Arizona Department of Transportation
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Proprietary Funds
for the fiscal year ended June 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	
Operating revenues:				
Sales and charges for services (net of write off \$89,207)	\$ -	\$ 6,943,929	\$ 6,943,929	\$ 40,268,274
Interest on loans receivables	1,755,395	-	1,755,395	-
Other	-	680,133	680,133	35,111
Total operating revenues	<u>1,755,395</u>	<u>7,624,062</u>	<u>9,379,457</u>	<u>40,303,385</u>
Operating expenses:				
Publication and promotional cost	-	3,150,523	3,150,523	-
Repair and maintenance	319	70,994	71,313	2,811,109
Fuel and lubricants	-	-	-	9,708,534
Salaries and related benefits	146,321	2,123,481	2,269,802	14,439,277
Shipping and postage	229	1,175,499	1,175,728	-
Supplies	2,477	68,516	70,993	312,421
Equipment purchase and rental	-	13,942	13,942	133,577
Professional and outside services	24,759	715,153	739,912	156,249
Insurance	-	-	-	605,300
Travel	254	18,622	18,876	70,173
Interest on notes payable	3,795,890	-	3,795,890	-
Depreciation	-	40,114	40,114	9,030,352
Other	891	333,521	334,412	1,407,077
Total operating expenses	<u>3,971,140</u>	<u>7,710,365</u>	<u>11,681,505</u>	<u>38,674,069</u>
Operating <loss> income	<2,215,745>	<86,303>	<2,302,048>	1,629,316
Non-operating revenues <expenses>:				
Interest on investments	4,705,331	82,997	4,788,328	337,257
Investment expense	<80,251>	<1,466>	<81,717>	<6,095>
Gain <loss> on sale/disposal of capital assets	-	<17,518>	<17,518>	<126,784>
Insurance recoveries	-	-	-	50,194
Interest on capital leases	-	-	-	<262,554>
Distributions to other state agencies	<2,000>	-	<2,000>	<3,286,400>
Total non-operating revenues <expenses>	<u>4,623,080</u>	<u>64,013</u>	<u>4,687,093</u>	<u><3,294,382></u>
Capital contributions	-	-	-	3,975,324
Changes in net assets	2,407,335	<22,290>	2,385,045	2,310,258
Total net assets - July 1	<u>71,707,711</u>	<u>324,052</u>		<u>53,290,976</u>
Total net assets - June 30	<u>\$ 74,115,046</u>	<u>\$ 301,762</u>		<u>\$ 55,601,234</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>202</u>	
Change in net assets of business-type activities			<u>\$ 2,385,247</u>	

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

Arizona Department of Transportation
Statement of Cash Flows
Proprietary Funds
for the fiscal year ended June 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	
Cash flows from operating activities:				
Receipts from customers	\$ 1,630,032	\$ 6,626,529	\$ 8,256,561	\$ -
Receipts from other funds	65,000,000	-	65,000,000	30,562,735
Receipts from Arizona counties and cities	7,715,250	-	7,715,250	9,705,539
Payments to suppliers	<27,236>	<5,368,804>	<5,396,040>	<15,928,211>
Payments to employees	<145,813>	<2,162,297>	<2,308,110>	<14,412,675>
Payments to Arizona counties and cities	<26,038,156>	-	<26,038,156>	-
Other receipts <payments>	<1,439>	686,440	685,001	28,038
Net cash provided <used> by operating activities	<u>48,132,638</u>	<u><218,132></u>	<u>47,914,506</u>	<u>9,955,426</u>
Cash flows from non-capital financing activities:				
Distributions to other state agencies	<2,000>	-	<2,000>	<3,286,400>
Repayment of Board Funding Obligations	<156,160,000>	-	<156,160,000>	-
Issuance of Board Funding Obligations	<u>50,000,000</u>	-	<u>50,000,000</u>	-
Net cash provided <used> by non-capital financing activities	<u><106,162,000></u>	<u>-</u>	<u><106,162,000></u>	<u><3,286,400></u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	-	-	-	724,359
Acquisition of capital assets	-	<5,178>	<5,178>	<9,477,239>
Insurance recoveries	-	-	-	50,194
Capital lease payments	-	-	-	<2,934,743>
Net cash provided <used> by capital and related financing activities	<u>-</u>	<u><5,178></u>	<u><5,178></u>	<u><14,923,829></u>
Cash flows from investing activities:				
Interest on investments	5,108,111	82,997	5,191,108	337,257
Investment expense	<80,251>	<1,466>	<81,717>	<6,095>
Net cash provided <used> by investing activities	<u>5,027,860</u>	<u>81,531</u>	<u>5,109,391</u>	<u>331,162</u>
Net increase <decrease> in cash	<53,001,502>	<141,779>	<53,143,281>	<7,923,641>
Cash - July 1	<u>130,631,610</u>	<u>2,105,531</u>	<u>132,737,141</u>	<u>8,336,010</u>
Cash - June 30	<u>\$ 77,630,108</u>	<u>\$ 1,963,752</u>	<u>\$ 79,593,860</u>	<u>\$ 412,369</u>

Reconciliation of operating <loss> income to net cash provided <used> by operating activities:

Operating <loss> income	\$ <2,215,745>	\$ <86,303>	\$ <2,302,048>	\$ 1,629,316
Adjustment to reconcile operating <loss> income to net cash provided by operating activities:				
Depreciation	-	40,114	40,114	9,030,352
Net changes in assets and liabilities:				
Receivables	46,677,094	<88,697>	46,588,397	<7,073>
Due from other Arizona Department of Transportation funds	78,777	-	78,777	-
Due from Arizona counties and cities	<204,140>	-	<204,140>	-
Inventories	-	348,644	348,644	<591,989>
Prepaid items	-	<11,015>	<11,015>	-
Accounts payable	-	<159,663>	<159,663>	<201,955>
Accrued payroll and other accrued expenses	820	<32,928>	<32,108>	60,072
Compensated absences	<58>	<5,888>	<5,946>	36,703
Notes payable	3,795,890	-	3,795,890	-
Deferred revenue	-	<222,396>	<222,396>	-
Net cash provided <used> by operating activities	<u>\$ 48,132,638</u>	<u>\$ <218,132></u>	<u>\$ 47,914,506</u>	<u>\$ 9,955,426</u>

Non-cash capital and financing activities:

Certain vehicles were contributed to the Equipment Fund by the General Fund totaling \$3,975,324.

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

Fiduciary Funds

Financial Statement

Agency Funds

Highway Properties - Privilege Tax Fund

This fund collects monies from renters of properties previously acquired by the Department for use in future highway development. Monies collected are distributed to the Department of Revenue.

Highway Properties - 24 Percent Fund

This fund collects 24 percent of the Department's rental income from properties for use in future highway development. Monies collected are distributed to the local counties.

Arizona Department of Transportation
Statement of Net Assets
Agency Funds
June 30, 2008

ASSETS

Restricted cash on deposit with the State Treasurer	\$136,434
Other receivables	-
Total assets	<u>\$136,434</u>

LIABILITIES

Due to Arizona counties	\$136,434
Other payables	-
Total liabilities	<u>\$136,434</u>

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

Notes to the Financial Statements



Arizona Department of Transportation
Index – Notes to the Financial Statements
June 30, 2008

	Page
Note 1 – Summary of Significant Accounting Policies	30
A – Reporting Entity.....	30
B – Government-wide and Fund Financial Statements.....	30
C – Measurement Focus, Basis of Accounting, and Financial Statement Presentation	31
D – Assets, Liabilities, and Net Assets/Fund Balance	33
E – Revenues and Expenditures/Expenses	36
F – Interfund Activity and Balances	37
Note 2 – Funds by Classification.....	37
Note 3 – Budgeting, Budgetary Control, and Legal Compliance	38
Note 4 – Accounting Pronouncements and Reconciliation of Government-wide and Fund Financial Statements	38
A – New Accounting Pronouncements.....	38
B – Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Assets	40
C – Explanations of Reconciling Items of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	41
Note 5 – Detailed Notes on all Funds	43
A – Capital Assets	43
B – Construction Commitments	44
C – Deferred Revenues.....	44
D – Securities Held in Lieu of Retention.....	45
E – Interfund Receivables, Payables, Advances, and Transfers	45
F – Leases	46
G – Non-Current Liabilities	47
H – Short-term Debt	52
I – Fund Balances	53
Note 6 – Other Information	53
A – Subsequent Events	53
B – Contingent Liabilities.....	53
C – Pension and Other Postemployment Benefits	54

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Arizona Department of Transportation (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 (State) and is not a legally separate entity. The Department has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of State highway routes, 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 Assets and the Statement of Activities) report information on all of the non-fiduciary 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 Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

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

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

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

Fund Financial Statements

Separate statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements, with non-major 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.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Department's enterprise funds follow GASB pronouncements and those Financial Accounting Standard Board Statements (FASB) and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The enterprise funds do not follow any FASB Statements and Interpretations issued after November 30, 1989.

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:

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.

The *Maricopa Regional Area Road Construction Fund* is a special revenue fund that receives 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, improvements to the arterial street system, regional bus service and high capacity transit services such as light rail, 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.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

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, counties and other legislatively appropriated distributions.

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 of the governmental funds.

The Department reports the following major proprietary funds:

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.

The *Arizona Highways Magazine Fund* publishes and markets the Arizona Highways Magazine and various other products that promote the State of Arizona.

Additionally, the Department reports the following funds:

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 Fund is the Department's only internal service fund.

The *Agency Funds* are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Department has two agency funds, the Highway Properties – Privilege Tax Fund and the Highway Properties – 24 Percent Fund (neither are included in the government-wide statements).

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 Fund to the other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating revenues* and expenses from *non-operating* 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 and magazine subscriptions. The Department also recognizes as operating revenues interest on loan receivables and other revenues intended to recover the cost of services. Operating expenses for the enterprise funds 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 non-operating revenues and expenses.

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.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

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

Deposits and Investments

The Department's cash includes petty cash, bank accounts, and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements, 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, 2008, the state's investment pools were not rated.

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. 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*.

The Department has restricted cash for payment of capital projects for Maricopa and Pima Counties, for future debt service payments, for the Statewide Transportation Acceleration Needs account, and for loan repayments to the Highway Expansion and Extension Loan Program Fund.

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 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.

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 and subscriptions receivables are shown net of allowance for doubtful accounts. For other receivables comprising recoverable insurance claims, the amount reserved for doubtful accounts is comprised of 100% of balances greater than six years old, 95% of balances from four to six years old, and a percentage of balances less than four years old. The subscriptions receivable allowance for doubtful accounts is equivalent to an estimated number of issues delivered on outstanding subscription payments past due more than 90 days.

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

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

Inventories and Prepaid Items

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 shows a reservation for inventory for the like amount indicating it does not constitute available expendable resources. No reservation of net assets is shown in the government-wide statements for inventories.

The business-type activities' inventories are stated at the lower of cost or market. Costs of enterprise fund inventories consisting of resale products and supplies are generally determined by moving average cost and specific identification methods, respectively. 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

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. Effective July 1, 1981, state law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the General Fund (State Highway Fund) from the Highway User Revenue Fund for the design, purchase of right-of-way, or construction of controlled-access highways which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). 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.

The Department has restricted cash for payment of capital projects for Maricopa and Pima Counties, for future debt service payments, for the Statewide Transportation Acceleration Needs account, and for loan repayments to the Highway Expansion and Extension Loan Program Fund.

Capital Assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, 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 estimated fair value at the date of donation.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives 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.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

The Department depreciates non-infrastructure capital assets on a straight-line basis using the following estimated useful lives. Modular buildings are included on the Statement of Net Assets under the machinery and equipment category; however, modular buildings have an estimated useful life of fifteen (15) years.

Assets	Years
Buildings and improvements	40
Improvements other than buildings	40
Machinery and equipment	5-15
Mobile fleet and aircraft	5-15

Infrastructure was capitalized for the first time in fiscal year 2002. The infrastructure assets are reported in the governmental-type activities column of the Statement of Net Assets. 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: 1) maintain an asset management system that includes an up to date inventory of eligible infrastructure assets, 2) perform condition assessments of eligible assets and summarize the results using a measurement scale, 3) estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department, and 4) document that the assets are being preserved approximately at or above the established condition level.

Deferred Revenues

In the government-wide statements and proprietary fund financial statements, deferred revenues are recorded when cash, receivables, or other assets are received prior to revenue being recognized. In the governmental funds, amounts are reported as deferred revenues until they are available to liquidate liabilities of the current period. Deferred revenues are reported in the government-wide statements for the business-type activities and in the fund statements for both the governmental and proprietary funds. In the government-wide statements, the deferred revenues relate to unearned subscription revenue for the *Arizona Highways Magazine*. Unearned subscription revenue is recorded when subscription orders are received and is amortized as revenue over the terms of the related subscriptions. Costs associated with the selling of subscriptions are expensed in the year incurred. In the fund statements for the General Fund (State Highway Fund), the deferred 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. For the Non-Major Governmental Funds, the deferred revenue represents airport capital improvements designed to generate airport revenues and/or related airport economic development efforts. Loans are typically for construction of aircraft storage hangars, fuel dispensing and storage facilities, and terminal buildings. Loan rates vary and are based on the Bond Buyer Index (BBI) for 25 year national revenue bonds. Loan periods are typically 10 to 25 years in length.

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 state hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is \$30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

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

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Other long-term obligations also include amounts that other governmental entities advance the Department for highway road construction projects.

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

Net Assets/Fund Balance

The difference between assets and liabilities is "Net Assets" on the government-wide and proprietary statements and "Fund Balance" on the governmental fund statements.

Reservations

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: 1) funds legally segregated for a specific purpose, or 2) assets, which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund.

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, Aeronautics, Highway, etc). Additionally, revenues are classified between program and general revenues. Program revenues include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenue includes all taxes and interest 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, and Distributions to other state agencies, Debt service, Capital outlay, etc.).

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, board funding obligations and capitalized leases. Capital outlay includes expenditures for real property or infrastructure (e.g. bridges and roads).

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

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

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 Fund).

Interfund Balances

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

2. FUNDS BY CLASSIFICATION

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:
 - Arizona Highways Magazine Fund
 - Highway Expansion and Extension Loan Program Fund

FIDUCIARY FUNDS

- Agency Funds:
 - Highway Properties–Privilege Tax Fund
 - Highway Properties–24 Percent Fund

NON-MAJOR FUNDS

- Other Governmental Funds:
 - Special Revenue Funds:
 - State Aviation Fund
 - Safety Enforcement and Transportation Infrastructure Fund
 - Motor Vehicle Liability Insurance Enforcement Fund
 - 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

3. BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Annual budgets for the operating expenditures for the General Fund (State Highway Fund), and capital outlay including land, building, and improvements for the General Fund (State Highway Fund) and State Aviation Fund, are submitted to the Governor in accordance with state law. The budgets are legally enacted as appropriations after approval by the state legislature and signature by the Governor. The legal level of control for operating expenditures is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. 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 a 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 program, the allocation of funds between personal services, employee-related expenses, and other operating expenditures is an internal decision for the program manager. Accordingly, transfers between line items such as personal services and other operating expenditures within a particular program may be made by the program manager. Transfers of funds between programs require the approval of the Director of the Department of Administration. 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 year-end unless exempted by the legislature.

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. A legal limitation is not adopted for the other special revenue funds, the debt service funds, capital projects funds, proprietary funds, and fiduciary funds.

4. ACCOUNTING PRONOUNCEMENTS AND RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. New Accounting Pronouncements

Statement No. 45 *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions*

This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employee's years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The provisions of this Statement are effective for periods beginning after December 15, 2006. The Department has implemented this Statement.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

Statement No. 48 Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues

This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006. The Department has implemented this Statement.

Statement No. 49 Accounting and Financial Reporting for Pollution Remediation Obligations

This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear plant decommissioning. Essentially, once any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The provisions of this Statement are effective for periods beginning after December 15, 2007. The Department will implement this Statement as appropriate.

Statement No. 50 Pension Disclosures

This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. This Statement amends Statements 25 and 27 to require defined benefit pension plans and sole and agent employers to present certain information related to note disclosures or required supplementary information. The provisions of this Statement are effective for periods beginning after June 15, 2007. The Department does not have any pension plans, as defined by this Statement, and therefore, this Statement is not applicable to the Department.

Statement No. 51 Accounting and Financial Reporting for Intangible Assets

The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The provisions of this Statement are effective for periods beginning after June 15, 2009. The Department will implement this Statement as appropriate.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

Statement No. 52 *Land and Other Real Estate Held as Investments by Endowments*

This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The provisions of this Statement are effective for periods beginning after June 15, 2008. This Statement is not applicable to the Department.

Statement No. 53 *Derivative Instruments*

This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions; or to lower the cost of borrowing. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Department will implement this Statement as appropriate.

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

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

- 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	\$ 15,061,147,219
Capital assets subject to depreciation	<u>188,068,775</u>
	15,249,215,994
less Internal Service Fund (Equipment Fund) assets	<u><55,624,796></u>
	<u>\$ 15,193,591,198</u>

- Deferred revenues for assets shown in fund statements for the following funds:

Governmental Funds:	
General Fund (State Highway Fund)	\$ 2,268,000
Maricopa Regional Area Road Construction Fund	24,712
State Aviation Fund	<u>8,628,966</u>
	<u>\$10,921,678</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

3. 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	\$ <2,401,726,354>
Deferred charges - bond issuance costs - outstanding amount	10,712,096
Capital leases	<1,656,761>
Compensated absences	<14,698,720>
Advances and notes payable	<19,528,907>
Business activity share of Equipment Fund gain <loss>	<3,096>
	<u>\$ <2,426,901,742></u>

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

1. 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	\$ 989,881,588
Adjustment to infrastructure	<25,487,592>
Less depreciation expense	<8,159,093>
	<u>\$ 956,234,903</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

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 assets. Also, the government reports the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The details of this difference are as follows:

Debt issued or incurred:	
Issuance of Highway Revenue Bonds	\$<193,950,000>
Issuance of Transportation Excise Tax Revenue Bonds	<370,000,000>
Issuance Grant Anticipation Notes (GARVEE bonds)	<68,000,000>
Premium on bonds	<31,861,772>
Issuance of Board Funding Obligations	<60,000,000>
Advances and notes payable	<19,528,907>
	<u>\$<743,340,679></u>
Principal repayments:	
Highway Revenue Bonds	\$ 60,645,000
Transportation Excise Tax Revenue Bonds	19,045,000
Grant Anticipation Notes (GARVEE bonds)	52,580,000
Board Funding Obligations	60,000,000
Amortization of premium and discount	11,309,740
Amortization of bond issuance costs	2,687,989
	<u>\$ 206,267,729</u>

3. The Internal Service 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 represents over <under> billing and must be eliminated from the government-wide Statement of Activities for the business activity.

Internal Service Fund (Equipment Fund):	
Changes in net assets	\$ 2,310,258
Business activity share of Equipment Fund <gain> loss	<202>
	<u>\$ 2,310,056</u>

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

Capital lease	\$ 393,160
Notes and loans	1,030,934
Compensated absences	<1,008,264>
Sale of capital assets	1,578,952
Compensated absences-change in 60 day accrual	<4,721>
	<u>\$ 1,990,061</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

5. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

Capital assets activity for the year ended June 30, 2008, was as follows:

Governmental Activities	July 1, 2007 Beginning Balance	Increases	Decreases	June 30, 2008 Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,217,183,763	\$ 259,321,548	\$ <124,693,225>	\$ 2,351,812,086
Infrastructure	9,855,140,388	254,651,995	<8,384,447>	10,101,407,936
Construction in progress	<u>2,032,678,119</u>	<u>842,543,604</u>	<u><267,294,526></u>	<u>2,607,927,197</u>
Total capital assets, not being depreciated	<u>14,105,002,270</u>	<u>1,356,517,147</u>	<u><400,372,198></u>	<u>15,061,147,219</u>
Capital assets, being depreciated:				
Buildings and improvements	155,682,847	3,047,761	-	158,730,608
Improvements other than buildings	23,012,860	535,311	-	23,548,171
Machinery and equipment	56,537,449	5,222,290	<2,627,108>	59,132,631
Mobile fleet and aircraft	<u>135,550,442</u>	<u>12,831,008</u>	<u><5,548,962></u>	<u>142,832,488</u>
Total capital assets, being depreciated	<u>370,783,598</u>	<u>21,636,370</u>	<u><8,176,070></u>	<u>384,243,898</u>
Less accumulated depreciation for:				
Buildings and improvements	<62,867,208>	<3,599,171>	-	<66,466,379>
Improvements other than buildings	<2,890,494>	<357,047>	-	<3,247,541>
Machinery and equipment	<35,510,954>	<4,607,202>	1,967,229	<38,150,927>
Mobile fleet and aircraft	<u><84,418,143></u>	<u><8,626,025></u>	<u>4,733,892</u>	<u><88,310,276></u>
Total accumulated depreciation	<u><185,686,799></u>	<u><17,189,445></u>	<u>6,701,121</u>	<u><196,175,123></u>
Total capital assets, being depreciated, net	<u>185,096,799</u>	<u>4,446,925</u>	<u><1,474,949></u>	<u>188,068,775</u>
Governmental activities capital assets, net	<u>\$ 14,290,099,069</u>	<u>\$ 1,360,964,072</u>	<u>\$ <401,847,147></u>	<u>\$ 15,249,215,994</u>
	July 1, 2007 Beginning Balance	Increases	Decreases	June 30, 2008 Ending Balance
Capital assets, not being depreciated:				
Land	\$ 7,900	\$ -	\$ -	\$ 7,900
Capital assets, being depreciated:				
Buildings and improvements	981,157	-	-	981,157
Machinery and equipment	<u>2,361,440</u>	<u>5,177</u>	<u><175,176></u>	<u>2,191,441</u>
Total capital assets, being depreciated	<u>3,342,597</u>	<u>5,177</u>	<u><175,176></u>	<u>3,172,598</u>
Less accumulated depreciation for:				
Buildings and improvements	<811,024>	<33,818>	-	<844,842>
Machinery and equipment	<u><2,314,294></u>	<u><6,296></u>	<u>157,659</u>	<u><2,162,931></u>
Total accumulated depreciation	<u><3,125,318></u>	<u><40,114></u>	<u>157,659</u>	<u><3,007,773></u>
Total capital assets, being depreciated, net	<u>217,279</u>	<u><34,937></u>	<u><17,517></u>	<u>164,825</u>
Business-type activities capital assets, net	<u>\$ 225,179</u>	<u>\$ <34,937></u>	<u>\$ <17,517></u>	<u>\$ 172,725</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	\$ 1,810,753
Aeronautics	279,988
Highway	2,668,969
Highway maintenance	1,713,245
Motor Vehicle	<u>1,686,138</u>
Subtotal	8,159,093
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets	
	<u>9,030,352</u>
Total depreciation expense - governmental activities	<u>\$ 17,189,445</u>
Business-type Activities	
Arizona Highways Magazine Fund	<u>\$ 40,114</u>

B. Construction Commitments

The Department's outstanding commitments for contracts at June 30, 2008, were \$1,052,592,818.

	Expenditures to Date	Remaining Commitment
Construction contracts:		
Rural roadways	\$ 357,395,502	\$ 260,898,766
Small urban roadways	46,811,799	33,413,288
Urban roadways	89,875,379	90,352,747
Large urban roadways	<u>586,903,861</u>	<u>293,351,573</u>
Sub-total	1,080,986,541	678,016,374
Design contracts	1,014,566,138	137,300,093
Other commitments	<u>265,007,610</u>	<u>237,276,351</u>
Total	<u>\$2,360,560,289</u>	<u>\$1,052,592,818</u>

C. Deferred Revenues

In the fund financial statements, the deferred revenues represent the amount for notes receivable for loans made to parties who purchased assets previously owned by the fund for highway construction purposes. The State Aviation Fund amount represents loans to various local governments for construction of hangars, taxiway extensions, runways, etc. These loans were made at a fixed rate and with various maturities. The proprietary fund includes the amount for unearned subscriptions. The following schedule is a summary of the amounts outstanding as of June 30, 2008:

Governmental Funds:	
General Fund (State Highway Fund)	\$ 2,268,000
Maricopa Regional Area Road Construction Fund	24,712
State Aviation Fund	<u>8,628,966</u>
	<u>\$10,921,678</u>
Proprietary Funds:	
Arizona Highways Magazine Fund	<u>\$ 2,973,902</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

D. Securities Held in Lieu of Retention

In accordance with Arizona law, a contractor may assign to the Department securities in lieu of retention and will deposit with a bank, cash, time certificates of deposit in federally insured banks licensed by the State of Arizona (Certificates of Deposit), securities of or guaranteed by the United States of America (Treasury Bills), or other eligible securities as defined in the Arizona Revised Statutes, Title 35, Chapter 2, Article 2, Section 35-313. At June 30, 2008, the banks held assignment on securities aggregating approximately \$0.8 million in lieu of contractor retentions for construction. These additional securities are not reflected in the accompanying financial statements.

E. Interfund Receivables, Payables, Advances and Transfers

The balances of current interfund receivables and payables as of June 30, 2008, were:

Receivables	Payables	Amount
Governmental activities:		
General Fund (State Highway Fund)	Highway User Revenue Fund	\$ 107,981,931
	Motor Vehicle Division Clearing Fund	586,160
	Maricopa Regional Area Road Fund	475
	Debt Service Fund	222
	Equipment Fund	1,100
Highway User Revenue Fund	Motor Vehicle Division Clearing Fund	45,195,823
	General Fund (State Highway Fund)	339,117
Maricopa Regional Area Road Fund	General Fund (State Highway Fund)	2,264,550
Non-major Governmental Funds	Motor Vehicle Division Clearing Fund	<u>3,008,263</u>
		<u>\$ 159,377,641</u>

The General Fund (State Highway Fund) receivable of \$107,981,931 is an accrual for fuel tax revenues imposed in fiscal year 2008 from the Highway User Revenue Fund that will be collected in fiscal year 2009.

The Highway User Revenue Fund receivable of \$45,195,823 is an accrual for vehicle license taxes due in fiscal year 2008 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2009.

In a prior fiscal year, the General Fund (State Highway Fund) advanced \$20 million to the Highway Expansion and Extension Loan Program Fund to increase its loan capacity. The advance is due no later than December 31, 2008.

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Interfund Transfers Out:	Interfund Transfers In:		
	General Fund (State Highway Fund)	Debt Service Fund	Total
General Fund (State Highway Fund)	\$ -	\$134,245,911	\$134,245,911
Capital Projects Fund	4,188,471	-	4,188,471
Maricopa Regional Area Road Construction Fund	67,697,989	29,718,101	97,416,090
Non-Major Governmental Funds	<u>62,956</u>	<u>67,599,433</u>	<u>67,662,389</u>
Total	<u>\$ 71,949,416</u>	<u>\$231,563,445</u>	<u>\$303,512,861</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

The General Fund (State Highway Fund) (\$134,245,911) and Non-Major Governmental Funds - Grant Anticipation Notes Fund (\$67,599,433) made transfers to the Debt Service Fund to pay bond debt service. The Maricopa Regional Area Road Construction Fund (\$67,697,989) made loan principal and interest payments to the General Fund (State Highway Fund) for loan repayments to the Highway Expansion and Extension Loan Program Fund.

F. 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, 2008, approximated \$3.8 million.

In fiscal year 2002, the Department renegotiated its long-term lease with the City of Phoenix for a facility located on Washington Street in Phoenix. The lease contains a three year option period which the Department has exercised. The future operating lease commitments are as follows:

<u>Fiscal year ending June 30</u>	<u>Amount</u>
2009	\$ 899,965
2010	<u>940,872</u>
Future operating lease commitments	<u>\$ 1,840,837</u>

In fiscal year 2003, the Department entered into a long-term lease to build a structure to house lab facilities in Gilbert, Arizona. The future operating lease commitments are as follows:

<u>Fiscal year ending June 30</u>	<u>Amount</u>
2009	\$ 117,324
2010	120,660
2011	124,095
2012	127,635
2013	<u>97,758</u>
Future operating lease commitments	<u>\$ 587,472</u>

Capital Leases

The Department has entered into lease agreements as lessee for financing the acquisition of various vehicles, equipment, and modular office 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:

	<u>Governmental Activities</u>
Assets:	
Machinery and equipment	\$ 13,422,677
Modular office buildings	2,139,711
Less accumulated depreciation	<u><3,554,109></u>
Total	<u>\$ 12,008,279</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

<u>Fiscal year ending June 30</u>	<u>Governmental Activities</u>
2009	\$ 3,403,402
2010	3,151,546
2011	966,760
2012	<u>378,377</u>
Total minimum lease payments	7,900,085
Less amount representing interest	<u><364,691></u>
Present value of minimum lease payments	<u>\$ 7,535,394</u>

G. Non-Current 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 original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1,490,600,000. During the year, Highway Revenue Bonds totaling \$193,950,000 were issued to (i) finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program and (ii) pay costs of issuing the bonds.

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.

Highway Revenue Bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	3.3% - 5.5 %	\$ 1,259,490,000
Governmental activities - refunding	3.8% - 6.0%	<u>364,415,000</u>
		<u>\$ 1,623,905,000</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

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

Fiscal year ending June 30	Highway Revenue Bonds	
	Principal	Interest
2009	\$ 64,190,000	\$ 82,897,389
2010	68,140,000	78,624,156
2011	71,770,000	74,923,125
2012	75,415,000	71,325,075
2013	79,230,000	67,551,715
2014-2018	460,280,000	273,392,181
2019-2023	489,215,000	149,895,661
2024-2028	214,630,000	49,761,598
2029-2033	101,035,000	15,647,500
	<u>\$ 1,623,905,000</u>	<u>\$ 864,018,400</u>

The Department has pledged future motor vehicle and related fuel fees and taxes to repay \$1,623,905,000 in outstanding Highway Revenue Bonds issued since 1993. 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 2033. The total principal and interest remaining to be paid on the bonds is \$2.5 billion. Principal and interest paid for the current year and total pledged revenues were \$136.2 million and \$658.6 million, respectively. The annual principal and interest payments on the bonds required 20.7 percent of the pledged revenues.

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. There were no outstanding amounts of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year. During the year, Transportation Excise Tax Revenue Bonds totaling \$370,000,000 were issued to pay (i) the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona and (ii) the costs of issuing the bonds.

On September 21, 2007, the Transportation Board adopted a Master Resolution relating to Transportation Excise Tax Revenue Bonds. Also on September 21, 2007, the Transportation Board adopted the First Supplemental Resolution authorizing the issuance of the first series of bonds under the Master Resolution in an amount not to exceed \$370,000,000. No debt service reserve is required for the outstanding bonds.

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

Purpose	Interest Rates	Amount
Governmental activities	4.5% - 5.0%	\$ 350,955,000

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

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

Fiscal year ending <u>June 30</u>	Transportation Excise Tax Revenue Bonds	
	Principal	Interest
2009	\$ 13,825,000	\$ 17,192,950
2010	14,445,000	16,570,825
2011	15,095,000	15,920,800
2012	15,820,000	15,195,850
2013	16,585,000	14,433,700
2014-2018	95,710,000	59,373,650
2019-2023	121,800,000	33,282,250
2024-2025	57,675,000	4,360,750
	\$ 350,955,000	\$ 176,330,775

Bonds aggregating \$200,475,000 are subject to redemption prior to their maturity dates at the option of the Transportation Board in whole or in part, at any time, on or after July 1, 2017. These bonds may be redeemed at par, plus accrued interest to the date fixed for redemption. Bonds aggregating \$150,480,000 are not subject to redemption.

The Department has pledged future transportation excise taxes to repay \$350,955,000 in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$527.3 million. Principal and interest paid for the current year and total pledged revenues were \$29.7 million and \$253.7 million, respectively. The annual principal and interest payments on the bonds required 11.7 percent of the pledged revenues.

Arizona Transportation Board Grant Anticipation Notes (GARVEE bonds)

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 original amount of Grant Anticipation Notes (GARVEE bonds – Grant Anticipation Revenue Vehicles) issued in prior years and outstanding at the start of the fiscal year was \$282,860,000.

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

Purpose	Interest Rates	Amount
Governmental activities	2.5% - 5.25%	\$ 298,280,000

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

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

Fiscal year ending June 30	Grant Anticipation Notes (GARVEE bonds)	
	Principal	Interest
2009	\$ 24,050,000	\$ 14,490,432
2010	25,170,000	13,367,182
2011	70,570,000	12,191,182
2012	43,885,000	8,761,582
2013	35,340,000	6,641,482
2014-2016	99,265,000	7,696,682
	<u>\$298,280,000</u>	<u>\$ 63,148,542</u>

Advances and Notes Payable

The Department's outstanding advances and notes payable as of June 30, 2008, were \$56,738,689 in governmental activities. The advances and notes payable represent the General Fund (State Highway Fund) loan payable to the Highway Expansion and Extension Loan Program Fund for \$33,900,000 and a loan to the City of Goodyear, Arizona, for 5,947,938 for highway construction. The advances and notes payable amount also includes other intergovernmental advances for \$16,890,751.

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

Fiscal year ending June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 37,209,782	\$ 314,251	\$ -	\$ -	\$ 37,209,782	\$ 314,251
2010	8,484,365	39,572	-	-	8,484,365	39,572
2012	10,893,112	-	-	-	10,893,112	-
2021	151,430	-	-	-	151,430	-
	<u>\$ 56,738,689</u>	<u>\$ 353,823</u>	<u>-</u>	<u>-</u>	<u>\$ 56,738,689</u>	<u>\$ 353,823</u>

Refunded Bonds Deposited with Escrow Agents

In prior fiscal years, the Transportation Board had 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 the defeased bonds are not reflected in the financial statements of the Department.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

Refunded bonds of the Department deposited with escrow agents at June 30, 2008, are as follows:

Original Issue	Type	Escrow Maturity Date	Balance
1999 Series - Senior	Highway Refunding Bonds	July 1, 2009	\$ 64,130,000
1999 Series - Senior	Highway Refunding Bonds	July 1, 2009	13,985,000
2001 Series - Senior	Highway Revenue Bonds	July 1, 2011	86,170,000
2002 Series B - Senior	Highway Revenue Bonds	July 1, 2012	48,595,000
Total refunded bonds deposited with escrow agent			<u>\$ 212,880,000</u>

Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Governmental Activities:					
Bonds and notes:					
Highway Revenue Bonds	\$ 1,490,600,000	\$ 193,950,000	\$ <60,645,000>	\$ 1,623,905,000	\$ 64,190,000
Transportation Excise Tax Revenue Bonds	-	370,000,000	<19,045,000>	350,955,000	13,825,000
Grant Anticipation Notes (GARVEE bonds)	282,860,000	68,000,000	<52,580,000>	298,280,000	24,050,000
Premium on bonds	108,034,322	31,861,772	<11,309,740>	128,586,354	13,002,887
Total bonds and notes	1,881,494,322	663,811,772	<143,579,740>	2,401,726,354	115,067,887
Capital leases	10,600,742	-	<3,065,348>	7,535,394	3,181,016
Compensated absences	14,410,376	14,366,473	<13,321,507>	15,455,342	10,387,612
Advances and notes payable	102,209,782	19,528,907	<65,000,000>	56,738,689	37,209,782
Total governmental activities	<u>2,008,715,222</u>	<u>697,707,152</u>	<u><224,966,595></u>	<u>2,481,455,779</u>	<u>165,846,297</u>
Business-type Activities:					
Accrued interest payable	-	2,170,356	-	2,170,356	-
Compensated absences	151,201	118,238	<124,184>	145,255	145,255
Total business-type activities	<u>151,201</u>	<u>2,288,594</u>	<u><124,184></u>	<u>2,315,611</u>	<u>145,255</u>
Total non-current liabilities	<u>\$ 2,008,866,423</u>	<u>\$ 699,995,746</u>	<u>\$ <225,090,779></u>	<u>\$ 2,483,771,390</u>	<u>\$ 165,991,552</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$756,622 of the internal service fund's compensated absences and \$7,535,394 of capital leases are included in the above amounts.

The capital leases will be liquidated by the internal service fund as well as 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 repaid with funds from the General Fund (State Highway Fund) and the Maricopa Regional Area Road Construction Fund.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

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.

H. Short-term Debt – Board Funding Obligations

The Transportation Board has issued Board Funding Obligations (BFOs) to the State Treasurer in accordance with Arizona Revised Statutes, §28-7678. The BFOs are nonnegotiable and are authorized by Transportation Board resolution specifying the rate(s) of interest, the date(s) of maturity, the terms of redemption, the form and manner of execution of the funding obligation, any terms necessary to secure credit enhancement or other sources of payment or security and any other item the Transportation Board determines is necessary. The total principal amount of BFOs at any one time shall not be more than \$200 million and shall mature no later than four calendar years after the delivery. Up to \$60 million of the proceeds shall be deposited into the General Fund (State Highway Fund) and up to \$140 million shall be deposited into the Highway Expansion and Extension Loan Program Fund.

The BFOs are special obligations of the Transportation Board; are not obligations that are general, special or otherwise of the State; are not a legal debt of the State; and are payable and enforceable only from the monies pledged and assigned in the authorizing resolutions of the Transportation Board.

The State Treasurer shall provide written notice to the Transportation Board and the Department when the operating monies fall below \$400 million. If operating monies fall below \$200 million, the State Treasurer may call the investment in the BFOs in \$25 million increments up to the amount that the operating monies are below \$200 million. The State Treasurer shall give the Transportation Board and the Department at least fifteen days' notice of the call.

The activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008
Governmental Activities:				
Board Funding Obligations	\$ 60,000,000	\$ 60,000,000	\$ <60,000,000>	\$ 60,000,000
Total governmental activities	<u>60,000,000</u>	<u>60,000,000</u>	<u><60,000,000></u>	<u>60,000,000</u>
Business-type Activities:				
Board Funding Obligations	140,000,000	50,000,000	<140,000,000>	50,000,000
Total business-type activities	<u>140,000,000</u>	<u>50,000,000</u>	<u><140,000,000></u>	<u>50,000,000</u>
Total short-term debt	<u>\$ 200,000,000</u>	<u>\$ 110,000,000</u>	<u>\$ <200,000,000></u>	<u>\$ 110,000,000</u>

During fiscal year 2008, the Department repaid \$60,000,000 in principal and \$6,240,000 in accrued interest for the Series 2003 BFOs in the General Fund (State Highway Fund) and borrowed \$60,000,000 of the Series 2007 BFOs in the General Fund (State Highway Fund). The Department also repaid \$140,000,000 in principal and \$14,534,466 in accrued interest for the Series 2003 BFOs in the Highway Expansion and Extension Loan Program Fund and borrowed \$50,000,000 of the Series 2007 BFOs in the Highway Extension and Expansion Loan Program Fund. Interest accrued to date on the Series 2007 BFOs is \$2,604,427 and \$2,170,356, respectively. Both the principal and interest on the Series 2007 BFOs are due no later than August 8, 2011. During fiscal year 2007, there were no repayments and the Department accrued interest of \$4,040,000 on the Series 2003 BFOs.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2008

I. Fund Balances

Reservations

Effective July 1, 1981, State law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the General Fund (State Highway Fund) from the Highway User Revenue Fund for the design, purchase of right-of-way, or construction of controlled-access highways and other permitted facilities which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). At June 30, 2008, approximately \$155 million was reserved in the General Fund (State Highway Fund) for this purpose. In addition, the Statewide Transportation Acceleration Needs account held \$302.7 million. The remaining \$20.9 million was reserved for highway construction from federal highway monies and right of way.

The Maricopa Regional Area Road Construction Fund is reserved for capital projects. The Capital Projects Fund is reserved for capital projects funded with Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes (GARVEE bonds). The Debt Service Fund reserve is for future debt service payments.

6. OTHER INFORMATION

A. Subsequent Events

On September 25, 2008, the Transportation Board issued \$181,050,000 of Highway Revenue Bonds, Series 2008B for the purposes of i) financing portions of the Transportation Board's five-year capital program and ii) paying costs of issuing the Series 2008B Bonds. The Series 2008B Bonds were issued as senior lien bonds and mature from July 1, 2023 through July 1, 2033. Net proceeds totaled \$187,470,581 (after receipt of \$7,550,366 reoffering premium and payment of \$1,129,785 in underwriting fees and costs of issuance). The bonds were rated AAA and Aa1 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively.

On October 23, 2008, the State Treasurer notified the Department and the Transportation Board of the potential call of the \$60 million of the Series 2007 Board Funding Obligations outstanding and deposited in the General Fund and the \$50 million of the Series 2007 Board Funding Obligations outstanding and deposited in the Highway Expansion and Extension Loan Program Fund. Arizona Revised Statutes, §35-313(D) (3), requires that the State Treasurer provide this notice when operating monies of the State fall below \$400 million. This statute further provides that the State Treasurer may call the Board Funding Obligations (BFOs) in \$25 million increments if operating monies of the State fall below \$200 million. The BFOs may only be called with 15 days' notice. Interest accrued on any BFOs that are called is not payable until maturity of the BFOs.

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, 2008

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

Plan descriptions — The Department contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement (System). The System (through its Retirement Fund) provides retirement (i.e. pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e. a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes, Title 38, Chapter 5, Article 2.

The System issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information. 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 or by calling (602) 240-2000 or (800) 621-3778.

Funding policy — The Arizona State Legislature establishes and may amend active plan members' and the Department's contribution rates. For the year ended June 30, 2008, active plan members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent 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 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

The Department's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

Fiscal year ended June 30	Health Benefit		Long-Term		Total
	Retirement Fund	Supplement Fund	Disability Fund		
2008	\$ 15,697,915	\$ 2,047,553	\$ 975,019	\$ 18,720,487	
2007	13,589,541	1,772,548	844,065	16,206,154	
2006	10,150,200	1,323,939	630,443	12,104,582	

The Department's total payroll for fiscal year 2008 was \$202.0 million. 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 2008 was \$18.7 million each by both the employees and the Department.

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

Arizona Department of Transportation
Required Supplementary Information
June 30, 2008

Budgetary Comparison Schedule
General Fund (State Highway Fund)
for the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive <Negative>
	Original	Final		
Expenditures appropriated by State legislature in 2008 budget				
Administration	\$ 45,462,200	\$ 45,462,200	\$ 45,410,117	\$ 52,083
Highways	267,610,900	267,610,900	262,746,114	4,864,786
Motor Vehicle	105,093,700	105,093,700	103,637,136	1,456,564
Total	<u>\$418,166,800</u>	<u>\$418,166,800</u>	411,793,367	<u>\$ 6,373,433</u>
Timing differences:				
Prior year appropriation expenditures expended in current budgetary year			2,202,551	
Current year appropriation expenditures expended in future budgetary year			<3,204,965>	
Basis differences:				
Net increase <decrease> from cash basis for budgeting purposes and modified accrual basis for financial reporting purposes			<13,635,568>	
Entity differences:				
Funds not appropriated, but included for financial reporting purposes			6,246,648	
Perspective differences:				
Expenditures on modified accrual basis and not recognized on budgetary basis:				
Capital outlay and asset preservation			542,723,093	
Distributions to Arizona counties and cities			45,030,296	
Distributions to other state agencies			56,715,904	
Interest expense			1,416,562	
Principal repayment of debt			<u>60,393,159</u>	
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (General Fund) - Exhibit 4			<u>\$1,109,681,047</u>	

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

Arizona Department of Transportation
Required Supplementary Information
June 30, 2008

Note to Required Supplementary Information

1. Budgets and budgetary accounting

Annual budgets for the operating expenditures for the General Fund (State Highway Fund), and capital outlay including land, building, and improvements for the General Fund (State Highway Fund) and State Aviation Fund, are submitted to the Governor in accordance with state law. The budgets are legally enacted as appropriations after approval by the State legislature and signature by the Governor. The legal level of control for operating expenditures is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. 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 a 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 program, the allocation of funds between personal services, employee-related expenses, and other operating expenditures is an internal decision for the program manager. Accordingly, transfers between line items such as personal services and other operating expenditures within a particular program may be made by the program manager. Transfers of funds between programs require the approval of the Director of the Department of Administration. 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 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.

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, 2008

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), the Arizona Department of Transportation (Department) reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,785 center lane miles (18,546 travel line miles) of roads and 4,637 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 (Transportation Board) on an annual basis, the Five-Year Transportation Facilities Construction Program (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 2009 and beyond was adopted by the Transportation Board on June 23, 2008.

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 is 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.

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 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:

Arizona Department of Transportation
 Required Supplementary Information
 June 30, 2008

Information About Infrastructure Assets Reported Using the Modified Approach - continued

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

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 2008, an overall rating of 3.91 was achieved, as shown in the following graph:

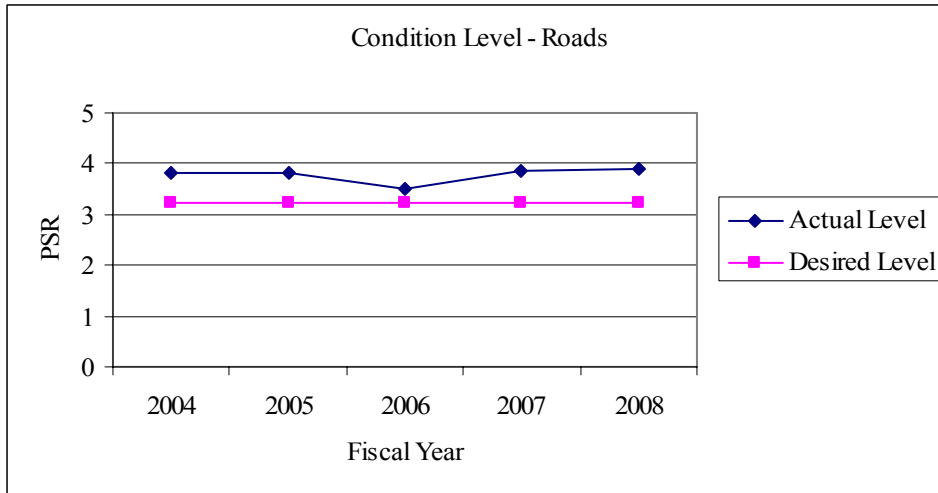


Figure 1

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 2004 through 2008 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2004	\$198.5	\$218.5
2005	235.7	195.0
2006	218.5	211.5
2007	216.4	196.5
2008	260.7	247.9

Arizona Department of Transportation
Required Supplementary Information
June 30, 2008

Information About Infrastructure Assets Reported Using the Modified Approach – continued

Bridges

The Department’s bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2008, the Department owns and maintains 4,637 bridges with an approximate total deck area of 44,440,010 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).

A Condition Rating Index (CRI) is used to track the condition of the bridge network. The CRI is based on four selected bridge inspection condition ratings, which in turn are based on standards established in the FHWA’s “Recording and Coding Guide for the Structural Inventory of the Nation’s Bridges.” The four selected condition ratings that are included in the CRI computation are: the bridge joints condition, the deck condition, the super-structure condition, and the sub-structure condition. The bridge joints condition rating is an Arizona specific rating item not included in the FHWA condition rating guidelines, whereas the three other condition ratings are federally mandated condition ratings. The CRI is computed by subtracting from one the ratio of the sum of the deck areas of all bridges with a condition rating of four or less (see table below), which indicates that the rated element is at best in a poor condition, to the total sum of the deck areas. The rating system in this guide is as follows:

Numerical Rating	Condition Rating
9	Excellent
8	Very Good
7	Good
6	Satisfactory
5	Fair
4	Poor
3	Serious
2	Critical
1	Imminent Failure

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. It is the policy of the Department to maintain State highway bridges so that the CRI exceeds 92.5%. In fiscal year 2008, the CRI was computed at 93.4%.

Information About Infrastructure Assets Reported Using the Modified Approach – continued

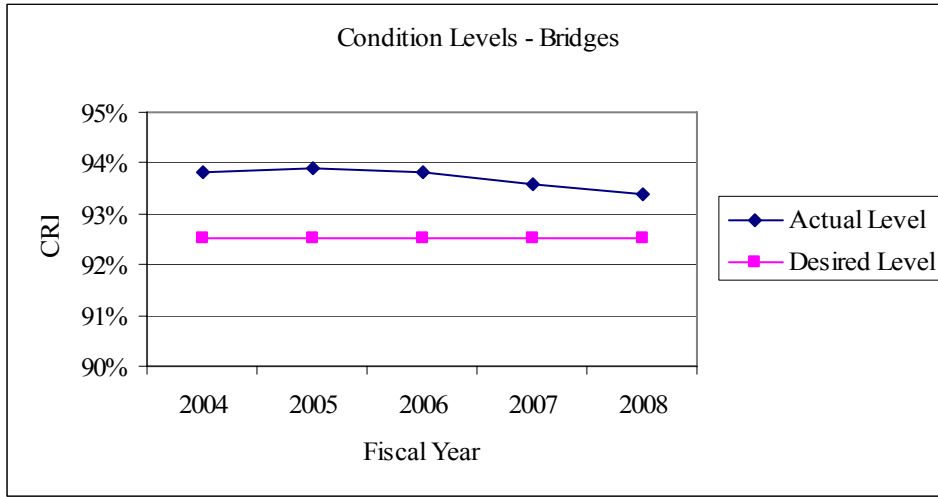


Figure 2

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 3 indicates that approximately 60% of the bridges in the state were constructed prior to the 1970s while only 20% have been constructed in the last two decades.

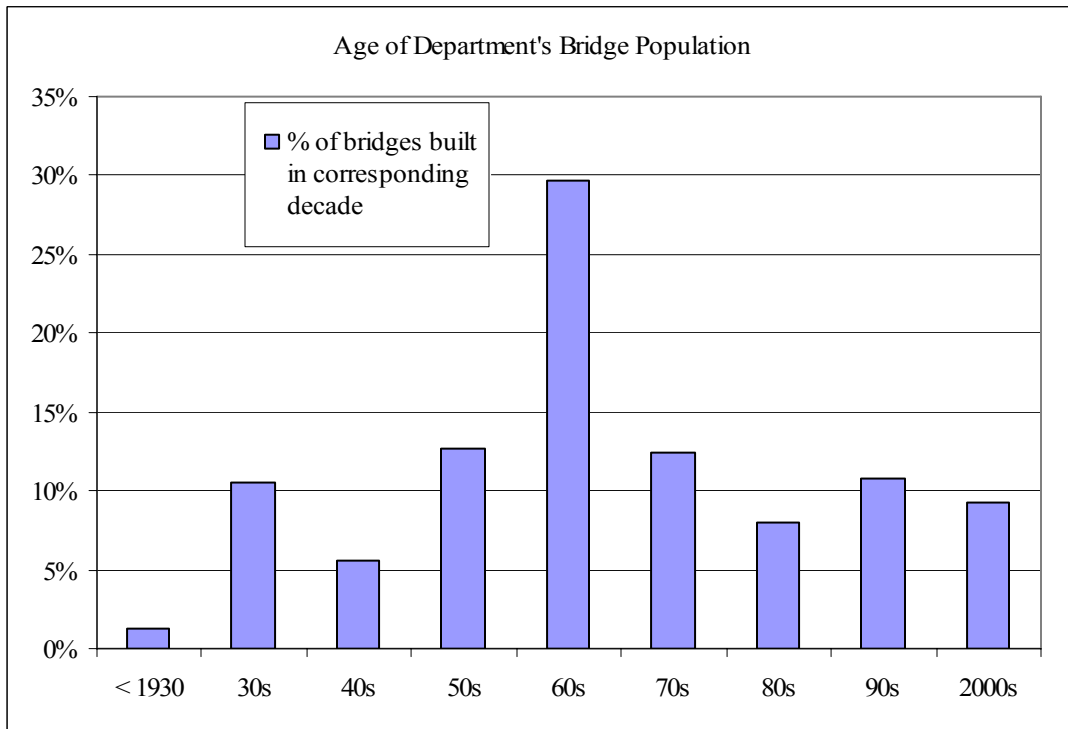


Figure 3

Arizona Department of Transportation
Required Supplementary Information
June 30, 2008

Information About Infrastructure Assets Reported Using the Modified Approach – continued

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 2004 through 2008 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2004	\$8.7	\$9.2
2005	7.4	11.0
2006	10.6	11.3
2007	17.1	22.5
2008	13.4	18.1

Non-Major 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 and seized aircraft, flight property taxes, and the operation of the Grand Canyon National Park Airport. The 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 the registration of vehicles of nonresidents for enforcement of vehicle safety requirements, maintenance of transportation facilities, and upgrades of transportation facilities, including roads, streets, and highways, approved by the Transportation Board within twenty-five miles of the border between Arizona and Mexico.

The Motor Vehicle Liability Insurance Enforcement Fund receives fees and interest to administer the State's Mandatory Liability Insurance Program.

The Motor Vehicle Inspection and Title Enforcement Fund receives monies from a continuing appropriation to be 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 Motor Vehicle Division 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
Non-Major Governmental Funds
June 30, 2008

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund
ASSETS				
Unrestricted cash on deposit with the State Treasurer	\$ 16,574,708	\$ 2,511,375	\$ 3,826,451	\$ 2,415,318
Receivables:				
Accrued interest	161,759	8,854	-	-
Interfund	64,849	112,630	106,718	52,090
Notes and loans	8,628,966	-	-	-
Other	550,281	-	-	-
Amounts due from U.S. Government	-	-	-	-
Restricted cash on deposit with the State Treasurer	-	-	-	-
Total assets	<u>\$ 25,980,563</u>	<u>\$ 2,632,859</u>	<u>\$ 3,933,169</u>	<u>\$ 2,467,408</u>
LIABILITIES				
Accounts payable	\$ 826,785	\$ 299	\$ -	\$ -
Accrued payroll and other accrued expenditures	65,437	45,182	71,251	53,979
Contracts and retainage payable	-	-	-	-
Amounts due to:				
Arizona counties and cities	-	-	-	-
Other state agencies	-	-	-	-
Deferred revenue	8,628,966	-	-	-
Total liabilities	<u>9,521,188</u>	<u>45,481</u>	<u>71,251</u>	<u>53,979</u>
FUND BALANCES				
Reserved for:				
Debt service	-	-	-	-
Capital projects	-	-	-	-
Unreserved special revenue funds	16,459,375	2,587,378	3,861,918	2,413,429
Total fund balances	<u>16,459,375</u>	<u>2,587,378</u>	<u>3,861,918</u>	<u>2,413,429</u>
Total liabilities and fund balances	<u>\$ 25,980,563</u>	<u>\$ 2,632,859</u>	<u>\$ 3,933,169</u>	<u>\$ 2,467,408</u>

Motor Carrier Safety Revolving Fund	Underground Storage Tank Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Fund	Total Non-Major Governmental Funds
\$ 37,342	\$ -	\$ 3,288,616	\$ -	\$ -	\$ 28,653,810
-	6,946	16,926	-	-	194,485
-	2,671,976	-	-	-	3,008,263
-	-	-	-	-	8,628,966
-	-	-	-	3,014,098	3,564,379
-	-	-	-	3,222,241	3,222,241
-	222,134	-	93	16,233,570	16,455,797
<u>\$ 37,342</u>	<u>\$ 2,901,056</u>	<u>\$ 3,305,542</u>	<u>\$ 93</u>	<u>\$ 22,469,909</u>	<u>\$ 63,727,941</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 827,084
-	-	-	-	-	235,849
-	-	-	-	4,207,759	4,207,759
-	-	3,305,542	-	-	3,305,542
-	2,901,056	-	-	-	2,901,056
-	-	-	-	-	8,628,966
-	2,901,056	3,305,542	-	4,207,759	20,106,256
-	-	-	93	-	93
-	-	-	-	18,262,150	18,262,150
37,342	-	-	-	-	25,359,442
<u>37,342</u>	<u>-</u>	<u>-</u>	<u>93</u>	<u>18,262,150</u>	<u>43,621,685</u>
<u>\$ 37,342</u>	<u>\$ 2,901,056</u>	<u>\$ 3,305,542</u>	<u>\$ 93</u>	<u>\$ 22,469,909</u>	<u>\$ 63,727,941</u>

Arizona Department of Transportation
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
for the fiscal year ended June 30, 2008

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund
Revenues:				
Vehicle registration, title, license, and related taxes and fees	\$ 7,449,685	\$ 3,329,706	\$ -	\$ -
Fuel and motor carrier taxes and fees	424,647	-	2,906,495	1,652,600
Reimbursement of construction expenditures - federal aid	-	-	-	-
Other federal grants and reimbursements	697,317	-	-	-
Reimbursements from Arizona counties and cities	-	-	-	-
Interest on loans receivable	293,242	-	-	-
Income from investments	1,448,624	130,573	-	-
Flight property taxes	13,821,790	-	-	-
Grand Canyon National Park Airport	939,946	-	-	-
Other	77,788	-	-	-
Total revenues	<u>25,153,039</u>	<u>3,460,279</u>	<u>2,906,495</u>	<u>1,652,600</u>
Expenditures:				
Current:				
Transportation:				
Aeronautics	4,088,494	-	-	-
Highway	-	-	-	-
Motor Vehicle	-	2,087,874	2,096,315	1,532,026
Total transportation	<u>4,088,494</u>	<u>2,087,874</u>	<u>2,096,315</u>	<u>1,532,026</u>
Intergovernmental:				
Distributions to Arizona counties and cities	19,912,291	-	-	-
Distributions to other state agencies	18,116,800	2,178,400	5,564,374	1,244,700
Total expenditures	<u>42,117,585</u>	<u>4,266,274</u>	<u>7,660,689</u>	<u>2,776,726</u>
Excess <deficiency> of revenues over <under> expenditures	<16,964,546>	<805,995>	<4,754,194>	<1,124,126>
Other financing sources <uses>:				
Transfers out for debt service	-	-	-	-
Transfers out other	-	-	-	-
Total other financing sources <uses>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<16,964,546>	<805,995>	<4,754,194>	<1,124,126>
Fund balances - July 1	33,423,921	3,393,373	8,616,112	3,537,555
Fund balances - June 30	<u>\$ 16,459,375</u>	<u>\$ 2,587,378</u>	<u>\$ 3,861,918</u>	<u>\$ 2,413,429</u>

Motor Carrier Safety Revolving Fund	Underground Storage Tank Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,779,391
-	28,669,315	1,000,000	-	-	34,653,057
-	-	-	67,599,433	-	67,599,433
-	-	-	-	31,472,481	32,169,798
-	-	-	-	8,262,949	8,262,949
-	-	-	-	-	293,242
-	110,232	240,177	3	-	1,929,609
-	-	-	-	-	13,821,790
-	-	-	-	-	939,946
6,500	-	-	-	-	84,288
<u>6,500</u>	<u>28,779,547</u>	<u>1,240,177</u>	<u>67,599,436</u>	<u>39,735,430</u>	<u>170,533,503</u>
-	-	-	-	-	4,088,494
-	-	-	-	37,285,011	37,285,011
-	1,849	4,080	-	-	5,722,144
-	<u>1,849</u>	<u>4,080</u>	-	<u>37,285,011</u>	<u>47,095,649</u>
-	-	<838,903>	-	-	19,073,388
-	28,777,698	2,075,000	-	-	57,956,972
-	<u>28,779,547</u>	<u>1,240,177</u>	-	<u>37,285,011</u>	<u>124,126,009</u>
6,500	-	-	67,599,436	2,450,419	46,407,494
-	-	-	<67,599,433>	-	<67,599,433>
-	-	-	-	<62,956>	<62,956>
-	-	-	<67,599,433>	<62,956>	<67,662,389>
6,500	-	-	3	2,387,463	<21,254,895>
30,842	-	-	90	15,874,687	64,876,580
<u>\$ 37,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93</u>	<u>\$ 18,262,150</u>	<u>\$ 43,621,685</u>

Fiduciary Funds Financial Statements

Combining Statement of Net Assets

Statement of Changes in Assets and Liabilities

AGENCY FUNDS

Highway Properties - Privilege Tax Fund collects monies from renters of properties previously acquired by the Department for use in future highway development. Monies collected are distributed to the Department of Revenue.

Highway Properties - 24 Percent Fund collects 24 percent of the Department's rental income from properties for use in future highway development. Monies collected are distributed to the local counties.

Arizona Department of Transportation
 Combining Statement of Net Assets
 Agency Funds
 June 30, 2008

	Highway Properties -Privilege Tax Fund	Highway Properties - 24 Percent Fund	Total
ASSETS			
Restricted cash on deposit with the State Treasurer	\$ -	\$ 136,434	\$ 136,434
Other receivables	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 136,434</u>	<u>\$ 136,434</u>
LIABILITIES			
Due to Arizona counties	\$ -	\$ 136,434	\$ 136,434
Other payables	-	-	-
Total liabilities	<u>\$ -</u>	<u>\$ 136,434</u>	<u>\$ 136,434</u>

Arizona Department of Transportation
Statement of Changes in Assets and Liabilities
Agency Funds
for the fiscal year ended June 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<u>Highway Properties - Privilege Tax Fund</u>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ -	\$ 3,039	\$ <3,039>	\$ -
Total assets	<u>\$ -</u>	<u>\$ 3,039</u>	<u>\$ <3,039></u>	<u>\$ -</u>
LIABILITIES				
Due to Department of Revenue	\$ -	\$ 3,039	\$ <3,039>	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ 3,039</u>	<u>\$ <3,039></u>	<u>\$ -</u>
<u>Highway Properties - 24 Percent Fund</u>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ 172,526	\$ 144,163	\$ <180,255>	\$ 136,434
Other receivables	204	-	<204>	-
Total assets	<u>\$ 172,730</u>	<u>\$ 144,163</u>	<u>\$ <180,459></u>	<u>\$ 136,434</u>
LIABILITIES				
Due to Arizona counties	\$ 169,916	\$ 146,977	\$ <180,459>	\$ 136,434
Other payables	2,814	-	<2,814>	-
Total liabilities	<u>\$ 172,730</u>	<u>\$ 146,977</u>	<u>\$ <183,273></u>	<u>\$ 136,434</u>
<u>Total</u>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ 172,526	\$ 147,202	\$ <183,294>	\$ 136,434
Other receivables	204	-	<204>	-
Total assets	<u>\$ 172,730</u>	<u>\$ 147,202</u>	<u>\$ <183,498></u>	<u>\$ 136,434</u>
LIABILITIES				
Due to Arizona counties	\$ 169,916	\$ 146,977	\$ <180,459>	\$ 136,434
Due to Department of Revenue	-	3,039	<3,039>	-
Other payables	2,814	-	<2,814>	-
Total liabilities	<u>\$ 172,730</u>	<u>\$ 150,016</u>	<u>\$ <186,312></u>	<u>\$ 136,434</u>

Statistical Section



Arizona Department of Transportation
Overview – Statistical Section
for the fiscal year ended June 30, 2008

This part of the Arizona Department of Transportation's (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 fiscal year ended June 30, 2008

	Page
<u>Financial Trends</u>	
Table 1 – Change in Net Assets.....	70-71
Table 2 – Net Assets by Component	72
Table 3 – Statement of Revenues, Expenditures, and Changes in Fund Balances.....	73
Table 4 – Fund Balances of Governmental Funds.....	74
Table 5 – Expenditures of Federal Awards.....	75
Table 6 – Government-wide Expenses by Function.....	76
Table 7 – Government-wide Revenues.....	77
<u>Revenue Capacity</u>	
Table 8 – Highway User Revenue Fund Collections.....	78
Table 9 – Highway User Revenue Fund Distributions	79
Table 10 – Fuel Tax Rates.....	80
Table 11 – Motor Vehicle Fuel Tax – Top Ten Suppliers.....	81
Table 12 – Gasoline Volume Sold – Top Twenty-Five Suppliers.....	82-83
<u>Debt Capacity</u>	
Table 13 – Highway User Revenue Fund – Legal Debt Margin.....	84
Table 14 – Highway Revenue Bonds – Bond Coverage.....	85
Table 15 – Transportation Excise Tax Revenue Bonds – Bond Coverage	86
Table 16 – Transportation Excise Tax Revenue Bonds – Debt Service Revenue and Cost Per Capita.....	87
<u>Demographic and Economic Information</u>	
Table 17 – Number of Vehicle Registrations Per Year	88
Table 18 – Vehicle Registrations Per Year Compared to Fuel Sales.....	89
Table 19 – Demographic and Economic Statistics	90
Table 20 – Principal Employers	91
<u>Operating Information</u>	
Table 21 – Appropriated Full Time Equivalents (FTEs).....	92
Table 22 – Capital Assets – Schedule by Function and Activity.....	93
Table 23 – Capital Assets – Schedule of Changes by Function and Activity.....	94
Table 24 – Total Public Road Mileage by Highway Class and Governmental Ownership.....	95
Table 25 – Daily Vehicle Miles Traveled with Population Data.....	96

Arizona Department of Transportation
Change in Net Assets
for fiscal year ended June 30
(Thousands of Dollars)

Expenses:	2002	2003	2004	2005	2006	2007	2008
Governmental activities:							
Administration	\$ 57,864	\$ 52,533	\$ 57,703	\$ 42,298	\$ 45,002	\$ 51,667	\$ 54,918
Aeronautics	3,751	3,848	7,512	9,804	10,705	5,418	4,373
Highway ¹	46,543	45,644	93,656	125,889	118,147	138,788	132,874
Highway maintenance	91,570	96,353	95,642	105,037	114,119	120,163	137,100
Motor Vehicle	82,904	83,090	86,845	91,676	96,937	105,961	112,880
Other	6,844	8,460	9,815	6,871	9,394	-	-
Non-capital, including asset preservation ¹	96,629	277,975	333,930	156,678	<53,981>	113,569	187,004
Distributions to Arizona counties and cities	915,219	957,057	1,022,768	1,086,955	1,095,671	1,219,208	1,238,383
Distributions to other state agencies	149,341	192,536	161,029	306,853	206,903	114,795	176,692
Local governmental assistance	24,791	30,235	39,205	42,440	36,771	48,760	37,285
Interest on long-term debt	89,605	84,084	89,431	86,870	88,279	82,450	92,295
Total governmental activities expense:	<u>1,565,061</u>	<u>1,831,815</u>	<u>1,997,536</u>	<u>2,061,371</u>	<u>1,767,947</u>	<u>2,000,779</u>	<u>2,173,804</u>
Business-type activities:							
Arizona Highways Magazine	10,711	11,118	10,007	10,270	8,175	8,072	7,712
Highway Expansion and Extension Loan Program	5,265	26,349	4,414	4,360	4,273	4,355	4,053
Total business-type activities expense:	<u>15,975</u>	<u>37,467</u>	<u>14,421</u>	<u>14,630</u>	<u>12,448</u>	<u>12,427</u>	<u>11,765</u>
Total primary government expenses:	<u>\$ 1,581,036</u>	<u>\$ 1,869,282</u>	<u>\$ 2,011,957</u>	<u>\$ 2,076,001</u>	<u>\$ 1,780,395</u>	<u>\$ 2,013,206</u>	<u>\$ 2,185,569</u>
Program Revenues:							
Governmental activities:							
Charges for services:							
Administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,843	\$ 9,706
Aeronautics	974	717	902	919	1,214	1,133	940
Highway	-	-	-	-	-	2,953	1,451
Highway maintenance	-	-	-	1,518	537	577	1,765
Motor Vehicle	104,298	107,395	108,346	113,506	121,179	132,274	127,900
Other	3,341	4,219	4,848	5,564	7,099	-	-
Local governmental assistance	4,111	5,080	4,129	4,760	4,040	12,239	8,263
Operating grants and contributions	56,481	34,160	44,008	58,948	67,241	72,679	79,747
Capital grants and contributions	470,772	453,758	418,174	484,276	387,614	354,024	523,728
Total governmental activities program revenue:	<u>639,977</u>	<u>605,330</u>	<u>580,407</u>	<u>669,491</u>	<u>588,924</u>	<u>584,722</u>	<u>753,500</u>

Business-type activities:

Charges for services:

Arizona Highways Magazine	9,614	9,596	9,271	8,443	8,012	8,060	7,624
Highway Expansion and Extension Loan Program	2,227	3,881	3,529	3,009	3,281	2,909	1,755
Total business-type activities program revenue:	11,841	13,477	12,800	11,452	11,293	10,969	9,379
Total primary governmental program revenue:	\$ 651,818	\$ 618,807	\$ 593,207	\$ 680,943	\$ 600,217	\$ 595,691	\$ 762,879

Net <expenses>/revenues:

Governmental activities	\$ <925,084>	\$ <1,226,485>	\$ <1,417,129>	\$ <1,391,880>	\$ <1,179,023>	\$ <1,416,057>	\$ <1,420,304>
Business-type activities	<4,134>	<23,989>	<1,621>	<3,178>	<1,155>	<1,458>	<2,386>
Total primary government net expense	\$ <929,218>	\$ <1,250,474>	\$ <1,418,750>	\$ <1,395,058>	\$ <1,180,178>	\$ <1,417,515>	\$ <1,422,690>

General Revenues and Other Changes in Net Assets:

Governmental activities:

Transportation excise taxes	\$ 267,563	\$ 268,721	\$ 288,600	\$ 316,806	\$ 316,491	\$ 262,264	\$ 253,742
Vehicle, registration, title, license, and related taxes	899,092	832,492	914,657	966,885	994,052	1,029,001	1,033,505
Fuel and motor carrier taxes and fees	547,129	691,003	698,406	759,633	770,596	790,909	766,394
Flight property taxes	6,528	6,026	6,321	13,180	13,686	15,303	13,822
Interest on investments	29,863	19,803	8,352	19,245	28,538	55,760	59,528
Other	26,484	21,304	24,775	27,120	11,026	9,998	38,772
Governmental activities before accounting change	1,776,659	1,839,349	1,941,111	2,102,869	2,134,389	2,163,235	2,165,763
Cumulative effect of accounting change	-	40,399	-	-	-	-	-

Special Item - State appropriation for Statewide Transportation

Acceleration Needs (STAN)	-	-	-	-	-	245,000	-
Total governmental activities	1,776,659	1,879,748	1,941,111	2,102,869	2,134,389	2,408,235	2,165,763

Business-type activities:

Interest on investments	5,625	2,440	1,588	2,764	3,518	5,563	4,788
Other	381	425	505	380	-	<3>	<17>
Total business-type activities	6,006	2,866	2,093	3,144	3,518	5,560	4,771
Total primary government	\$ 1,782,665	\$ 1,882,614	\$ 1,943,204	\$ 2,106,013	\$ 2,137,907	\$ 2,413,795	\$ 2,170,534

Change in Net Assets:

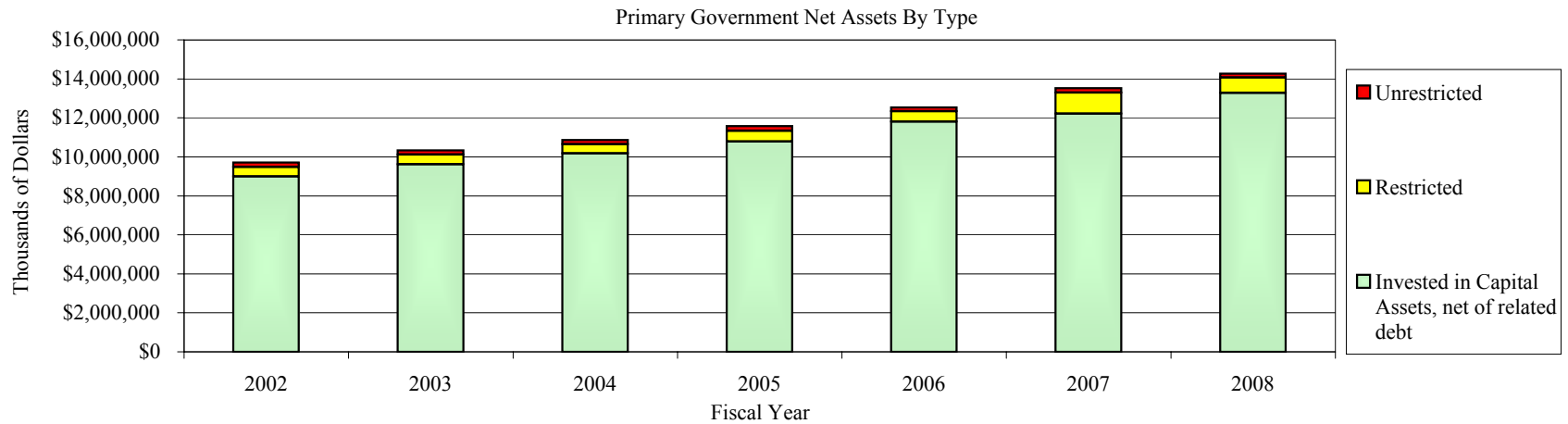
Governmental activities	\$ 851,575	\$ 653,263	\$ 523,982	\$ 710,989	\$ 955,366	\$ 992,178	\$ 745,459
Business-type activities	1,872	<21,124>	472	<34>	2,363	4,102	2,385
Total primary government	\$ 853,447	\$ 632,140	\$ 524,454	\$ 710,955	\$ 957,729	\$ 996,280	\$ 747,844

NOTE: ¹ Adjustments were made to Highway and Non-capital, including asset preservation, for the years 2004 - 2007 to conform to the current year's presentation.

Arizona Department of Transportation
 Net Assets by Component
 for fiscal year ended June 30
 (Thousands of Dollars)

Fiscal Year	Governmental Activities				Business-type Activities				Primary Government			
	Invested in Capital Assets, Net of Related Debt	Restricted	Unrestricted	Total	Invested in Capital Assets, Net of Related Debt	Restricted	Unrestricted	Total	Invested in Capital Assets, Net of Related Debt	Restricted	Unrestricted	Total
2008	\$ 13,285,438	\$ 704,929	\$ 209,650	\$ 14,200,017	\$ 173	\$ 74,115	\$ 132	\$ 74,420	\$ 13,285,611	\$ 779,044	\$ 209,782	\$ 14,274,437
2007	12,211,861	1,006,512	236,186	13,454,559	225	71,708	102	72,035	12,212,086	1,078,220	236,288	13,526,594
2006	11,806,376	466,337	189,669	12,462,382	249	67,713	<30>	67,932	11,806,625	534,050	189,639	12,530,314
2005	10,780,474	491,995	234,548	11,507,017	499	65,273	<204>	65,568	10,780,973	557,268	234,344	11,572,585
2004	10,179,585	408,410	208,032	10,796,027	810	63,900	892	65,602	10,180,395	472,310	208,924	10,861,629
2003	9,621,204	439,045	211,796	10,272,045	1,126	63,225	780	65,131	9,622,330	502,270	212,576	10,337,176
2002	8,998,742	400,315	219,726	9,618,783	1,439	83,293	1,522	86,254	9,000,181	483,608	221,248	9,705,037

72



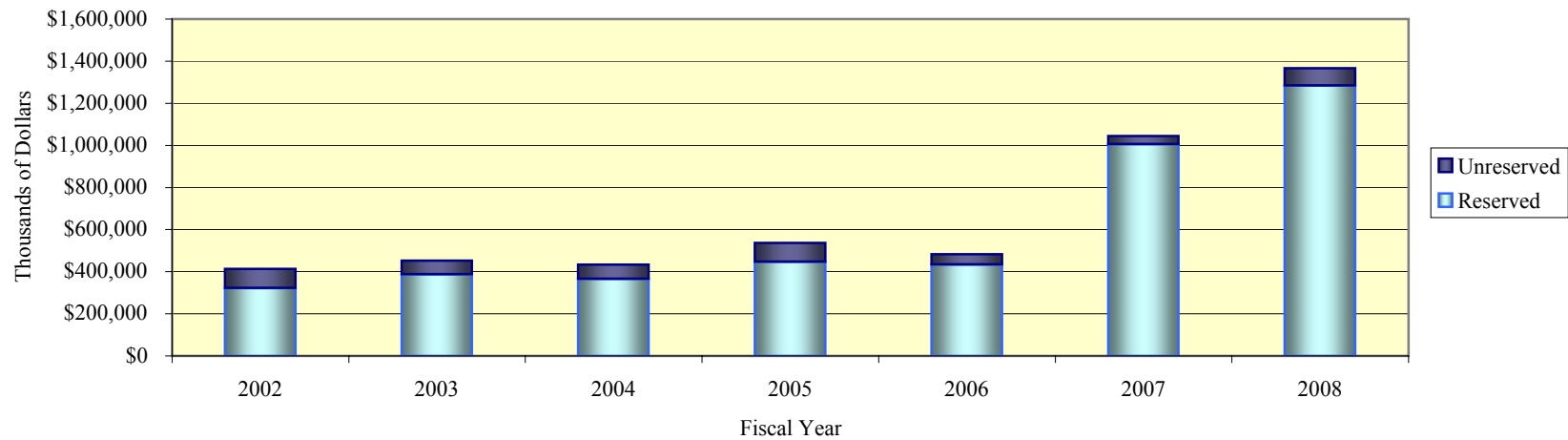
Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
for fiscal year ended June 30
(Thousands of Dollars)

	2002	2003	2004	2005	2006	2007	2008
Revenues:							
Transportation excise taxes	\$ 267,563	\$ 268,721	\$ 288,600	\$ 316,806	\$ 316,491	\$ 262,264	\$ 253,742
Vehicle registration, title, license, and related taxes and fees	1,003,499	940,022	1,023,004	1,080,391	1,207,265	1,159,379	1,159,474
Fuel and motor carrier taxes and fees	547,129	690,869	698,406	759,633	770,596	792,717	768,046
Reimbursement of construction expenditures - federal aid	516,647	459,458	421,220	503,646	407,891	334,376	494,584
Other federal grants and reimbursements	5,389	6,896	6,146	9,078	32,044	72,548	79,747
Reimbursements from Arizona counties and cities	12,346	24,818	38,012	32,186	13,566	34,971	38,609
Distributions from other state agencies	318	1,284	933	2,349	1,490	1,799	463
Interest on loans receivable	1,899	2,486	1,880	945	739	928	697
Interest on investments	29,697	19,702	8,333	19,162	28,351	55,393	59,197
Flight property taxes	6,528	6,026	6,321	13,180	13,686	15,303	13,822
Grand Canyon National Park Airport	941	717	902	919	1,214	1,133	940
Rental income	-	1,632	1,635	1,596	1,702	1,434	1,367
Other	25,037	6,021	5,161	6,216	6,490	7,088	6,206
Total revenues	<u>2,416,993</u>	<u>2,428,652</u>	<u>2,500,553</u>	<u>2,746,107</u>	<u>2,801,525</u>	<u>2,739,333</u>	<u>2,876,894</u>
Expenditures:							
Current:							
Transportation:							
Administration	56,230	51,485	56,484	40,599	43,372	44,875	44,322
Aeronautics	3,491	74,244	7,228	9,517	10,470	3,876	4,089
Highway	68,369	94,978	130,117	159,408	161,496	184,240	171,134
Highway maintenance	89,314	81,517	95,144	105,887	111,378	118,940	135,629
Motor Vehicle	81,012	3,579	84,921	90,208	95,198	103,801	110,982
Other	2,369	2,304	2,940	1,802	2,309	-	-
Total Transportation	<u>300,785</u>	<u>308,107</u>	<u>376,834</u>	<u>407,421</u>	<u>424,223</u>	<u>455,732</u>	<u>466,156</u>
Transportation not appropriated by State legislature:	7,480	9,594	-	-	-	-	-
Intergovernmental:							
Distributions to Arizona counties and cities	1,038,314	957,057	1,022,768	1,086,955	1,190,962	1,217,883	1,241,110
Distributions to other state agencies	28,880	189,784	160,029	306,852	206,903	114,795	173,405
Debt service:							
Principal	208,820	248,055	284,815	302,202	173,745	100,395	192,663
Interest	85,387	84,928	92,371	94,344	83,017	90,836	102,583
Bond issuance costs	1,049	2,424	2,546	1,996	1,252	1,592	3,447
Non-capital, including asset preservation	89,147	146,168	333,929	156,678	250,736	63,273	158,991
Capital outlay	<u>1,009,290</u>	<u>833,731</u>	<u>599,819</u>	<u>623,829</u>	<u>663,316</u>	<u>741,506</u>	<u>989,882</u>
Total expenditures	<u>2,769,152</u>	<u>2,779,848</u>	<u>2,873,111</u>	<u>2,980,277</u>	<u>2,994,154</u>	<u>2,786,012</u>	<u>3,328,237</u>
Excess <deficiency> of revenues over <under> expenditures	<352,159>	<351,196>	<372,558>	<234,170>	<192,629>	<46,679>	<451,343>
Other financing sources <uses>:							
Transfers in	300,563	383,136	449,100	388,046	262,216	225,499	303,513
Transfers out for debt service	<291,854>	<321,327>	<374,852>	<374,162>	<251,891>	<186,856>	<231,563>
Transfers out other	<8,709>	<61,809>	<74,249>	<13,885>	<10,325>	<38,643>	<71,950>
Capital leases	-	-	-	-	-	2,129	-
Sale of capital assets	-	7,229	16,023	18,392	11,118	10,162	28,233
Insurance recovery	-	1,082	1,407	1,518	537	577	1,765
Debt issuance	142,000	331,475	319,942	292,645	118,250	325,000	711,479
Debt issuance - refunding bond	74,250	90,530	130,573	-	147,400	-	-
Premium from debt issuance	10,142	28,147	31,647	24,726	22,407	26,201	31,862
Payment to refunded bond escrow agent	<77,135>	<107,735>	<145,965>	-	<161,726>	-	-
Total other financing sources<uses>	<u>149,257</u>	<u>350,728</u>	<u>353,626</u>	<u>337,280</u>	<u>137,986</u>	<u>364,069</u>	<u>773,339</u>
Net change in fund balances before accounting change	<202,902>	<468>	<18,932>	103,110	<54,643>	317,390	321,996
Cumulative effect of accounting change for year 2003	-	40,399	-	-	-	-	-
Special item - State appropriation for Statewide Transportation Acceleration Needs (STAN)	-	-	-	-	-	245,000	-
Net change in fund balances	<202,902>	39,931	<18,932>	103,110	<54,643>	562,390	321,996
Fund balances - July 1	615,856	421,954	452,884	433,952	537,062	482,419	1,044,809
Fund balances - June 30	<u>\$ 412,954</u>	<u>\$ 461,885</u>	<u>\$ 433,952</u>	<u>\$ 537,062</u>	<u>\$ 482,419</u>	<u>\$1,044,809</u>	<u>\$1,366,805</u>
Debt service as a percentage of non-capital expenditures	16.8%	17.2%	16.7%	16.9%	11.1%	9.4%	12.8%
Debt service as a percentage of total revenues	12.2%	13.8%	15.2%	14.5%	9.2%	7.0%	10.4%

Arizona Department of Transportation
Fund Balances of Governmental Funds
for fiscal year ended June 30
(Thousands of Dollars)

	2002	2003	2004	2005	2006	2007	2008
General Fund (State Highway Fund):							
Reserved	\$ 121,075	\$ 134,938	\$ 155,755	\$ 166,420	\$ 172,784	\$ 507,723	\$ 505,691
Unreserved	<u>67,253</u>	<u>48,696</u>	<u>48,619</u>	<u>57,123</u>	<u>9,342</u>	<u><10,032></u>	<u>57,899</u>
Total General Fund	<u>\$ 188,328</u>	<u>\$ 183,634</u>	<u>\$ 204,374</u>	<u>\$ 223,543</u>	<u>\$ 182,126</u>	<u>\$ 497,691</u>	<u>\$ 563,590</u>
All other governmental funds							
Reserved:							
Debt service	\$ 24,986	\$ 20,786	\$ 18,592	\$ 2,288	\$ 2,159	\$ 2,688	\$ 3,212
Capital projects	176,245	232,079	190,640	277,884	258,236	495,428	774,644
Unreserved, reported in:							
Non-major special revenue funds	<u>23,395</u>	<u>16,386</u>	<u>20,346</u>	<u>33,348</u>	<u>39,898</u>	<u>49,002</u>	<u>25,359</u>
Total all other governmental funds	<u>\$ 224,626</u>	<u>\$ 269,251</u>	<u>\$ 229,578</u>	<u>\$ 313,520</u>	<u>\$ 300,293</u>	<u>\$ 547,118</u>	<u>\$ 803,215</u>
Total general and other governmental funds	<u>\$ 412,954</u>	<u>\$ 452,885</u>	<u>\$ 433,952</u>	<u>\$ 537,063</u>	<u>\$ 482,419</u>	<u>\$ 1,044,809</u>	<u>\$ 1,366,805</u>

Fund Balances of Governmental Funds

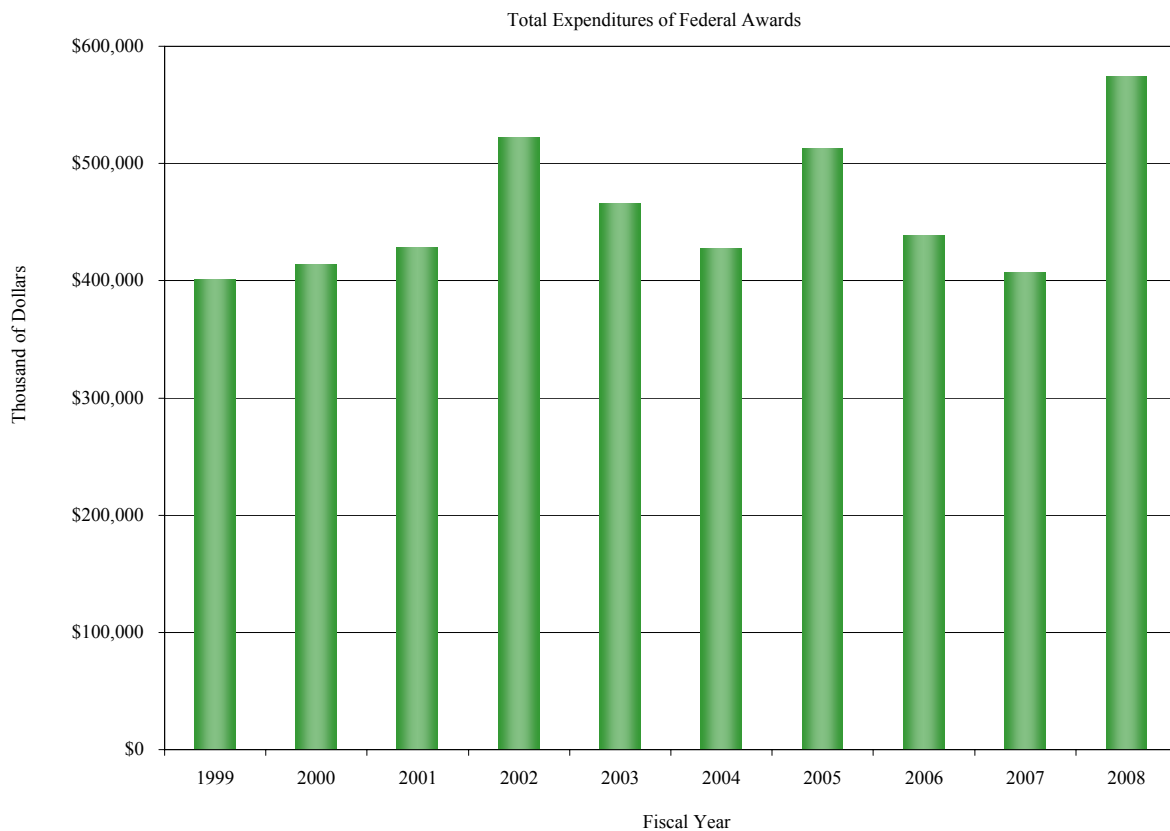


Arizona Department of Transportation
Expenditures of Federal Awards¹
for the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	FAA	FRA	FTA	NHTSA	FHWA	FMCSA	BLM	BIA	Sub-total	FHWA	Total
2008	\$ 715	\$ -	\$15,530	\$ 106	\$523,810	\$2,642	\$57	\$ -	\$542,860	\$31,472	\$574,332
2007	610	-	10,169	101	353,192	1,769	544	<21>	366,364	40,559	406,923
2006	4,338	-	8,837	69	389,575	2,231	162	-	405,212	33,268	438,480
2005	4,203	-	8,466	96	456,924	282	152	278	470,401	42,323	512,724
2004	480	-	5,549	84	384,416	434	79	-	391,042	36,324	427,366
2003	242	-	6,618	87	433,472	466	30	-	440,915	25,439	466,354
2002	-	3	5,264	83	496,509	282	47	-	502,188	19,848	522,036
2001	-	14	4,746	65	390,204	-	-	-	395,029	33,261	428,290
2000	6	2	3,717	65	393,958	-	-	1,048	398,796	15,219	414,015
1999	6,278	69	5,107	275	371,013	-	-	974	383,716	17,748	401,464

SOURCE: Single Audit Reports - fiscal years 1999 through 2008

NOTES: ¹ Federal Aviation Administration (FAA); Federal Railroad Administration (FRA); Federal Transit Administration (FTA) - previously Urban Mass Transit Administration (UMTA); National Highway Transportation Safety Administration (NHTSA); Federal Highway Administration (FHWA); Federal Motor Carrier Safety Administration (FMCSA); Bureau of Land Management (BLM); and Bureau of Indian Affairs (BIA)



Arizona Department of Transportation
Government-wide Expenses by Function
for the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Administration	Aeronautics	Highway	Highway Maintenance ¹	Motor Vehicle	Distributions to	Local Governmental Assistance	Interest on Long-Term Debt	Other	Arizona Highways Magazine	Highway Expansion and	Total
						Counties, Cities and Other State Agencies					Extension Loan Program	
2008	\$ 54,918	\$ 4,373	\$ 132,874	\$ 324,104	\$ 112,880	\$ 1,415,075	\$ 37,285	\$ 92,295	\$ -	\$ 7,712	\$ 4,053	\$ 2,185,569
2007	51,667	5,418	138,788	233,732	105,961	1,334,003	48,760	82,450	-	8,072	4,355	2,013,206
2006	45,002	10,705	118,147	60,138	96,937	1,394,609	36,771	88,278	9,394	8,175	4,273	1,872,429
2005	42,298	9,804	125,889	261,714	91,676	1,393,808	42,440	86,870	6,871	10,270	4,360	2,076,000
2004	57,703	7,512	93,656	429,571	86,845	1,183,797	39,205	89,431	9,815	10,007	4,414	2,011,956
2003	52,533	3,848	45,644	374,328	83,090	1,149,593	30,235	84,084	8,460	11,118	26,349	1,869,282
2002	57,864	3,751	46,543	188,198	82,904	1,064,560	24,791	89,605	6,844	10,711	5,265	1,581,036

76

NOTE: ¹ Includes Non-capital, including asset preservation

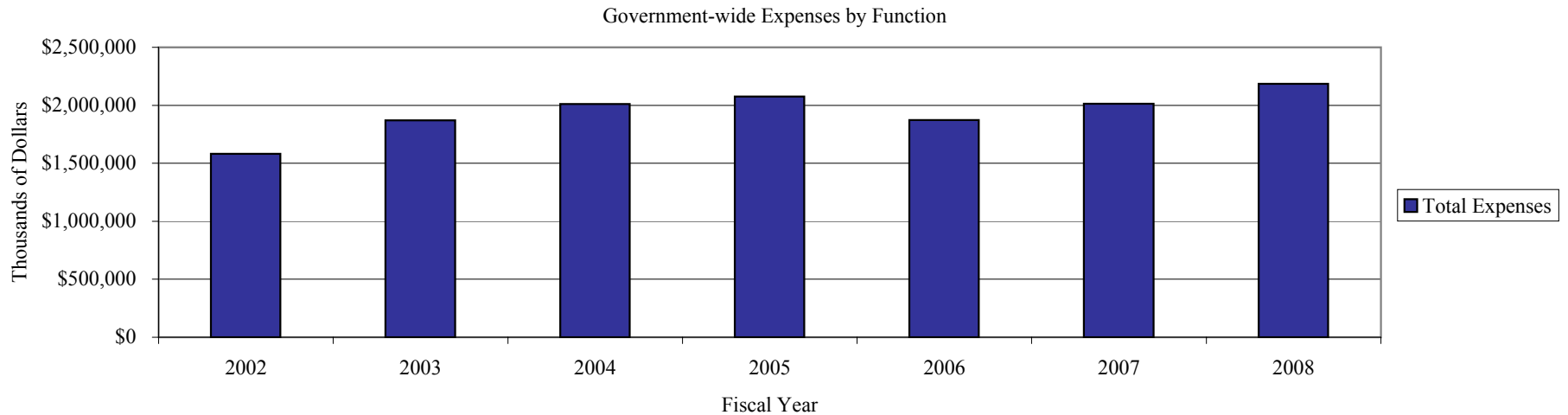
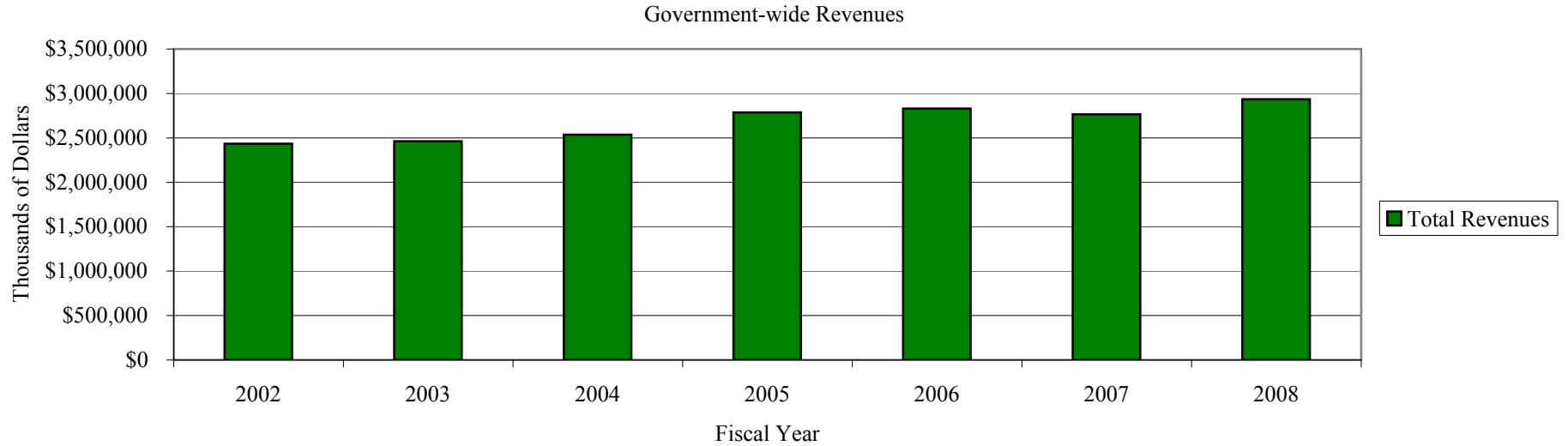


Table 7

Arizona Department of Transportation
 Government-wide Revenues
 for the fiscal year ended June 30
 (Thousands of Dollars)

Fiscal Year	Program Revenues				General Revenues					Total Government-wide Revenues
	Governmental		Business-Type	Governmental		Business-Type				
	Charges for Services	Operating Grants and Contributions		Taxes	Other Revenues	Interest on Investments	Other Revenues	Interest on Investments		
2008	\$ 150,024	\$ 79,747	\$ 523,728	\$ 9,379	\$ 2,067,464	\$ 38,772	\$ 59,528	\$ <18>	\$ 4,788	\$ 2,933,412
2007	158,019	72,679	354,024	10,969	2,097,476	9,998	55,760	<3>	5,563	2,764,485
2006	134,068	67,241	387,614	11,293	2,186,859	11,026	28,538	-	3,518	2,830,157
2005	126,267	58,948	484,276	11,452	2,056,503	27,120	19,245	380	2,764	2,786,956
2004	118,225	44,008	418,174	12,800	1,907,984	24,775	8,352	505	1,588	2,536,411
2003	117,412	34,160	453,758	13,477	1,798,243	21,304	19,803	425	2,440	2,461,022
2002	112,724	56,481	470,772	11,841	1,720,313	26,484	29,863	381	5,625	2,434,484

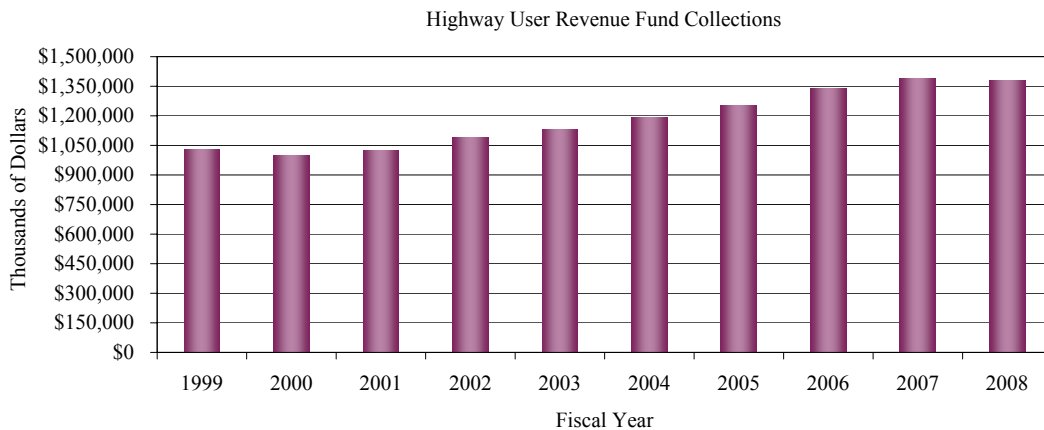
77



Arizona Department of Transportation
Highway User Revenue Fund Collections
for the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Motor Vehicle Fuel Tax Revenue	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 Hwy. User Rev. Fund
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
2006	710,115	178,112	20,824	56,495	372,168	1,337,714
2005	701,965	163,463	18,573	50,789	318,689	1,253,479
2004	656,881	163,689	16,623	42,829	309,688	1,189,710
2003	633,826	158,726	23,302	39,906	276,279	1,132,039
2002	629,360	151,437	11,896	40,122	259,308	1,092,123
2001	566,115	148,336	15,094	43,248	251,496	1,024,289
2000	545,901	158,424	15,040	43,508	235,287	998,160
1999	636,117	145,340	14,409	15,939	217,905	1,029,710

SOURCES: Basic Financial Statements - fiscal years 2002 through 2008; General Purpose Financial Statements - fiscal years 1999 through 2001



Arizona Department of Transportation
Highway User Revenue Fund Distributions
for the fiscal 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
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
2006	636,094	385,759	240,309	63,999	1,000	10,553	1,337,714
2005	483,047	362,965	226,110	52,216	1,000	128,141	1,253,479
2004	570,801	344,699	214,731	48,698	1,000	9,781	1,189,710
2003	537,668	324,431	202,105	54,416	1,000	12,419	1,132,039
2002	519,837	312,252	195,530	37,066	1,000	26,438	1,092,123
2001	503,611	305,009	188,982	10,937	1,000	14,750	1,024,289
2000	493,697	323,798	157,594	13,622	1,000	8,449	998,160
1999	512,149	295,879	199,591	12,630	1,000	8,461	1,029,710

The Highway User Revenue Fund receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the State Highway Fund and various counties and cities, based on statutory formulas.

SOURCES: Basic Financial Statements - fiscal years 2002 through 2008; General Purpose Financial Statements - fiscal years 1999 through 2001

NOTE: ¹ In fiscal years 1999 through 2008, an appropriation for Arizona State Parks is included. Fiscal years 2002 and 2005 include distributions to State General Fund.

Arizona Department of Transportation
 Fuel Tax Rates
 for the fiscal year ended June 30
 (Cents per Gallon)

Fiscal Year	Effective Date	Gasoline Tax	Use Fuel Tax ¹
2008	-	\$ 0.18	\$ 0.26
2007	-	0.18	0.26
2006	-	0.18	0.26
2005	-	0.18	0.26
2004	-	0.18	0.26
2003	-	0.18	0.26
2002	-	0.18	0.26
2001	07/01/2000	0.18	0.26
2000	-	0.18	0.27
1999	-	0.18	0.27

SOURCE: Arizona Revised Statutes §28-5606

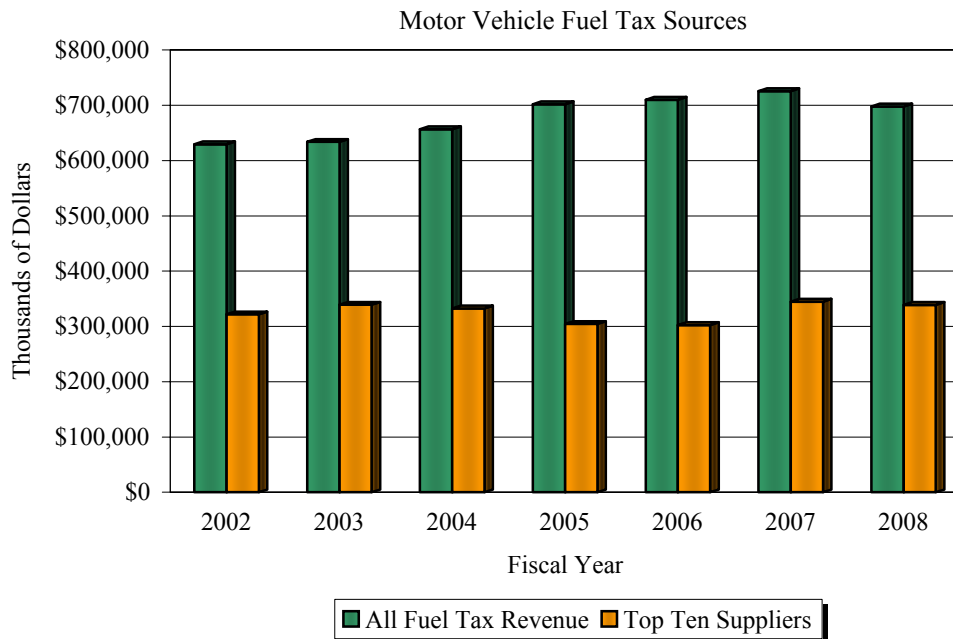
NOTE: Gasohol is currently taxed at the same rate as gasoline and use fuel.
 Use fuel is primarily diesel.

¹ Lightweight motor vehicles under 26,000 pounds pay \$.18 per gallon.

Arizona Department of Transportation
 Motor Vehicle Fuel Tax - Top Ten Suppliers
 for fiscal 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
2008	1,883,959	\$ 339,113	\$ 697,771	48.6%
2007	1,915,247	344,744	725,787	47.5%
2006	1,679,379	302,288	710,115	42.6%
2005	1,691,572	304,483	701,965	43.4%
2004	1,848,459	332,723	656,881	50.7%
2003	1,884,644	339,236	633,826	53.5%
2002	1,788,066	321,852	629,360	51.1%

SOURCE: Highway User Revenue Fund distribution schedule, based on gallonage data reported by fuel suppliers



Arizona Department of Transportation
Gasoline Volume Sold - Top Twenty-Five Suppliers
for fiscal year ended June 30

Range - in Millions of Gallons	2000		2001		2002		2003	
	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Percentage of Total Gallons Sold
< 25	8	5.6%	11	8.4%	8	6.1%	7	5.5%
26 - 50	6	8.3%	4	5.5%	6	9.4%	5	6.9%
51 - 100	3	8.7%	2	4.6%	2	4.5%	6	14.1%
101 - 200	3	14.8%	3	18.0%	5	29.3%	2	11.9%
201 - 300	3	32.1%	3	30.7%	3	29.6%	4	39.4%
> 300	2	24.4%	2	24.8%	1	13.2%	1	11.8%
	25	93.8%	25	92.1%	25	92.1%	25	89.6%
Total Gallons of Gasoline	2,479,233		2,501,654		2,554,032		2,631,239	
Gasoline % of Total	87.0%		84.9%		79.7%		81.0%	
Total Gallons of Use Fuel	369,033		445,453		652,439		616,165	
Diesel % of Total	13.0%		15.1%		20.3%		19.0%	

Table 12

2004		2005		2006		2007		2008	
Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Percentage of Total Gallons Sold
7	5.9%	2	1.5%	0	0.0%	2	1.6%	2	1.8%
4	4.9%	9	11.0%	13	16.8%	10	11.8%	11	13.5%
6	15.5%	6	15.6%	5	14.4%	6	16.7%	5	14.5%
4	24.8%	3	14.9%	3	16.0%	3	14.3%	4	21.5%
3	25.3%	4	31.8%	3	25.3%	3	25.6%	2	19.0%
1	12.7%	1	14.2%	1	17.0%	1	17.4%	1	16.5%
25	89.0%	25	89.0%	25	89.4%	25	87.4%	25	86.8%
	2,678,174		2,745,186		2,726,776		2,851,893		2,824,924
	79.9%		77.4%		76.4%		77.7%		79.5%
	672,345		799,351		843,445		817,099		728,017
	20.1%		22.6%		23.6%		22.3%		20.5%

Arizona Department of Transportation
Highway User Revenue Fund
Legal Debt Margin
for the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Debt Limit ¹	Total Principal Applicable to Limit	Legal Debt Margin	Total Principal Applicable to the Limit as a Percentage of Debt Limit
2008	N/A ²	\$ 1,623,905	N/A	N/A
2007	N/A	1,490,600	N/A	N/A
2006	\$ 1,300,000	1,223,425	\$ 76,575	94.11%
2005	1,300,000	1,161,355	138,645	89.34%
2004	1,300,000	1,017,360	282,640	78.26%
2003	1,300,000	932,700	367,300	71.75%
2002	1,000,000	734,155	265,845	73.42%
2001	800,000	700,280	99,720	87.54%
2000	800,000	608,500	191,500	76.06%
1999	800,000	524,345	275,655	65.54%

NOTES: ¹ The 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 (GANS) is the ability to secure the debts with available excise tax monies and available grant revenues, respectively.

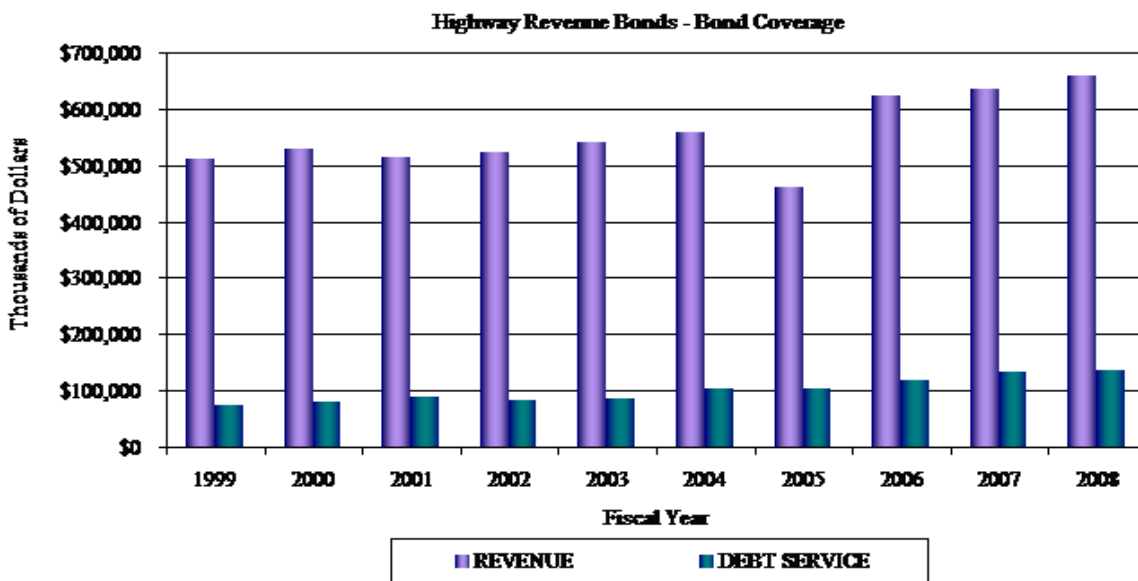
² As stated in House Bill 2206 of the Second Regular Session of the Forty-seventh Legislature, the \$1.3 billion debt limit is eliminated from ARS §28-7510. The general effective date of this change was September 21, 2006.

Arizona Department of Transportation
 Highway Revenue Bonds
 Bond Coverage
 for the fiscal year ended June 30
 (Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Pledged Revenues ^{1,2}	Coverage
2008	\$ 60,645	\$ 75,538	\$ 136,183	\$ 658,616	4.8
2007	57,825	73,785	131,610	635,140	4.8
2006	54,830	62,222	117,052	624,408	5.3
2005	44,265	60,459	104,724	461,763	4.4
2004	51,155	53,149	104,304	557,854	5.3
2003	44,490	41,932	86,422	540,540	6.3
2002	45,365	38,534	83,899	523,326	6.2
2001	52,055	36,581	88,636	513,890	5.8
2000	46,270	33,994	80,264	528,721	6.6
1999	43,805	31,090	74,895	509,935	6.8

SOURCES: Highway User Revenue Fund Schedule fiscal years 1999 through 2008;
 Debt Service Funds - fiscal years 1999 through 2008

NOTES: ¹ Includes vehicle license tax revenues distributed directly to the State Highway Fund. Fiscal year 2005 is net of a \$118 million distribution to the State General Fund.
² The Highway Revenue Bonds are secured by a prior lien on and pledge of motor vehicle and related fuel fees and taxes.



Arizona Department of Transportation
 Transportation Excise Tax Revenue Bonds
 Bond Coverage
 for the fiscal year ended June 30
 (Thousands of Dollars)

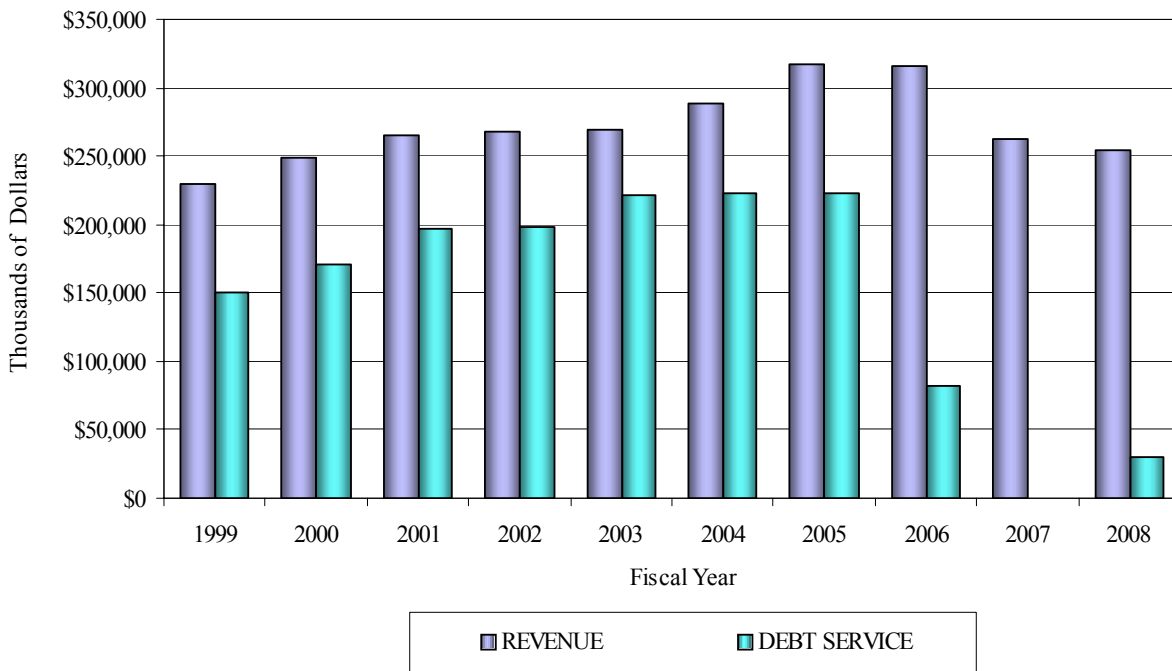
Fiscal Year	Principal	Interest	Total	Pledged	
				Revenues ¹	Coverage
2008	\$ 19,045	\$ 10,673	\$ 29,718	\$ 253,742	8.5
2007	-	-	-	262,264	N/A
2006	80,375	1,566	81,941	316,491	3.9
2005	208,625	14,318	222,943	316,806	1.4
2004	199,400	23,553	222,953	288,600	1.3
2003	190,415	31,533	221,948	268,721	1.2
2002	163,455	35,445	198,900	267,563	1.3
2001	156,865	40,035	196,900	264,722	1.3
2000	128,805	42,609	171,414	248,596	1.5
1999	106,765	43,251	150,016	229,470	1.5

SOURCE: Maricopa County Regional Area Road Fund Report

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

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

Transportation Excise Tax Revenue Bonds - Bond Coverage



Arizona Department of Transportation
 Transportation Excise Tax Revenue Bonds
 Debt Service Revenue and Cost Per Capita
 for the fiscal year ended June 30
 (Thousands)

Fiscal Year	Principal	Interest	Total Cost	Revenue	Maricopa County Population	Cost per capita	Revenue per capita
2007	\$ -	\$ -	\$ -	\$ 262,264	3,907	\$ -	\$ 67
2006	80,375	1,567	81,942	316,491	3,793	22	83
2005	208,625	14,318	222,943	316,806	3,649	61	87
2004	199,400	23,553	222,953	288,600	3,538	63	82
2003	190,415	31,533	221,948	268,721	3,406	65	79

SOURCES: Maricopa County Regional Area Road Fund Report;
 population data from the Department of Commerce available through July 2007

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

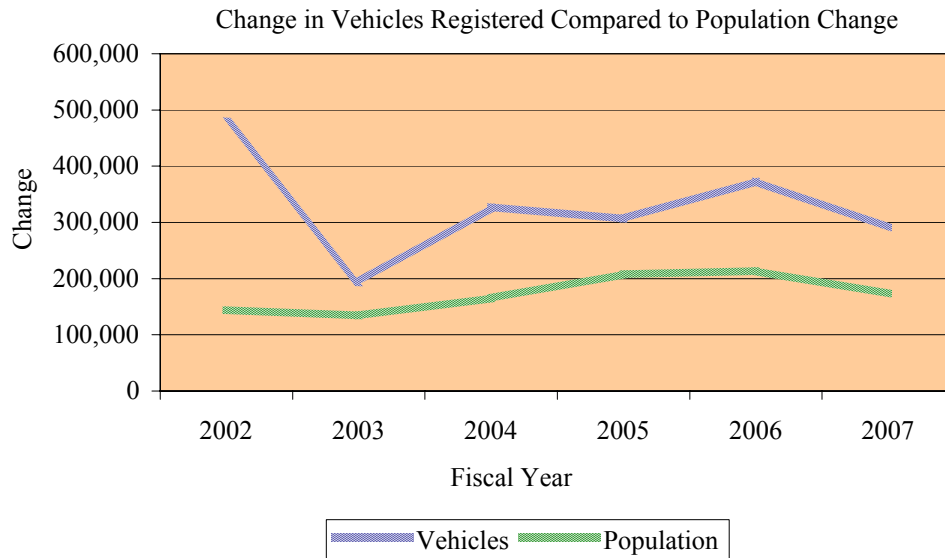


Arizona Department of Transportation
 Number of Vehicle Registrations Per Year
 for fiscal year ended June 30
 (Thousands)

Fiscal Year	Total Vehicles	Change in Number of Registered Vehicles	Arizona Population ¹	Change in Population
2007	6,609	290	6,339	173
2006	6,318	373	6,166	214
2005	5,945	306	5,952	208
2004	5,639	327	5,744	165
2003	5,312	193	5,579	134
2002	5,118	479	5,445	144

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

NOTE: ¹ The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Years 2002 through 2006 have been revised to reflect revisions made by the U.S. Bureau of the Census.

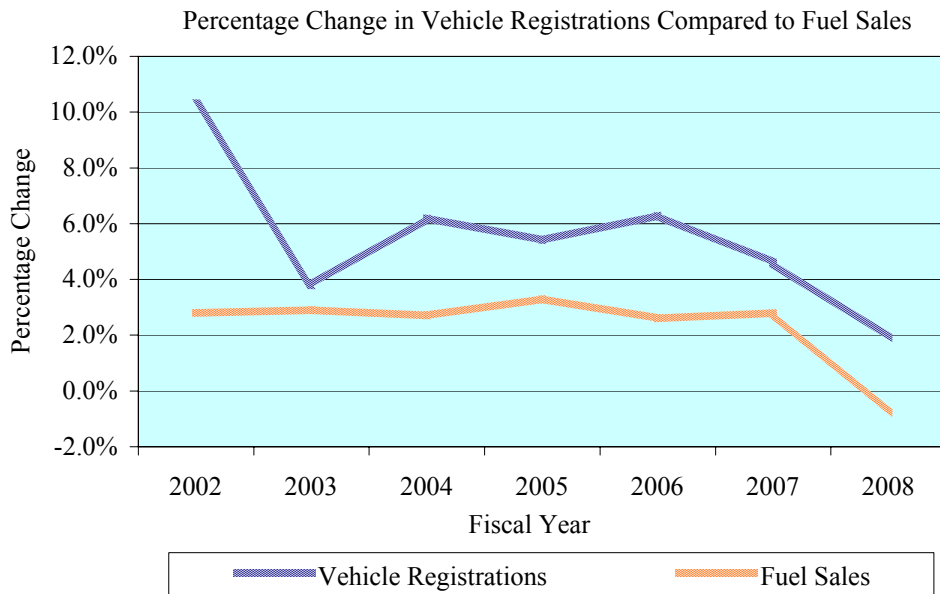


Arizona Department of Transportation
 Vehicle Registrations Per Year Compared to Fuel Sales
 for fiscal year ended June 30
 (Thousands)

Fiscal Year	Vehicle Registrations	Percentage Change	Fuel Sales ¹	Percentage Change
2008	6,734	1.9%	3,707,315	<0.8%>
2007	6,609	4.6%	3,737,123	2.7%
2006	6,318	6.3%	3,636,195	2.8%
2005	5,945	5.4%	3,542,631	3.3%
2004	5,639	6.2%	3,429,136	2.7%
2003	5,312	3.8%	3,339,089	2.9%
2002	5,118	10.3%	3,245,274	2.8%

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

NOTE: ¹ Fuel sales include both gasoline and use fuel (primarily diesel) sales.



Arizona Department of Transportation
Demographic and Economic Statistics
for the Last Ten Calendar Years

Calendar Year Ended	Personal Income ²	Per Capita Personal Income ³	Unemployment Rate ⁴
December 31	Population ¹ (in thousands)		
2007	6,338,755	\$ 208,544,895	\$ 32,900 3.8%
2006	6,165,689	199,480,082	32,353 4.1%
2005	5,952,083	182,564,435	30,672 4.7%
2004	5,744,367	164,922,611	28,710 4.9%
2003	5,579,307	150,582,313	26,989 5.7%
2002	5,444,881	144,150,287	26,474 6.0%
2001	5,301,097	138,853,800	26,193 4.7%
2000	5,167,260	132,557,859	25,653 4.0%
1999	5,023,823	120,857,125	24,057 4.5%
1998	4,883,342	113,370,224	23,216 4.3%

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: ¹ The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Years 2000 through 2006 have been revised to reflect revisions made by the U.S. Bureau of the Census.

² Personal income estimates for years 2004 through 2006 were revised to reflect revisions made by the U.S. Bureau of the Census.

³ Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Years 2000 through 2006 have been revised to reflect revisions in personal income and population estimates.

⁴ The unemployment rate for the year 2005 was revised to reflect a revision made by the Arizona Department of Economic Security website, www.workforce.az.gov.

Arizona Department of Transportation
Principal Employers
Current and Nine Years Ago

<u>Employer</u>	Calendar Year Ended December 31, 2007			Calendar Year Ended December 31, 1998		
	Full-Time Equivalent <u>Employees</u>	Rank	Percentage of Total State <u>Employment</u>	Full-Time Equivalent <u>Employees</u>	Rank	Percentage of Total State <u>Employment</u>
	State of Arizona	50,079	1	1.88%	63,961	1
Wal-Mart Stores Inc.	30,174	2	1.13%	11,900	5	0.56%
Banner Health (1)	17,020	3	0.64%	9,000	9	0.43%
City of Phoenix	14,453	4	0.54%	13,300	3	0.63%
Maricopa County	14,057	5	0.53%	12,963	4	0.61%
Wells Fargo & Co.	14,000	6	0.53%	-	-	-
Arizona State University	12,727	7	0.48%	-	-	-
Fry's Food & Drug Stores	11,780	8	0.44%	-	-	-
Raytheon Missile Systems	11,184	9	0.42%	-	-	-
U.S. Postal Service	11,000	10	0.41%	10,772	6	0.51%
Motorola	-	-	-	18,500	2	0.88%
University of Arizona	-	-	-	10,520	7	0.50%
Fort Huachuca Army Base	-	-	-	10,312	8	0.49%
Allied Signal Inc.	-	-	-	9,000	9	0.43%
American Express Corp.	-	-	-	9,000	9	0.43%
Banc One Corp.	-	-	-	9,000	9	0.43%
Total	<u>186,474</u>		<u>7.00%</u>	<u>188,228</u>		<u>8.93%</u>

(1) Formerly known as Samaritan Health Systems.

SOURCES: Business Journal, Book of Lists 2008 and 1999 (for Maricopa County employers); Arizona Daily Star's Star 200 report for 2008 and 1999 (for Pima County employers, which include the U.S. Army Intelligence Center and Fort Huachuca, Raytheon Missile Systems, and the University of Arizona); Arizona Department of Economic Security's website, www.workforce.az.gov (for annual State employment)

Arizona Department of Transportation
Appropriated Full-Time Equivalents (FTEs)
for fiscal year ended June 30

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Operating:							
Administration-State Highway Fund	465.5	425.5	405.0	406.0	412.0	412.0	412.0
Administration-Air Quality Fund	1.5	1.5	-	-	-	-	-
Highways Development and Administration	740.0	712.0	684.0	683.0	682.0	682.0	707.0
Construction Operating Budget	-	-	619.0	619.0	616.0	616.0	616.0
Maintenance-State Highway Fund	959.0	912.0	912.0	925.0	925.0	925.0	932.0
Maintenance-Safety Enforcement and Traffic Infrastructure	8.0	8.0	8.0	-	-	-	-
Transportation Planning	48.0	46.0	46.0	46.0	44.0	43.0	44.0
Public Transit-State General Fund	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Public Transit-State Highway Fund	-	-	-	-	-	1.0	-
Equipment Services	247.0	247.0	247.0	247.0	247.0	247.0	247.0
Aeronautics	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Motor Vehicle Division (MVD)							
State Highway Fund	1,587.0	1,534.0	1,585.5	1,598.5	1,606.5	1,638.5	1,620.5
Safety Enforcement and Traffic Infrastructure Fund	29.0	29.0	29.0	31.0	22.0	-	22.0
Mandatory Insurance	16.0	16.0	16.0	17.0	29.0	50.0	28.0
Vehicle Inspections and Title Enforcement Fund	17.0	17.0	17.0	17.0	21.0	21.0	24.0
Air Quality Fund	-	-	1.5	1.5	1.5	1.5	1.5
Highway User Revenue Fund (HURF)	-	-	-	-	5.0	-	-
Driving Under the Influence Fund (DUI)	-	-	-	-	3.0	3.0	3.0
Third Party-Special Line Item	-	-	-	-	-	16.0	18.0
Abandoned Vehicle	-	-	-	-	-	-	23.0
Fraud Investigation	-	-	-	-	-	-	11.0
Total Operating	<u>4,153.0</u>	<u>3,983.0</u>	<u>4,605.0</u>	<u>4,626.0</u>	<u>4,649.0</u>	<u>4,691.0</u>	<u>4,744.0</u>
Other Programs:							
Arizona Highways Magazine	72.0	72.0	72.0	72.0	72.0	60.0	28.0
Highway Construction	619.0	619.0	-	-	-	-	7.0
Federal Fatality File (MVD from FY05)	2.0	2.0	2.0	2.0	2.0	2.0	-
Motor Vehicle Division (Federal) NAFTA Border Projects	-	-	-	21.0	19.0	16.0	-
Motor Vehicle Division (Federal) NAFTA Grant Funding-							
International Registration Plan/International Fuel Tax Agreement	-	-	-	-	-	11.0	-
Motor Vehicle Division (Federal) Fuel Tax Evasion	-	-	2.0	5.0	8.0	8.0	-
Public Transportation Division (Federal)	4.0	4.0	4.0	-	4.0	7.0	-
Underground Storage-MVD	4.0	4.0	4.0	4.0	3.0	3.0	-
Underground Storage-Transportation Services Group (TSG)	-	-	-	-	1.0	1.0	-
Maricopa Regional Area Road Fund	1.0	1.0	1.0	1.0	1.0	1.0	17.0
Highway Expansion and Extension Loan Program (HELP)	3.0	3.0	3.0	3.0	3.0	3.0	-
Total Other Programs	<u>705.0</u>	<u>705.0</u>	<u>88.0</u>	<u>108.0</u>	<u>113.0</u>	<u>112.0</u>	<u>52.0</u>
Total All Programs	<u>4,858.0</u>	<u>4,688.0</u>	<u>4,693.0</u>	<u>4,734.0</u>	<u>4,762.0</u>	<u>4,803.0</u>	<u>4,796.0</u>

SOURCE: Arizona Department of Transportation 10-Year FTE History Report

NOTE: All FTE operating positions shown above are approved annually by the State legislature.

Arizona Department of Transportation
 Capital Assets Used in the Operation of Governmental Funds
 Schedule by Function and Activity¹
 June 30, 2008

Function and Activity	Land	Buildings and Improvements	Improvements other than Buildings	Airport Facilities	Machinery and Equipment	Infrastructure	Construction in Progress	Total
Administration	\$ 879,017	\$ 20,392,810	\$ 1,117,827	\$ -	\$ 17,764,711	\$ -	\$ -	\$ 40,154,365
Aeronautics	-	411,037	401,058	7,150,274	1,355,942	12,789,265	-	22,107,576
Highway:								
Administrative and other services	935,955	37,363,037	1,786,229	-	5,135,205	-	-	45,220,426
Highway construction	2,332,738,545	6,852,067	384,415	-	7,103,032	10,088,618,671	2,607,927,197	15,043,623,927
Highway development	710,073	98,846	350	-	2,723,262	-	-	3,532,531
Materials engineering	-	4,849,537	7,077	-	3,812,358	-	-	8,668,972
Traffic engineering	-	356,896	21,667	-	1,275,464	-	-	1,654,027
Transportation planning and research	-	152,944	122,946	-	325,148	-	-	601,038
Highway maintenance	4,907,328	41,747,196	8,984,545	-	8,099,553	-	-	63,738,622
Motor Vehicle	11,641,168	46,506,238	3,571,783	-	7,936,099	-	-	69,655,288
Total governmental funds capital assets	<u>\$ 2,351,812,086</u>	<u>\$ 158,730,608</u>	<u>\$ 16,397,897</u>	<u>\$ 7,150,274</u>	<u>\$ 55,530,774</u>	<u>\$ 10,101,407,936</u>	<u>\$ 2,607,927,197</u>	<u>\$ 15,298,956,772</u>

NOTE: ¹ This schedule presents only the capital asset balances 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 assets.

Arizona Department of Transportation
 Capital Assets used in the Operation of Governmental Funds
 Schedule of Changes by Function and Activity¹
 for the fiscal year ended June 30, 2008

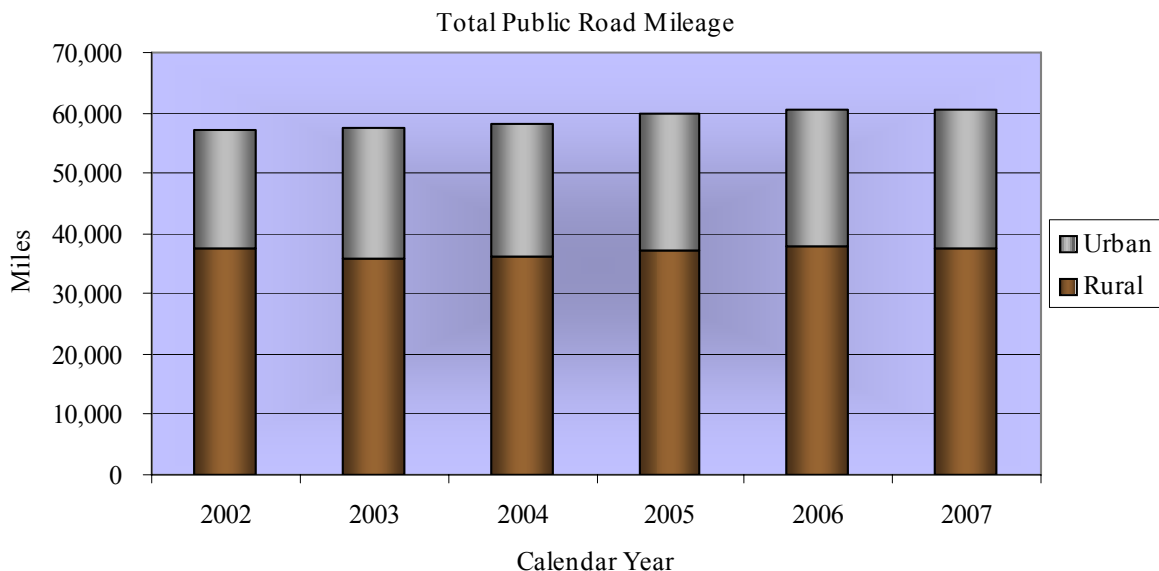
Function and Activity	Governmental Funds Capital Assets July 1, 2007	Additions	Deductions	Governmental Funds Capital Assets June 30, 2008
Administration	\$ 36,864,591	\$ 5,083,965	\$ <1,794,191>	\$ 40,154,365
Aeronautics	21,222,010	885,566	-	22,107,576
Highway:				
Administrative and other services	45,169,500	137,011	<86,085>	45,220,426
Highway construction	12,054,655,584	514,213,168	<133,172,022>	12,435,696,730
Highway development	3,354,157	281,650	<103,276>	3,532,531
Materials engineering	8,516,295	224,813	<72,136>	8,668,972
Traffic engineering	1,652,653	42,663	<41,289>	1,654,027
Transportation planning and research	598,576	66,166	<63,704>	601,038
Highway maintenance	63,232,750	776,747	<270,875>	63,738,622
Motor Vehicle	69,228,927	487,684	<61,323>	69,655,288
Functional sub-total	12,304,495,043	522,199,433	<135,664,901>	12,691,029,575
Construction in progress	2,032,678,119	842,543,604	<267,294,526>	2,607,927,197
Total governmental funds capital assets	<u>\$ 14,337,173,162</u>	<u>\$ 1,364,743,037</u>	<u>\$ <402,959,427></u>	<u>\$ 15,298,956,772</u>

NOTE: ¹ This schedule presents only the capital asset balances 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 assets.

Arizona Department of Transportation
 Total Public Road Mileage by Highway Class and Governmental Ownership
 for the calendar year ended December 31
 (In Center Lane Miles)

<u>Functional Classification</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Rural:						
Interstate freeway	996	980	980	981	981	980
Principal arterial	1,187	1,141	1,187	1,167	1,168	1,167
Minor arterial	1,274	1,276	1,343	1,363	1,359	1,357
Major collector	4,473	4,233	4,301	4,332	4,303	4,301
Minor collector	2,289	2,117	2,210	2,188	2,186	2,185
Local	27,450	26,004	26,016	27,015	27,819	27,685
Total Rural	<u>37,669</u>	<u>35,751</u>	<u>36,037</u>	<u>37,046</u>	<u>37,816</u>	<u>37,675</u>
Urban:						
Interstate freeway	172	187	188	188	188	188
Urban expressway	153	145	150	156	168	171
Principal arterial	1,000	1,087	1,156	1,400	1,400	1,400
Minor arterial	1,274	1,189	1,279	1,790	1,791	1,792
Urban collector	1,732	2,200	2,161	1,645	1,632	1,632
Local	<u>15,188</u>	<u>16,969</u>	<u>17,142</u>	<u>17,564</u>	<u>17,380</u>	<u>17,735</u>
Total Urban	19,519	21,777	22,076	22,743	22,559	22,918
Statewide Composite:						
Freeways and expressways	1,321	1,312	1,318	1,325	1,337	1,339
Arterials	4,735	4,693	4,965	5,720	5,718	5,716
Collectors	8,494	8,550	8,672	8,165	8,121	8,118
Locals	42,638	42,973	43,158	44,579	45,199	45,420
Total Statewide Composite	<u>57,188</u>	<u>57,528</u>	<u>58,113</u>	<u>59,789</u>	<u>60,375</u>	<u>60,593</u>

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

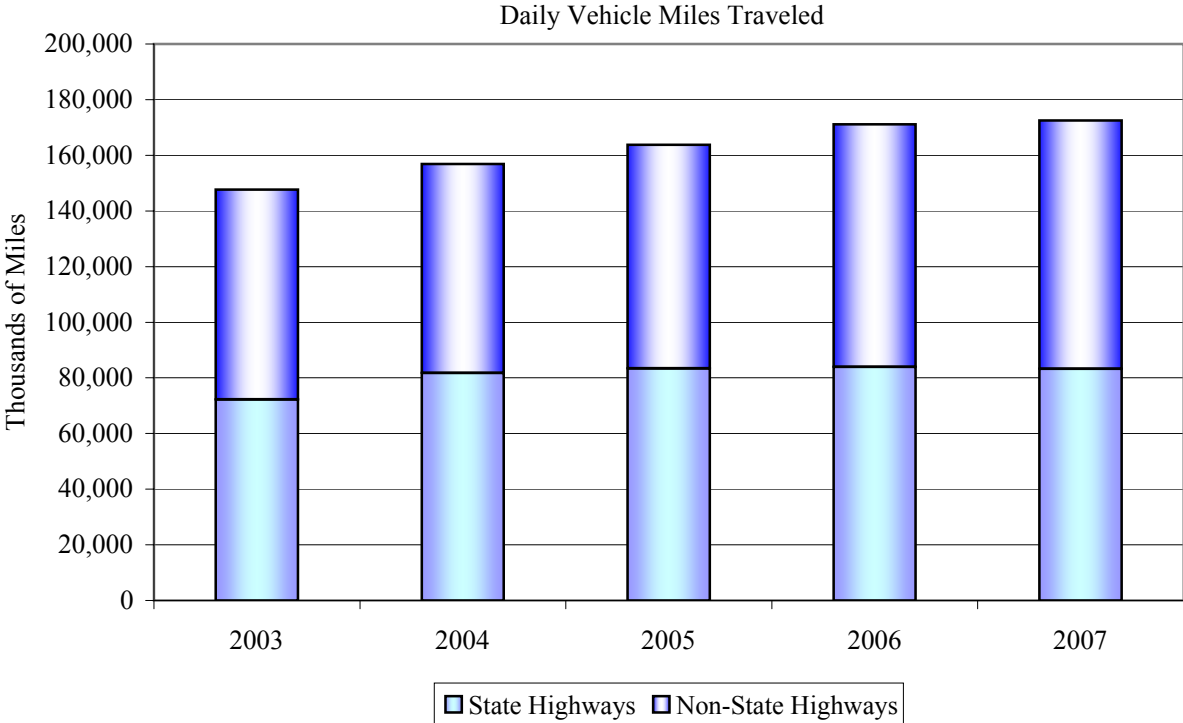


Arizona Department of Transportation
 Daily Vehicle Miles Traveled with Population Data
 for calendar year ended December 31
 (Thousands)

Calendar Year Ended December 31	Non-State Highways	State Highways	All Public Highways	Arizona Population	Daily Miles per capita
2007	89,293	83,228	172,521	6,339	27.2
2006	87,212	83,934	171,146	6,166	27.8
2005	80,400	83,425	163,825	5,952	27.5
2004	75,070	81,808	156,878	5,744	27.3
2003	75,396	72,258	147,654	5,579	26.5

SOURCES: Arizona's Highway Performance Monitoring System (HPMS); ADOT Transportation Planning Division office records

NOTE: The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Years 2003 through 2006 have been revised to reflect revisions made by the U.S. Bureau of the Census.



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