

2007



Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2007

State of Arizona
Department of Transportation





2007

**Comprehensive Annual
Financial Report**

**For the fiscal year ended
June 30, 2007**

Prepared by
Financial Management Services



State of Arizona
Department of Transportation

Arizona Department of Transportation
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended June 30, 2007

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 Fund 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 Fund 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 Fund Financial Statement	
Statement of Net Assets – Agency Funds (Exhibit 8).....	28
Index of Notes to the Financial Statements.....	29
Notes to the Financial Statements.....	30-53
Required Supplementary Information (Other than MD&A):	
Budgetary Comparison Schedule – General Fund (State Highway Fund).....	54
Notes to Required Supplementary Information.....	55
Information About Infrastructure Assets Reported Using the Modified Approach.....	56-60

Arizona Department of Transportation
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS
 (Continued)

	Page
Supplementary Information:	
Non-Major Governmental Funds:	
Combining Balance Sheet (Exhibit 9).....	61-62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Exhibit 10).....	63-64
Fiduciary Fund:	
Combining Statement of Net Assets – Agency Funds (Exhibit 11)	65
Statement of Changes in Assets and Liabilities – Agency Funds (Exhibit 12)	66
Capital Assets Used in the Operation of Governmental Funds:	
Schedule by Source (Exhibit 13).....	67
Schedule by Function and Activity (Exhibit 14).....	68
Schedule of Changes by Function and Activity (Exhibit 15).....	69
 STATISTICAL SECTION	
Overview	70
Index of Statistical Section.....	71
Financial Trends:	
Change in Net Assets (Table 1)	72-73
Net Assets by Component (Table 2).....	74
Statement of Revenues, Expenditures, and Changes in Fund Balances (Table 3).....	75
Fund Balances of Governmental Funds (Table 4)	76
Expenditures of Federal Awards (Table 5).....	77
Government-wide Expenses by Function (Table 6)	78
Government-wide Revenues (Table 7)	79
Revenue Capacity:	
Highway User Revenue Fund Collections (Table 8)	80
Highway User Revenue Fund Distributions (Table 9).....	81
Fuel Tax Rates (Table 10)	82
Motor Vehicle Fuel Tax – Top Ten Suppliers (Table 11)	83
Gasoline Volume Sold – Top Twenty-Five Suppliers (Table 12)	84
Debt Capacity:	
Highway User Revenue Fund – Legal Debt Margin (Table 13).....	85
Highway User Revenue Fund Series – Bond Coverage (Table 14).....	86

Arizona Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS
(Continued)

	Page
Debt Capacity (continued):	
Regional Area Road Fund Series – Bond Coverage (Table 15)	87
Regional Area Road Fund Series – Debt Service Revenue and Cost Per Capita (Table 16)	88
Demographic and Economic Information:	
Number of Vehicle Registrations Per Year With Population Data (Table 17)	89
Vehicle Registrations Per Year Compared to Fuel Sales (Table 18)	90
Operating Information:	
Total Public Road Mileage By Highway Class and Governmental Ownership (Table 19)	91
Appropriated Full Time Equivalent (FTEs) (Table 20).....	92
Daily Vehicle Miles Traveled With Population Data (Table 21).....	93
Acknowledgements	94

Introductory Section



INTRODUCTORY SECTION



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janet Napolitano
Governor

November 15, 2007

Richard Travis
Deputy Director

Victor M. Mendez
Director

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, 2007. 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, 2007, 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, 2007, 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 Arizona Department of Transportation serves as the State's public agency to plan, develop, maintain, and operate facilities for the efficient movement of people and goods by surface and air throughout the State. 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 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 a Transportation Planning Division and a Transportation Services Group. The four operating divisions include: Intermodal Transportation Division, Motor Vehicle Division, Aeronautics Division, and Public Transportation 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 Public Transportation Division is responsible for supporting public transit planning throughout Arizona. The Public Transportation Division distributes planning, operational, and capital funding for transit programs in rural areas, administers federal grants for transit planning in metropolitan areas, and performs State regulatory safety oversight for the light rail system being constructed in Maricopa County.
- The Transportation Planning Division is responsible for the planning of the statewide transportation system including highways and airports, and produces an annually updated Five-Year Transportation Facilities Construction Program for the Transportation Board, through which the Transportation Board establishes the priorities for highways and airports. Its functions include traffic and travel studies and projections, five-

year construction priority studies, and coordination with local and regional transportation planning agencies.

- 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 and organization unit level, and management control reports from the expense budget/organizational unit level, with summary reporting capabilities by program, division or appropriation.

Factors Affecting Financial Condition

Arizona Economy Arizona's economic activity during the past twelve months has increased, but at a slower rate than seen in the past few years. Employment slowed from a year-over-year growth of 4.7 percent in June 2006 to 2.9 percent in June 2007. The total number of new jobs created in Arizona for the twelve months ending June 30, 2007, was 74,900 compared to 116,700 this same period last year. Population has seen growth slow modestly from 3.2 percent in calendar year 2006 to 3.0 percent estimated for calendar year 2007. Personal income growth has also slowed from 8.3 percent in calendar year 2006 to an estimated 7.2 percent for calendar year 2007. Housing and credit market concerns, combined with higher fuel prices, have softened both the Arizona and national economies. On the positive side, Arizona's economic activity outperformed the majority of the other states.

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax, posted modest gains in fiscal year 2007. HURF collections totaled \$1.4 billion, an increase of 3.8 percent over fiscal year 2006. However, this total was 1.2 percent below the forecast. The HURF revenue growth of 3.8 percent was the slowest year-over-year growth rate since fiscal year 2003. Maricopa County Transportation Excise Tax collections totaled \$392.5 million, an increase of 6.7 percent over fiscal year 2006, but this total was also 1.2 percent below the forecast. Maricopa County Transportation Excise Tax collections growth in fiscal year 2007 was slowest year-over-year growth since fiscal year 2003.

Arizona's economy will continue to moderate in fiscal year 2008 due mainly to the uncertainty of the housing and credit markets and global oil production and costs. No one knows how long the housing market will remain sluggish, but until it improves, both the state and national economies will also remain sluggish. However, the housing market impact on construction employment in Arizona will be somewhat offset by continued growth in the commercial and retail construction sectors. Increased demand for oil worldwide along with domestic production and refining issues will weigh on oil prices in the future. Although economic activity should moderate in fiscal year 2008, Arizona is still expected to experience growth in employment, population, and personal income.

The Department's fiscal year 2008 HURF estimate is \$1.4 billion, a projected increase of 4.2 percent over fiscal year 2007. The distribution of HURF revenues in fiscal year 2008 is estimated to be as follows: State Highway Fund \$714.8 million; Arizona cities and towns \$433.6 million; Arizona counties \$270.1 million; Department of Public

Safety \$10.0 million; Economic Strength Project Fund \$1.0 million; the Motor Vehicle Division (MVD) for registration compliance \$0.6 million; the Arizona Department of Administration for a state highway hazards assessment \$0.2 million. In addition, the Department was allocated \$6.7 million for two MVD service centers and one Department multipurpose facility. An additional \$3.2 million will be allocated from the State Highway Fund share of HURF vehicle license tax revenues to the Department of Public Safety Parity Compensation Fund.

Maricopa County Transportation Excise Tax revenues are estimated at \$408.7 million in fiscal year 2008, a projected increase of 4.1 percent over fiscal year 2007. As with the State as a whole, Maricopa County is expected to experience a softening economy due mainly to the continued uncertainty in the housing and credit markets and possible higher fuel prices.

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 (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 is projected to reach a zero balance as early as 2009. If not rectified by Congress, this situation could have a significant impact on federal funds allocated to all states, including Arizona, beginning in 2009.*

Planned Construction Activity In June 2007 the Transportation Board approved a \$6.57 billion Highway Construction Program as part of the Five-Year Transportation Facilities Construction Program for fiscal years 2008 through 2012. This program provides funding for highway facilities on the National Highway System and the statewide system, as well as the new Maricopa County Regional Transportation Plan and the completion of the Maricopa Regional Freeway System Life Cycle Program. Altogether (including Maricopa County) the program includes \$4.92 billion for system improvements, \$538 million for system management, and \$1.11 billion for system preservation.

The Five-Year Transportation Facilities Construction Program includes approximately \$3.85 billion for the Maricopa Regional Transportation Plan and the completion of the Maricopa Regional Freeway System Life Cycle program of freeway construction in Maricopa County, funded in large part from the Maricopa County Regional Area Road Fund. The soon to be completed Maricopa Regional Freeway System Life Cycle Program will complete the construction of approximately 137 miles of new freeways. Currently 132.3 miles have been opened to traffic and 4.7 more miles are under construction.

As part of the Five-Year Transportation Facilities Construction Program, the State Transportation Board also adopted a \$760.6 million Five-Year Airport Development Program that includes 946 projects at general aviation and air carrier airports located throughout the State.

Beginning in fiscal year 2006, the Department began to experience an unfavorable trend in the cost of many of its construction projects. Material and labor price increases, and in some cases shortages, resulted in materially higher bid prices than those estimated by the Department. How long this trend will continue, and the potential impact this trend may have on the Board's Five-Year Transportation Facilities Construction Program, cannot yet be determined. However, over the past few months, the Department has begun to see a softening in the rate of increase of material and labor prices.

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, 2007.

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.

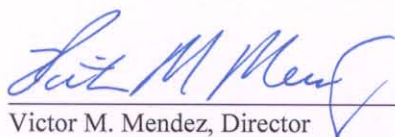
DOT) Inspector General has reviewed the internal controls on several occasions. The U.S. DOT auditors typically rely on the Department's internal audit staff in determining the scope of their review.

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, 2006. This was the seventeenth 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.

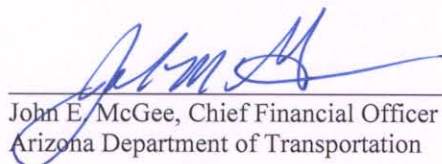
A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements 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 2007 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, 2006

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.



A handwritten signature in black ink, appearing to read "Thomas J. Blain".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

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

Sam M. Elters
State Engineer
Intermodal Transportation Division

Stacey K. Stanton
Assistant Director
Motor Vehicle Division

Dale J. Buskirk
Assistant Director
Transportation Planning Division

James D. Dickey
Assistant Director
Public Transportation Division

Barclay L. Dick
Assistant Director
Aeronautics Division

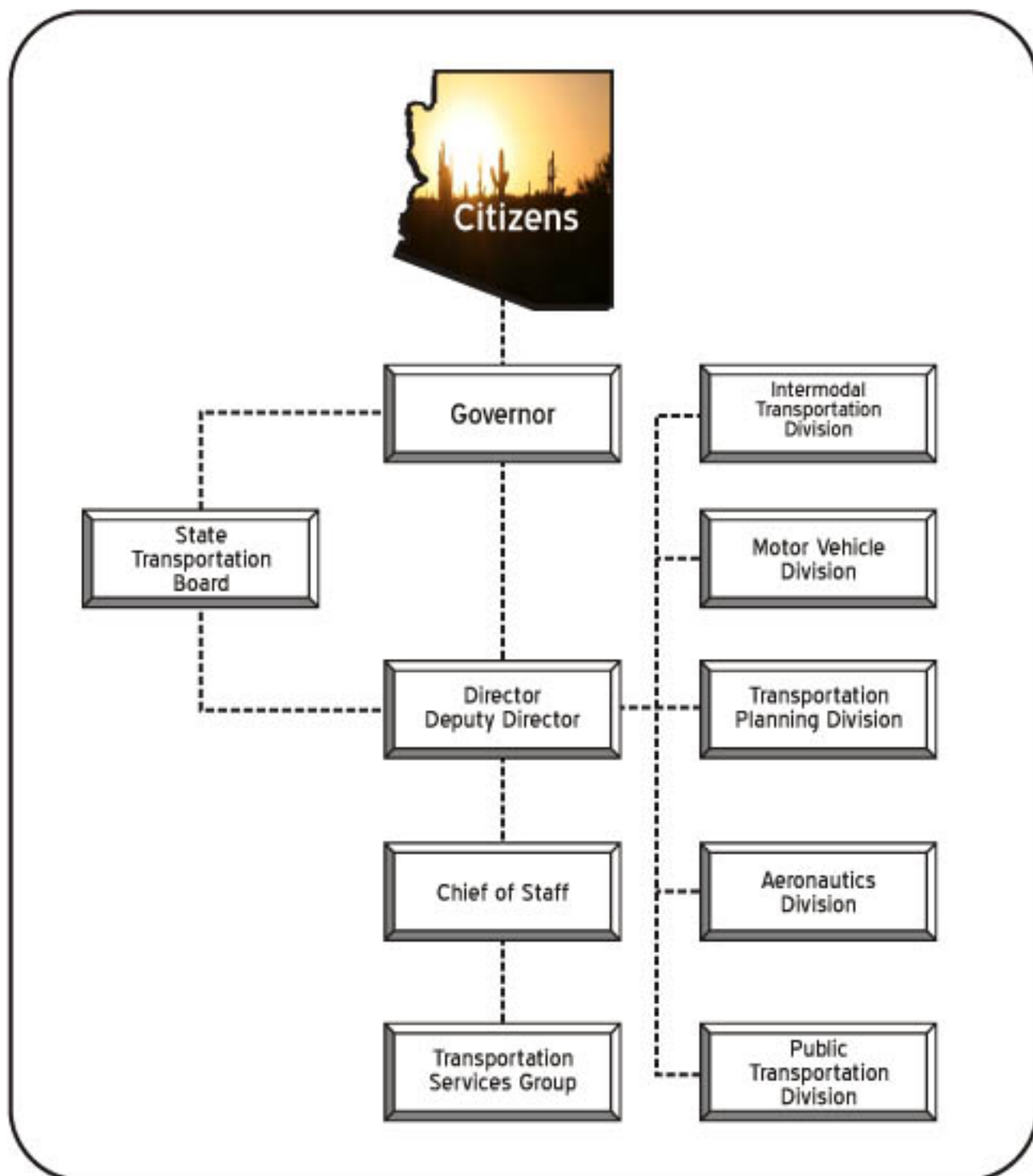
John E. McGee
Chief Financial Officer

Arizona State Transportation Board

Member	Counties	Term Expires
Joe Lane, Chairman	District 1 (Maricopa County)	2008
S. L. Schorr, Vice Chairman	District 2 (Pima County)	2009
Delbert Householder	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 J. (Bill) Feldmeier	District 6 (Yavapai, Yuma, Mohave, and LaPaz Counties)	2012
Barbara Ann (Bobbie) Lundstrom	District 3 (Cochise, Greenlee, and Santa Cruz Counties)	2013



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, 2007, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 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, 2007, 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, 2007, 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 and 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 nonmajor 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 nonmajor fund financial statements and the schedules of capital assets used in the operation of governmental funds 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 15, 2007, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

November 15, 2007

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

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, 2007. 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 \$13.5 billion, compared to \$12.5 billion for fiscal year 2006, an increase of 7.9 percent. Of this amount, \$236.3 million represents *unrestricted net assets* and may be used to meet the Department's ongoing obligations to citizens and creditors as compared to \$189.6 million in 2006.
- The Department's capital assets are \$14.3 billion, compared to \$13.6 billion for fiscal year 2006, an increase of 5.1 percent. This increase is primarily attributable to highway construction activity. The Department's investment in capital assets, *net of related debt*, is \$12.2 billion, compared to \$11.8 billion for fiscal year 2006, an increase of 3.4 percent.
- The Department's non-current liabilities are \$2.2 billion, compared to \$2.0 billion in 2006. The Department issued \$224.6 million more in bonds than were retired.

Fund Level:

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of \$1.0 billion, as compared to \$482.4 million in 2006, a 116.3 percent increase over the prior fiscal year. This increase is primarily due to the receipt of \$245 million of State General Fund monies for Statewide Transportation Acceleration Needs (STAN), an account within the Department's General Fund (State Highway Fund). These funds were appropriated by the State to the Department's General Fund (State Highway Fund) to accelerate the construction of certain critical projects on the State highway system.
- The total reserved fund balance is \$1.0 billion; of this, \$977.4 million (93.5 percent) is reserved for capital projects. Approximately \$39.0 million (3.7 percent) is available for spending at the government's discretion (unreserved fund balance) as compared to \$49.2 million (10.2 percent) in 2006. At the end of the fiscal year, the unreserved fund balance for the General Fund (State Highway Fund) was \$<10.0> million.
- The proprietary funds reported net assets at year-end of \$72.0 million, as compared to \$67.9 million in 2006, an increase of 6.0 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.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

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. 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 (HELP) 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.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

- 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 reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The 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 fund financial statement can be found on page 28.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

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 29-52 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 53-60 of this report.

Supplementary Information Other Supplementary Information includes the combining statements for the non-major governmental funds, agency funds, and capital assets 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 61-69 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, 2007 and 2006.

The Department's combined net assets increased by \$996.3 million over the course of this fiscal year's operations, an increase of 8.0 percent. The net assets of the governmental activities increased by \$992.2 million or 8.0 percent and business-type activities increased by \$4.1 million, an increase of 6.0 percent over the previous year.

The following table reflects the condensed Statement of Net Assets as of June 30, 2007 and 2006:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 1,503,637,083	\$ 935,477,518	\$ 230,081,584	\$ 222,255,469	\$ 1,733,718,667	\$ 1,157,732,987
Capital assets	14,290,099,071	13,616,679,778	225,179	248,715	14,290,324,250	13,616,928,493
Total assets	15,793,736,154	14,552,157,296	230,306,763	222,504,184	16,024,042,917	14,774,661,480
Liabilities:						
Other liabilities	264,384,346	231,909,827	3,586,439	3,943,716	267,970,785	235,853,543
Non-current liabilities	2,074,792,811	1,857,865,144	154,685,667	150,629,003	2,229,478,478	2,008,494,147
Total liabilities	2,339,177,157	2,089,774,971	158,272,106	154,572,719	2,497,449,263	2,244,347,690
Net assets:						
Invested in capital assets, net of related debt	12,211,861,155	11,806,376,096	225,179	248,715	12,212,086,334	11,806,624,811
Restricted	1,006,511,853	466,336,618	71,707,711	67,713,248	1,078,219,564	534,049,866
Unrestricted	236,185,989	189,669,611	101,767	<30,498>	236,287,756	189,639,113
Total net assets	\$13,454,558,997	\$12,462,382,325	\$ 72,034,657	\$ 67,931,465	\$13,526,593,654	\$12,530,313,790

The total assets of the Department were \$16.0 billion, while total liabilities were \$2.5 billion, resulting in a net assets balance of \$13.5 billion. By far, the largest portion of the Department's net assets, \$12.2 billion (90.4 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.

As of June 30, 2007, 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 business-type activities reported an increase in unrestricted net assets for the first time in three years.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

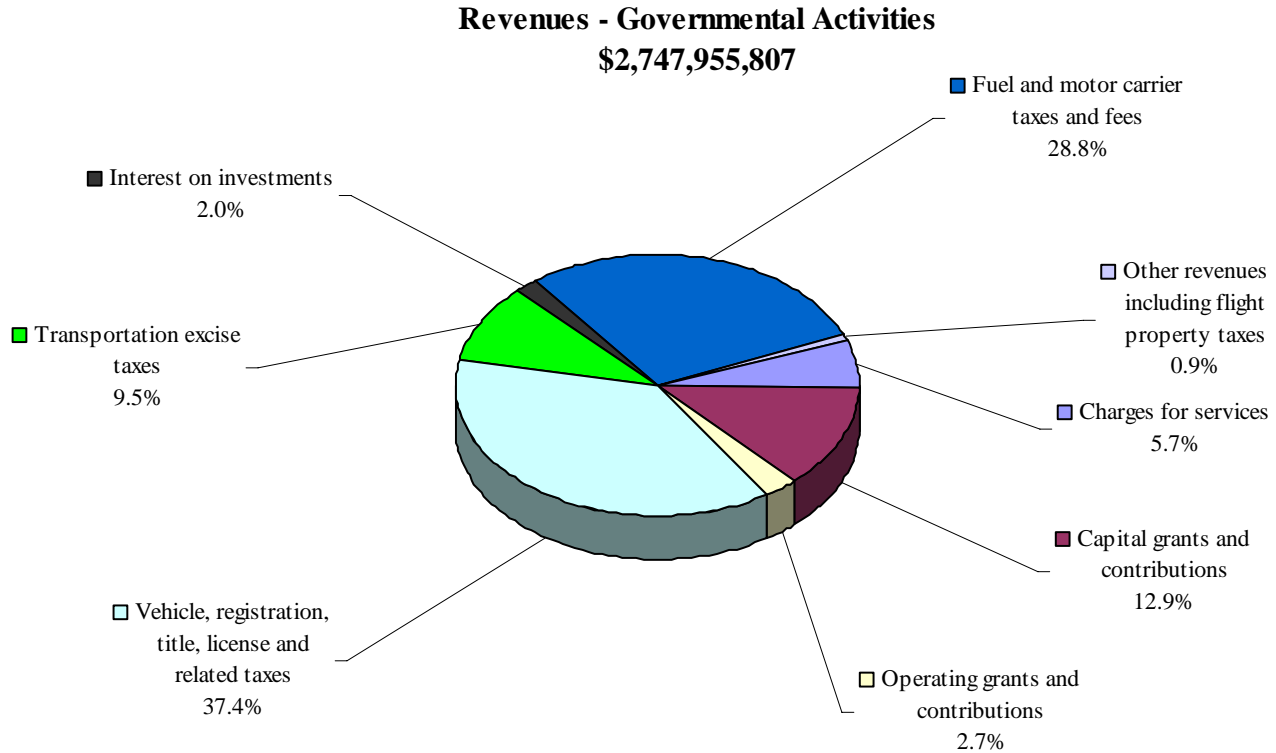
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net assets changed during the year, compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 158,019,080	\$ 134,068,183	\$ 10,969,360	\$ 11,293,230	\$ 168,988,440	\$ 145,361,413
Operating grants and contributions	72,678,913	67,241,642	-	-	72,678,913	67,241,642
Capital grants and contributions	354,023,589	387,613,919	-	-	354,023,589	387,613,919
General revenues:						
Transportation excise taxes	262,263,939	316,491,260	-	-	262,263,939	316,491,260
Vehicle, registration, title, license and related taxes	1,029,000,817	994,052,170	-	-	1,029,000,817	994,052,170
Fuel and motor carrier taxes and fees	790,908,552	770,595,788	-	-	790,908,552	770,595,788
Flight property taxes	15,302,697	13,685,936	-	-	15,302,697	13,685,936
Interest on investments	55,760,406	28,538,190	5,563,036	3,517,627	61,323,442	32,055,817
Other	9,997,814	11,025,538	<2,749>	-	9,995,065	11,025,538
Total revenues	2,747,955,807	2,723,312,626	16,529,647	14,810,857	2,764,485,454	2,738,123,483
Expenses:						
Administration	51,666,715	45,001,954	-	-	51,666,715	45,001,954
Aeronautics	5,417,937	10,705,401	-	-	5,417,937	10,705,401
Highway	79,279,372	62,712,812	-	-	79,279,372	62,712,812
Highway Maintenance	120,162,937	114,118,876	-	-	120,162,937	114,118,876
Motor Vehicle	105,961,064	96,936,845	-	-	105,961,064	96,936,845
Other	-	9,394,006	-	-	-	9,394,006
Non-capital, including asset preservation	173,077,942	1,453,012	-	-	173,077,942	1,453,012
Distributions to Arizona counties and cities	1,219,208,067	1,095,671,256	-	-	1,219,208,067	1,095,671,256
Distributions to other state agencies	114,795,378	206,903,293	-	-	114,795,378	206,903,293
Intergovernmental	48,760,126	36,771,014	-	-	48,760,126	36,771,014
Interest on long-term debt	82,449,597	88,278,605	-	-	82,449,597	88,278,605
Arizona Highways Magazine	-	-	8,071,836	8,174,700	8,071,836	8,174,700
Highway Expansion and Extension Loan Program	-	-	4,354,619	4,273,429	4,354,619	4,273,429
Total expenses	2,000,779,135	1,767,947,074	12,426,455	12,448,129	2,013,205,590	1,780,395,203
Change in net assets before special item	747,176,672	955,365,552	4,103,192	2,362,728	751,279,864	957,728,280
Special item - State appropriation	245,000,000	-	-	-	245,000,000	-
Change in net assets	992,176,672	955,365,552	4,103,192	2,362,728	996,279,864	957,728,280
Net assets - July 1	12,462,382,325	11,507,016,773	67,931,465	65,568,737	12,530,313,790	11,572,585,510
Net assets - June 30	\$ 13,454,558,997	\$ 12,462,382,325	\$ 72,034,657	\$ 67,931,465	\$ 13,526,593,654	\$ 12,530,313,790

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

Governmental Activities:

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2007:



\$2.4 billion (or 88.6 percent) of the Department's revenues are from the following five revenue sources:

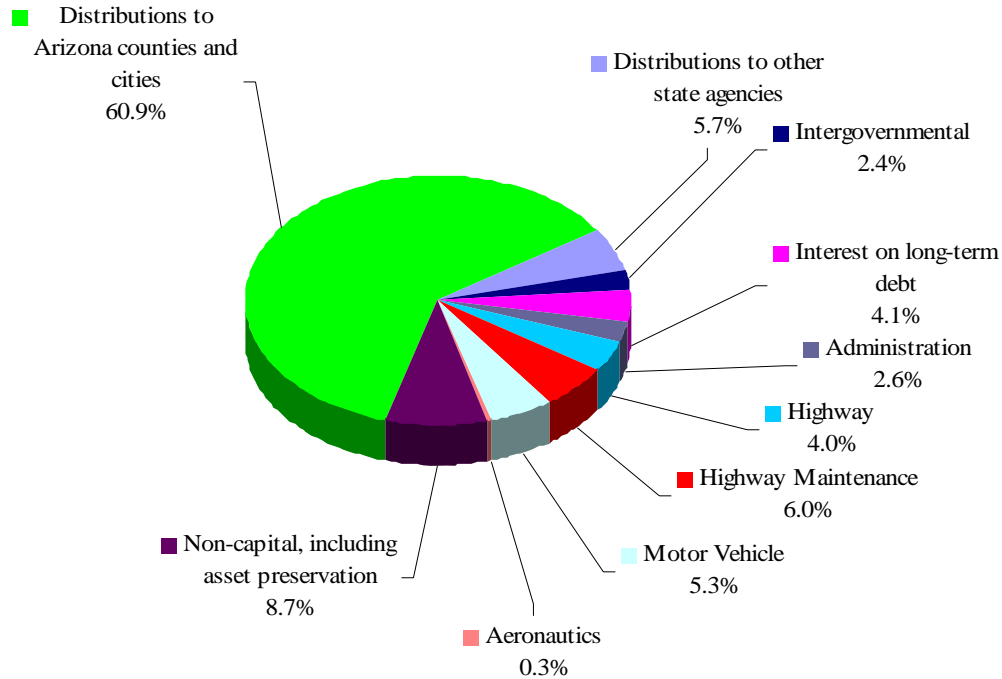
- Vehicle, registration, title, license, and related taxes comprise the Department's largest revenue source of \$1.0 billion (37.4 percent).
- Fuel and motor carrier taxes and fees represent the Department's second largest revenue source of \$791.0 million (28.8 percent).
- Capital grants and contributions total \$354.0 million (12.9 percent).
- Transportation excise taxes total \$262.3 million (9.5 percent).

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax posted modest gains in fiscal year 2007. HURF collections totaled \$1.4 billion, an increase of 3.8 percent over fiscal year 2006. However, this total was 1.2 percent below the forecast. The HURF revenue growth of 3.8 percent was the slowest year-over-year growth rate since fiscal year 2003. Maricopa County Transportation Excise Tax collections totaled \$392.5 million, an increase of 6.7 percent over fiscal year 2006, but this total was also 1.2 percent below the forecast. However, the Transportation Excise Tax distributed to the Department was \$262.2 million compared to \$316.5 million for FY 2006. This decrease is attributable to the passage of Proposition 400, which provides that 33.3 percent of all Maricopa County Transportation Excise Taxes collected will be distributed by the State Department of Revenue directly to the Regional Public Transportation Authority, a regional entity. Maricopa County Transportation Excise Tax collection growth in FY 2007 was the slowest year-over-year growth since fiscal year 2003.

Arizona Department of Transportation
 Management's Discussion and Analysis
 June 30, 2007

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2007:

Expenses - Governmental Activities
\$2,000,779,135



\$1.6 billion (or 81.3 percent) of the Department's expenses were for the following:

- Distributions to Arizona counties and cities \$1.2 billion (60.9 percent).
- Non-capital including asset preservation \$173.1 million (8.7 percent).
- Highway Maintenance \$120.2 million (6.0 percent).
- Distributions to other state agencies \$114.8 million (5.7 percent).

The increase in distributions to Arizona counties and cities was due to an increase in fuel tax and vehicle license tax collections. The decrease in distributions to other state agencies is primarily due to 2005 Senate Bill 1513 which required an additional \$49.6 million be transferred from the Highway User Revenue Fund to the Department of Public Safety in 2006.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

Business-type Activities:

Net assets for business-type activities increased by \$4.1 million in fiscal year 2007. Total revenues were \$16.5 million, with charges for services representing 66.4 percent and interest on investments 33.6 percent. The total expenses for business-type activities were \$12.4 million.

The Highway Expansion and Extension Loan Program had an increase in revenues of \$1.6 million. Higher average interest rates on invested cash due to prevailing market conditions during fiscal year 2007 resulted in interest on investments of \$5.4 million for fiscal year 2007 for the Highway Expansion and Extension Loan Program.

The Arizona Highways Magazine had an increase in revenues of \$86 thousand and was able to achieve a positive cash flow.

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 61-64.

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$1.0 billion, an increase of \$562.3 million over the previous fiscal year. This increase is primarily due to the receipt of \$245 million of State General Fund monies for Statewide Transportation Acceleration Needs (STAN), an account within the Department's General Fund (State Highway Fund). These funds were appropriated by the State to the State Highway Fund to accelerate the construction of certain critical projects on the State Highway System. Of this \$1.0 billion balance, \$39.0 million or 3.7 percent constitutes the unreserved fund balance, which was available for spending for the general purposes of the Department. The remaining fund balance of \$1.0 billion, or 96.3 percent, was reserved for the following: 1) \$5.8 million for inventories, 2) \$2.7 million to pay debt service, 3) \$977.4 million to pay for capital projects and 4) \$20 million for the repayment of an advance from the HELP 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 \$10.0 million and the reserved fund balance was \$507.7 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 1.2 percent of total General Fund (State Highway Fund) expenditures, while total fund balance represents 58.9 percent of the same amount.

The Maricopa Regional Area Road Construction Fund (MRF) is a major special revenue fund that receives Maricopa County Transportation Excise Tax monies that are used for construction of certain state highways and arterial streets within Maricopa County. Total revenues collected in fiscal year 2007 were \$322.4 million; transportation excise tax revenue of \$262.3 million (or 81.3 percent) was the bulk of the revenue. The remaining revenue was mainly Federal revenue and interest on investments.

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 \$186.8 million were transferred in from the General Fund (State Highway Fund) (\$129.7 million), and Grant Anticipation Notes Fund (\$57.1 million), and were used to pay the debt service. The remaining fund balance of \$2.7 million is restricted for future debt service payments.

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 \$172.2 million. Capital outlay expenditures of \$166.2 million (96.5 percent) accounted for the majority of the expenditures in the Capital Projects

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

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 \$187.5 million.

Budget Variances

The increase from the original to the final budget was the result of a general wage increase for all State employees as well as the accompanying employee related expenses, including health insurance and retirement. There were no significant differences between the Department's final budgeted amounts and the actual expenditures for fiscal year 2007.

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, 2007, amounts to \$14.3 billion (net of accumulated depreciation), a \$673.4 million increase over the previous fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 2,217,183,763	\$ 2,118,364,685	\$ 7,900	\$ 7,900	\$ 2,217,191,663	\$ 2,118,372,585
Buildings and improvements	92,815,639	91,079,425	170,133	203,951	92,985,772	91,283,376
Improvements other than buildings	20,122,366	19,876,604	-	-	20,122,366	19,876,604
Mobile fleet and aircraft	51,132,300	52,678,865	-	-	51,132,300	52,678,865
Machinery and equipment	21,026,496	19,731,615	47,146	36,864	21,073,642	19,768,479
Infrastructure	9,855,140,388	9,379,755,220	-	-	9,855,140,388	9,379,755,220
Construction in progress	2,032,678,119	1,935,193,364	-	-	2,032,678,119	1,935,193,364
Total	<u>\$ 14,290,099,071</u>	<u>\$ 13,616,679,778</u>	<u>\$ 225,179</u>	<u>\$ 248,715</u>	<u>\$ 14,290,324,250</u>	<u>\$ 13,616,928,493</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 6,817 center lane miles (18,573 travel lane miles) and 4,648 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 as circumstances may require, adjustments are made monthly during the fiscal year.

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 3.87 was achieved for fiscal year 2007.

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 2007, a CRI of 93.6 percent was achieved.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

In addition to many smaller projects, each of the following major highway construction contracts in excess of \$20 million was started during fiscal year 2007:

Description	Contract Start Date	Contract Amount	Fiscal Year 2007 Expenditures
Construction on Interstate 10 from Price Road to 29th Street within the City of Tucson in Pima County.	09/18/2006	\$ 200,300,000	\$ 28,463,055
Construction on State Route 179 south of Sedona in Coconino and Yavapai Counties.	07/24/2006	30,352,243	12,066,270
Construction of two traffic interchanges and related bridge work on Interstate 17 within the City of Phoenix in Maricopa County.	03/23/2007	35,777,669	1,558,967
Construction of HOV lanes on State Route Loop 101 and State Route 51 within the City of Phoenix in Maricopa County.	04/23/2007	40,207,439	989,000
Construction on Interstate 10 north of Tucson in Pima and Pinal Counties.	06/19/2007	21,893,081	-
Construction on US 60 east of Apache Junction in Pinal County.	06/22/2007	40,530,000	-

In addition to many smaller projects, the following major highway construction projects had expenditures in excess of \$15 million in fiscal year 2007. These expenditures include payments made to construction contractors as well as utility, design, right-of-way, and landscaping costs.

Location Description	Project Expenditures
State Route Loop 202 from Power Road to University Drive within the City of Mesa in Maricopa County.	\$91,391,972
US 60 from Gilbert Road to Power Road within the City of Mesa in Maricopa County.	44,977,325
State Route Loop 202 from University Drive to Southern Avenue within the City of Mesa in Maricopa County.	43,007,571
Interstate 10 from Price Road to 29th Street within the City of Tucson in Pima County.	31,392,430
State Route Loop 101 and Interstate 17 interchange in Maricopa County.	28,865,754
State Route 179 south of Sedona in Coconino and Yavapai Counties.	26,146,617
State Route Loop 202 and US 60 interchange within the City of Mesa in Maricopa County.	23,591,436
Intersection of Interstate 40 and North Park Drive within the City of Winslow in Navajo County.	17,316,120

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

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, 2007, amount to \$2.2 billion, a decrease of \$221.0 million from the previous fiscal year.

Governmental Activities	2007	2006
Highway revenue bonds	\$ 1,490,600,000	\$ 1,223,425,000
Grant anticipation notes	282,860,000	325,430,000
Premium on bonds	108,034,322	90,852,414
Compensated absences	14,410,376	12,010,473
Capital leases	10,600,742	11,129,668
Notes payable	<u>168,287,371</u>	<u>195,017,589</u>
Total Governmental Activities	<u>2,074,792,811</u>	<u>1,857,865,144</u>
Business-type Activities		
Compensated absences	151,201	134,537
Notes payable	<u>154,534,466</u>	<u>150,494,466</u>
Total Business-type Activities	<u>154,685,667</u>	<u>150,629,003</u>
Total Non-Current Liabilities	<u>\$ 2,229,478,478</u>	<u>\$ 2,008,494,147</u>

The Department has issued revenue bonds in 39 separate issues between 1980 and 2007. All bonds outstanding as of June 30, 2007, are scheduled to mature on various dates, but not later than July 1, 2026. The bonds are obligations of the State Transportation Board and are not obligations of the State of Arizona.

Of the \$5.9 billion total in bonds issued between 1980 and 2007, \$1.4 billion, or approximately 24 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 User Revenue Fund (HURF) bonds have been rated AAA/Aa1 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively. The Department's subordinate lien HURF bonds, as a result of a rating increase on September 26, 2006, are rated AAA/Aa2. The Grant Anticipation Notes (GARVEE bonds) are rated AA-/Aa3/AA with the additional rating provided by Fitch Ratings. The Department has no Regional Area Road Fund bonds outstanding.

Arizona Revised Statutes, §ARS 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 (HELP) 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 HELP Fund established by this legislation.

In fiscal year 2007, the Department issued Highway Revenue Bonds totaling \$325,000,000 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 Highway Revenue Bonds with maturities up to 30 years in length, replacing the 20 year maturity requirement that had been in place since 1980.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2007

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



Basic Financial Statements

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

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

Statement of Fiduciary Net Assets – 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, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Unrestricted cash on deposit with the State Treasurer	\$ 159,561,121	\$ 2,105,531	\$ 161,666,652
Receivables:			
Notes and loans	7,622,744	114,682,502	122,305,246
Subscriptions, net of allowance for doubtful accounts	-	323,591	323,591
Accrued interest	4,227,107	760,657	4,987,764
Taxes and fees	62,121,925	-	62,121,925
Other, net of allowance for doubtful accounts	9,154,717	79,997	9,234,714
Due from U.S. Government for reimbursable costs	49,544,490	-	49,544,490
Due from other state agencies	-	122,327	122,327
Internal balances	19,918,329	<19,918,329>	-
Inventories	8,690,321	1,056,893	9,747,214
Prepaid items	-	236,805	236,805
Deferred charges	16,152,530	-	16,152,530
Restricted cash on deposit with the State Treasurer	1,166,643,799	130,631,610	1,297,275,409
Capital assets not subject to depreciation (Note 5A)	14,105,002,270	7,900	14,105,010,170
Capital assets subject to depreciation, net of accumulated depreciation (Note 5A)	185,096,801	217,279	185,314,080
Total assets	<u>15,793,736,154</u>	<u>230,306,763</u>	<u>16,024,042,917</u>
LIABILITIES			
Accounts payable and other current liabilities	24,240,938	259,101	24,500,039
Accrued payroll and other accrued expenses	10,514,108	131,040	10,645,148
Contracts and retainage payable	88,684,437	-	88,684,437
Due to Arizona counties and cities	130,374,378	-	130,374,378
Due to other state agencies	10,570,485	-	10,570,485
Deferred revenues (Note 5C)	-	3,196,298	3,196,298
Non-current liabilities (Note 5G):			
Due within one year	251,056,635	154,685,667	405,742,302
Due in more than one year	1,823,736,176	-	1,823,736,176
Total liabilities	<u>2,339,177,157</u>	<u>158,272,106</u>	<u>2,497,449,263</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,211,861,155	225,179	12,212,086,334
Restricted:			
Loans and other financial assistance	-	71,707,711	71,707,711
Debt service	2,687,622	-	2,687,622
Capital projects	1,003,824,231	-	1,003,824,231
Unrestricted	236,185,989	101,767	236,287,756
Total Net Assets	<u>\$ 13,454,558,997</u>	<u>\$ 72,034,657</u>	<u>\$ 13,526,593,654</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, 2007

Functions/Programs	Expenses	Program Revenues			Net <Expenses> Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 51,666,715	\$ 8,843,066	\$ -	\$ -	\$ <42,823,649>
Aeronautics	5,417,937	1,133,347	609,848	-	<3,674,742>
Highway	79,279,372	2,953,149	31,510,083	354,023,589	309,207,449
Highway Maintenance	120,162,937	577,128	-	-	<119,585,809>
Motor Vehicle	105,961,064	132,273,779	-	-	26,312,715
Non-capital, including asset preservation	173,077,942	-	-	-	<173,077,942>
Distributions to Arizona counties and cities	1,219,208,067	-	-	-	<1,219,208,067>
Distributions to other state agencies	114,795,378	-	-	-	<114,795,378>
Intergovernmental	48,760,126	12,238,611	40,558,982	-	4,037,467
Interest on long-term debt	82,449,597	-	-	-	<82,449,597>
Total governmental activities	<u>2,000,779,135</u>	<u>158,019,080</u>	<u>72,678,913</u>	<u>354,023,589</u>	<u><1,416,057,553></u>
Business-type Activities:					
Arizona Highways Magazine	8,071,836	8,059,902	-	-	<11,934>
Highway Expansion and Extension Loan Program	4,354,619	2,909,458	-	-	<1,445,161>
Total business-type activities	<u>12,426,455</u>	<u>10,969,360</u>	<u>-</u>	<u>-</u>	<u><1,457,095></u>
Total	<u>\$ 2,013,205,590</u>	<u>\$ 168,988,440</u>	<u>\$ 72,678,913</u>	<u>\$ 354,023,589</u>	<u>\$ <1,417,514,648></u>
			Governmental Activities	Business-type Activities	Total
Net <expenses>			\$ <1,416,057,553>	\$ <1,457,095>	\$ <1,417,514,648>
General revenues:					
Transportation excise taxes			262,263,939	-	262,263,939
Vehicle, registration, title, license, and related taxes			1,029,000,817	-	1,029,000,817
Fuel and motor carrier taxes			790,908,552	-	790,908,552
Flight property taxes			15,302,697	-	15,302,697
Interest on investments			55,760,406	5,563,036	61,323,442
Gain <loss> on sale of capital assets			<464,317>	<2,749>	<467,066>
Other			10,462,131	-	10,462,131
Special item - State appropriation (Note 6D)			245,000,000	-	245,000,000
Total general revenues and special item			<u>2,408,234,225</u>	<u>5,560,287</u>	<u>2,413,794,512</u>
Change in net assets			992,176,672	4,103,192	996,279,864
Net assets - July 1			12,462,382,325	67,931,465	12,530,313,790
Net assets - June 30			<u>\$ 13,454,558,997</u>	<u>\$ 72,034,657</u>	<u>\$ 13,526,593,654</u>

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



Government 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 certain state highways and arterial streets within Maricopa County.

Motor Vehicle Division Clearing Fund

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

Highway User Revenue Fund

This fund receives all revenues collected by the 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 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, 2007

	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	\$ 96,349,039	\$ -	\$ -	\$ -
Receivables:				
Accrued interest	1,781,085	1,167,009	-	152,985
Interfund (Note 5E)	97,870,229	639,320	605,937	15,889,250
Taxes and fees	-	-	10,181,080	51,940,845
Notes and loans	-	1,720,571	-	-
Other	4,336,883	604,976	-	-
Amounts due from:				
U.S. Government	22,097,656	12,005,017	-	-
Inventories	5,757,100	-	-	-
Advance to other funds	20,000,000	-	-	-
Deferred charges	-	-	8,128,423	-
Restricted cash on deposit with the State Treasurer	481,966,113	281,914,979	51,720,559	124,943,518
Total assets	<u>\$ 730,158,105</u>	<u>\$ 298,051,872</u>	<u>\$ 70,635,999</u>	<u>\$ 192,926,598</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 4,917,524	\$ -	\$ 17,273,337	\$ -
Accrued payroll and other accrued expenditures	9,710,915	55,494	-	8,410
Contracts and retainage payable	48,011,677	24,709,728	-	-
Interfund payables (Note 5E)	1,536,349	-	18,895,171	97,282,353
Amounts due to:				
Arizona counties and cities	-	-	29,772,848	95,635,835
Other state agencies	-	-	4,673,143	-
Surety and rental deposits	2,814	-	21,500	-
Deferred revenue	-	1,720,571	-	-
Notes payable	168,287,371	-	-	-
Total liabilities	<u>232,466,650</u>	<u>26,485,793</u>	<u>70,635,999</u>	<u>192,926,598</u>
Fund balances:				
Reserved for:				
Inventories	5,757,100	-	-	-
Advance to other funds	20,000,000	-	-	-
Debt service	-	-	-	-
Capital projects	481,966,113	271,566,079	-	-
Unreserved reported in:				
General fund	<10,031,758>	-	-	-
Non-major special revenue funds	-	-	-	-
Total fund balances	<u>497,691,455</u>	<u>271,566,079</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 730,158,105</u>	<u>\$ 298,051,872</u>	<u>\$ 70,635,999</u>	<u>\$ 192,926,598</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 9)	Total Governmental Funds
\$ -	\$ -	\$ 54,876,072	\$ 151,225,111
258,190	674,662	166,917	4,200,848
-	134,907	2,964,865	118,104,508
-	-	-	62,121,925
-	-	5,902,173	7,622,744
-	-	4,212,860	9,154,719
-	-	15,441,817	49,544,490
-	-	-	5,757,100
-	-	-	20,000,000
-	-	-	8,128,423
<u>2,429,452</u>	<u>207,177,484</u>	<u>16,491,694</u>	<u>1,166,643,799</u>
<u>\$ 2,687,642</u>	<u>\$ 207,987,053</u>	<u>\$100,056,398</u>	<u>\$ 1,602,503,667</u>
\$ -	\$ -	\$ 1,787,926	\$ 23,978,787
-	-	195,446	9,970,265
-	-	15,963,032	88,684,437
110	-	468,204	118,182,187
-	-	4,965,695	130,374,378
-	-	5,897,342	10,570,485
-	-	-	24,314
-	-	5,902,173	7,622,744
-	-	-	168,287,371
<u>110</u>	<u>-</u>	<u>35,179,818</u>	<u>557,694,968</u>
-	-	-	5,757,100
-	-	-	20,000,000
2,687,532	-	90	2,687,622
-	207,987,053	15,874,687	977,393,932
-	-	-	<10,031,758>
-	-	49,001,803	49,001,803
<u>2,687,532</u>	<u>207,987,053</u>	<u>64,876,580</u>	<u>1,044,808,699</u>
<u>\$ 2,687,642</u>	<u>\$ 207,987,053</u>	<u>\$100,056,398</u>	<u>\$ 1,602,503,667</u>



Arizona Department of Transportation
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2007

Total fund balances - governmental funds (Exhibit 3) \$ 1,044,808,699

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). 14,238,045,343

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). 53,290,976

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds (Note 4 B). 7,622,744

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). <1,889,208,765>

Net assets of governmental activities (Exhibit 1) \$ 13,454,558,997

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, 2007

	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	\$ -	\$ 262,263,939	\$ -	\$ -
Vehicle registration, title, license, and related taxes and fees	318,644,954	-	515,890,108	313,473,265
Fuel and motor carrier taxes and fees	365,855,724	-	6,715,422	381,442,992
Reimbursement of construction expenditures - federal aid	236,948,147	40,279,418	-	-
Other federal grants and reimbursements	31,378,893	-	-	-
Reimbursements from Arizona counties and cities	15,609,786	7,122,358	-	-
Distributions from other state agencies	1,799,504	-	-	-
Interest on loans receivable	486,134	144,452	-	-
Interest on investments	26,462,906	12,230,767	-	2,451,735
Flight property taxes	-	-	-	-
Grand Canyon National Park Airport	-	-	-	-
Rental income	1,143,026	291,499	-	-
Other	4,563,469	84,422	-	2,337,538
Total revenues	<u>1,002,892,543</u>	<u>322,416,855</u>	<u>522,605,530</u>	<u>699,705,530</u>
Expenditures:				
Current:				
Transportation:				
Administration	44,389,169	-	-	-
Aeronautics	-	-	-	-
Highway	75,970,369	-	-	-
Highway maintenance	118,939,991	-	-	-
Motor Vehicle	98,249,066	-	-	607,300
Total Transportation	<u>337,548,595</u>	<u>-</u>	<u>-</u>	<u>607,300</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
\$ -	\$ -	\$ -	\$ 262,263,939
-	-	11,370,345	1,159,378,672
-	-	38,702,544	792,716,682
-	-	57,148,219	334,375,784
-	-	41,168,830	72,547,723
-	-	12,238,611	34,970,755
-	-	-	1,799,504
-	-	297,388	927,974
2,513,135	9,939,693	1,795,211	55,393,447
-	-	15,302,697	15,302,697
-	-	1,133,347	1,133,347
-	-	-	1,434,525
-	-	102,280	7,087,709
<u>2,513,135</u>	<u>9,939,693</u>	<u>179,259,472</u>	<u>2,739,332,758</u>
39,901	446,244	-	44,875,314
-	-	3,876,077	3,876,077
-	-	48,760,126	124,730,495
-	-	-	118,939,991
-	-	4,944,692	103,801,058
<u>39,901</u>	<u>446,244</u>	<u>57,580,895</u>	<u>396,222,935</u>

(continued)

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2007

	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	\$ 22,299,363	\$ 22,303,272	\$ 478,695,619	\$ 677,647,751
Distributions to other state agencies	14,992,487	-	43,909,911	21,450,479
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Interest on notes payable	2,472,429	-	-	-
Non-capital, including asset preservation	118,637,423	152,403	-	-
Capital outlay	348,332,757	226,953,479	-	-
Total expenditures	<u>844,283,054</u>	<u>249,409,154</u>	<u>522,605,530</u>	<u>699,705,530</u>
Excess <deficiency> of revenues over <under> expenditures	158,609,489	73,007,701	-	-
Other financing sources <uses>:				
Transfers in	38,568,866	73,279	-	-
Transfers out for debt service	<129,707,596>	-	-	-
Transfers out other	<72,928>	<37,094,890>	-	-
Capital leases	2,128,489	-	-	-
Sale of capital assets	462,448	9,699,566	-	-
Insurance recovery	577,128	-	-	-
Debt issuance	-	-	-	-
Premium from debt issuance	-	-	-	-
Total other financing sources <uses>	<u><88,043,593></u>	<u><27,322,045></u>	<u>-</u>	<u>-</u>
Special item				
State appropriation for Statewide Transportation				
Acceleration Needs (STAN)	<u>245,000,000</u>	-	-	-
Net change in fund balances	315,565,896	45,685,656	-	-
Fund balances - July 1	<u>182,125,559</u>	<u>225,880,423</u>	-	-
Fund balances - June 30	<u>\$ 497,691,455</u>	<u>\$ 271,566,079</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
\$ -	\$ -	\$ 16,937,408	\$ 1,217,883,413
-	-	34,442,501	114,795,378
100,395,000	-	-	100,395,000
88,363,507	-	-	88,363,507
-	1,591,556	-	1,591,556
-	-	-	2,472,429
-	3,991,770	-	122,781,596
-	166,219,506	-	741,505,742
<u>188,798,408</u>	<u>172,249,076</u>	<u>108,960,804</u>	<u>2,786,011,556</u>
<186,285,273>	<162,309,383>	70,298,668	<46,678,798>
186,857,174	-	-	225,499,319
-	-	<57,148,219>	<186,855,815>
<43,761>	<1,348,438>	<83,487>	<38,643,504>
-	-	-	2,128,489
-	-	-	10,162,014
-	-	-	577,128
-	325,000,000	-	325,000,000
-	26,201,309	-	26,201,309
<u>186,813,413</u>	<u>349,852,871</u>	<u><57,231,706></u>	<u>364,068,940</u>
-	-	-	245,000,000
528,140	187,543,488	13,066,962	562,390,142
2,159,392	20,443,565	51,809,618	482,418,557
<u>\$ 2,687,532</u>	<u>\$ 207,987,053</u>	<u>\$ 64,876,580</u>	<u>\$ 1,044,808,699</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, 2007

Net change in fund balances - total governmental funds (Exhibit 4)	\$ 562,390,142
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 4 C).	674,747,333
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 4 C).	<351,201,309>
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 4 C).	110,372,895
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 4 C).	4,309,093
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 4 C).	<u><8,441,482></u>
Change in net assets of governmental activities (Exhibit 2)	<u>\$ 992,176,672</u>

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



Proprietary Fund 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 funds 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, 2007

	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	\$ -	\$ 2,105,531	\$ 2,105,531	\$ 8,336,010
Restricted cash on deposit with the State Treasurer	130,631,610	-	130,631,610	-
Receivables:				
Subscriptions, net of allowance for doubtful accounts	-	323,591	323,591	-
Accrued interest	746,190	14,467	760,657	26,259
Loans	72,715,250	-	72,715,250	-
Other, net allowance for doubtful accounts	-	79,997	79,997	-
Interfund receivables (Note 5E)	78,777	-	78,777	-
Due from Arizona counties and cities	122,327	-	122,327	-
Inventories	-	1,056,893	1,056,893	2,933,221
Prepaid items	-	236,805	236,805	-
Total current assets	<u>204,294,154</u>	<u>3,817,284</u>	<u>208,111,438</u>	<u>11,295,490</u>
Non-current assets:				
Loans receivable	41,967,252	-	41,967,252	-
Capital assets not subject to depreciation	-	7,900	7,900	-
Capital assets subject to depreciation, net of accumulated depreciation	-	217,279	217,279	52,053,728
Total noncurrent assets	<u>41,967,252</u>	<u>225,179</u>	<u>42,192,431</u>	<u>52,053,728</u>
Total assets	<u>246,261,406</u>	<u>4,042,463</u>	<u>250,303,869</u>	<u>63,349,218</u>
LIABILITIES				
Current liabilities:				
Accounts payable	-	259,101	259,101	237,837
Accrued payroll and other accrued expenses	5,350	125,690	131,040	1,268,483
Interfund payables (Note 5E)	-	-	-	1,100
Compensated absences	13,879	137,322	151,201	-
Deferred revenue	-	3,196,298	3,196,298	-
Capital leases payable (Note 5F)	-	-	-	2,672,188
Notes payable	154,534,466	-	154,534,466	-
Total current liabilities	<u>154,553,695</u>	<u>3,718,411</u>	<u>158,272,106</u>	<u>4,179,608</u>
Non-current liabilities:				
Advance from other funds	20,000,000	-	20,000,000	-
Capital leases payable (Note 5F)	-	-	-	5,878,634
Total noncurrent liabilities	<u>20,000,000</u>	<u>-</u>	<u>20,000,000</u>	<u>5,878,634</u>
Total liabilities	<u>174,553,695</u>	<u>3,718,411</u>	<u>178,272,106</u>	<u>10,058,242</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	225,179	225,179	43,502,906
Restricted for loans and other financial assistance	71,707,711	-	71,707,711	-
Unrestricted	-	98,873	98,873	9,788,070
Total net assets	<u>\$ 71,707,711</u>	<u>\$ 324,052</u>	<u>72,031,763</u>	<u>\$ 53,290,976</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>2,894</u>	
Net assets of business-type activities			<u>\$ 72,034,657</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, 2007

	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 \$81,371)	\$ -	\$ 7,285,800	\$ 7,285,800	\$ 43,125,738
Interest on loans receivables	2,909,458	-	2,909,458	-
Other	-	774,102	774,102	51,322
Total operating revenues	2,909,458	8,059,902	10,969,360	43,177,060
Operating expenses:				
Publication and promotional cost	-	3,452,483	3,452,483	-
Repair and maintenance	-	114,521	114,521	4,815,052
Fuel and lubricants	-	-	-	12,364,533
Salaries and related benefits	197,042	2,416,998	2,614,040	13,737,008
Shipping and postage	-	1,195,167	1,195,167	-
Supplies	1,144	97,159	98,303	351,592
Equipment purchase and rental	-	19,986	19,986	501,996
Professional and outside services	31,000	400,752	431,752	215,797
Insurance	-	-	-	605,300
Travel	886	13,538	14,424	86,418
Interest on notes payable	4,040,000	-	4,040,000	-
Depreciation	-	38,791	38,791	8,022,214
Other	1,311	321,255	322,566	1,314,259
Total operating expenses	4,271,383	8,070,650	12,342,033	42,014,169
Operating <loss> income	<1,361,925>	<10,748>	<1,372,673>	1,162,891
Non-operating revenues <expenses>:				
Interest on investments	5,439,624	123,412	5,563,036	366,959
Investment expense	<83,236>	<1,696>	<84,932>	-
Gain <loss> on sale/disposal of capital assets	-	<2,749>	<2,749>	122,289
Insurance recoveries	-	-	-	699,346
Interest on capital leases	-	-	-	<355,896>
Total non-operating revenues <expenses>	5,356,388	118,967	5,475,355	832,698
Capital contributions	-	-	-	2,314,014
Changes in net assets	3,994,463	108,219	4,102,682	4,309,603
Total net assets - July 1	67,713,248	215,833		48,981,373
Total net assets - June 30	\$ 71,707,711	\$ 324,052		\$ 53,290,976
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			510	
Change in net assets of business-type activities			\$ 4,103,192	

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, 2007

	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	\$ 3,634,058	\$ 6,857,446	\$ 10,491,504	\$ -
Receipts from other funds	31,600,000	-	31,600,000	34,983,118
Receipts from other agencies	7,608,289	-	7,608,289	8,143,720
Payments to suppliers	<32,144>	<5,566,484>	<5,598,628>	<20,172,778>
Payments to employees	<196,930>	<2,382,421>	<2,579,351>	<13,684,487>
Payments to other agencies	<5,797,282>	-	<5,797,282>	-
Other receipts <payments>	<1,311>	769,314	768,003	36,191
Net cash provided by operating activities	<u>36,814,680</u>	<u><322,145></u>	<u>36,492,535</u>	<u>9,305,764</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	-	-	-	349,123
Acquisition of capital assets	-	<18,004>	<18,004>	<4,606,995>
Insurance recoveries	-	-	-	699,346
Capital lease payments	-	-	-	<2,934,742>
Net cash <used in> capital and related financing activities	<u>-</u>	<u><18,004></u>	<u><18,004></u>	<u><6,493,268></u>
Cash flows from investing activities:				
Interest on investments	5,124,274	123,412	5,247,686	366,959
Investment expense	<83,236>	<1,696>	<84,932>	-
Net cash provided by investing activities	<u>5,041,038</u>	<u>121,716</u>	<u>5,162,754</u>	<u>366,959</u>
Net increase <decrease> in cash	41,855,718	<218,433>	41,637,285	3,179,455
Cash - July 1	88,775,892	2,323,964	91,099,856	5,156,555
Cash - June 30	<u>\$ 130,631,610</u>	<u>\$ 2,105,531</u>	<u>\$ 132,737,141</u>	<u>\$ 8,336,010</u>

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

Operating <loss> income	\$ <1,361,925>	\$ <10,748>	\$ <1,372,673>	\$ 1,162,891
Adjustment to reconcile operating <loss> income to net cash provided by operating activities:				
Depreciation	-	38,791	38,791	8,022,214
Net changes in assets and liabilities:				
Receivables	33,411,007	<37,203>	33,373,804	<15,131>
Due from other Arizona Department of Transportation funds	726,494	-	726,494	1,100
Due from Arizona counties and cities	<1,895>	-	<1,895>	-
Inventories	-	<33,121>	<33,121>	<8,524>
Prepaid items	-	61,748	61,748	-
Accounts payable	-	19,749	19,749	4,275
Accrued payroll and other accrued expenses	141	18,771	18,912	138,939
Compensated absences	858	15,806	16,664	-
Notes payable	4,040,000	-	4,040,000	-
Deferred revenue	-	<395,938>	<395,938>	-
Net cash provided by operating activities	<u>\$ 36,814,680</u>	<u><322,145></u>	<u>\$ 36,492,535</u>	<u>\$ 9,305,764</u>

Noncash capital and financing activities:

Certain vehicles were contributed to the Equipment Fund by the General Fund totaling \$2,314,014.

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



Fiduciary Fund 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, 2007

ASSETS

Restricted cash on deposit with the State Treasurer	\$ 172,526
Other receivables	204
Total assets	\$ 172,730

LIABILITIES

Due to Arizona counties	\$ 169,916
Other payables	2,814
Total liabilities	\$ 172,730

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



Notes to the Financial Statements



Arizona Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007

Index
Notes to the Financial Statements

	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 Fund 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 Fund to 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	48
H – Short-term Debt	51
I – Fund Balances	51
Note 6 – Other Information	51
A – Subsequent Events	51
B – Contingent Liabilities.....	52
C – Retirement Plan.....	52
D – Special Item	53

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*.

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 used for the construction of certain state highways and arterial streets within Maricopa County.

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, 2007

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 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* (HELP) 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 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.

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, 2007, 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 (STAN) account, and for loan repayments to the HELP 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. Other receivables in excess of 180 days comprise the recoverable insurance claims net of allowance for doubtful accounts. The subscriptions receivable allowance for doubtful accounts is equal to 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. The loans were made at a fixed rate and mature ten years from the date of origination.

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 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 bank 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 (STAN) account, and for loan repayments to the HELP 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.

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.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

Assets	Years
Buildings and improvements	40
Improvements other than building	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, 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. The loans were made at a fixed rate and mature ten years from the date of origination. 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, 2007

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. Prior to 2006 bond premiums and discounts were deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Beginning in 2006, 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.

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

Net Assets/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. 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.

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

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

FIDUCIARY FUNDS

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

3. BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Annual budgets for the operating expenditures 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. 43 *Financial Reporting by for Postemployment Benefit Plans Other Than Pensions Plans*

This Statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. The provisions of this Statement are effective for periods beginning after December 15, 2005. The Department does not have any postemployment benefit plans and therefore, this Statement is not applicable to the Department.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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 will implement this Statement as appropriate.

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 will implement this Statement as appropriate.

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 postclosure 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.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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.

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

The governmental funds Balance Sheet includes a 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	\$ 14,105,002,270
Capital assets subject to depreciation	<u>185,096,801</u>
	14,290,099,071
less Internal Service Fund (Equipment Fund) assets	<u><52,053,729></u>
	<u>\$ 14,238,045,342</u>

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

Maricopa Regional Area Road Construction Fund	\$ 1,720,571
State Aviation Fund	<u>5,902,173</u>
	<u>\$ 7,622,744</u>

- 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	\$<1,881,494,322>
Deferred charges - bond issuance costs - outstanding amount	8,024,107
Capital leases	<2,049,920>
Compensated absences	<13,685,736>
Business activity share of Equipment Fund gain <loss>	<u><2,894></u>
	<u>\$<1,889,208,765></u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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	\$ 741,505,742
Adjustment to infrastructure	<57,818,364>
Less depreciation expense	<u><8,940,045></u>
	<u>\$ 674,747,333</u>

2. The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net 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	\$<325,000,000>
Issuance of GARVEE Bonds (Grant Anticipation Notes)	-
Premium on bonds	<u><26,201,309></u>
	<u><351,201,309></u>
Principal repayments:	
Highway Revenue Bonds	57,825,000
Transportation Excise Tax Revenue Bonds	-
GARVEE Bonds (Grant Anticipation Notes)	42,570,000
Amortization of premium and discount	9,019,401
Amortization of bond issuance costs	<u>958,494</u>
	<u>110,372,895</u>
	<u>\$<240,828,414></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	\$ 4,309,603
Business activity share of Equipment Fund <gain> loss	<u><510></u>
	<u>\$ 4,309,093</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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:

Contributed capital	\$ <2,314,014>
Capital lease	<2,049,920>
Notes and loans	<1,735,709>
Compensated absences	<u><2,341,839></u>
	<u>\$ <8,441,482></u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

5. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

Capital assets activity for the year ended June 30, 2007, was as follows:

Governmental Activities	July 1, 2006 Beginning Balance	Increases	Decreases	June 30, 2007 Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 2,118,364,685	\$ 121,079,273	\$ <22,260,195>	\$ 2,217,183,763
Infrastructure	9,379,755,222	488,032,596	<12,647,430>	9,855,140,388
Construction in progress	<u>1,935,193,364</u>	<u>578,716,070</u>	<u><481,231,315></u>	<u>2,032,678,119</u>
Total Capital Assets, not being depreciated	<u>13,433,313,271</u>	<u>1,187,827,939</u>	<u><516,138,940></u>	<u>14,105,002,270</u>
Capital Assets, being depreciated:				
Buildings and improvements	149,209,322	6,473,525	-	155,682,847
Improvements other than buildings	22,423,500	589,360	-	23,012,860
Machinery and equipment	54,229,405	5,444,646	<3,136,601>	56,537,450
Mobile fleet and aircraft	<u>134,242,521</u>	<u>6,934,703</u>	<u><5,626,782></u>	<u>135,550,442</u>
Total Capital Assets, being depreciated	<u>360,104,748</u>	<u>19,442,234</u>	<u><8,763,383></u>	<u>370,783,599</u>
Less accumulated depreciation for:				
Buildings and improvements	<58,129,896>	<4,737,312>	-	<62,867,208>
Improvements other than buildings	<2,546,896>	<343,598>	-	<2,890,494>
Machinery and equipment	<34,497,790>	<3,965,757>	2,952,593	<35,510,954>
Mobile fleet and aircraft	<u><81,563,657></u>	<u><7,915,592></u>	<u>5,061,107</u>	<u><84,418,142></u>
Total accumulated depreciation	<u><176,738,239></u>	<u><16,962,259></u>	<u>8,013,700</u>	<u><185,686,798></u>
Total Capital Assets, being depreciated, net	<u>183,366,509</u>	<u>2,479,975</u>	<u><749,683></u>	<u>185,096,801</u>
Governmental activities capital assets, net	<u>\$ 13,616,679,780</u>	<u>\$ 1,190,307,914</u>	<u>\$ <516,888,623></u>	<u>\$ 14,290,099,071</u>
Business-Type Activities	July 1, 2006 Beginning Balance	Increases	Decreases	June 30, 2007 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>2,352,439</u>	<u>18,004</u>	<u><9,003></u>	<u>2,361,440</u>
Total Capital Assets, being depreciated	<u>3,333,596</u>	<u>18,004</u>	<u><9,003></u>	<u>3,342,597</u>
Less accumulated depreciation for:				
Buildings and improvements	<777,206>	<33,818>	-	<811,024>
Machinery and equipment	<u><2,315,575></u>	<u><4,973></u>	<u>6,254</u>	<u><2,314,294></u>
Total accumulated depreciation	<u><3,092,781></u>	<u><38,791></u>	<u>6,254</u>	<u><3,125,318></u>
Total Capital Assets, being depreciated, net	<u>240,815</u>	<u><20,787></u>	<u><2,749></u>	<u>217,279</u>
Business type activities capital assets, net	<u>\$ 248,715</u>	<u>\$ <20,787></u>	<u>\$ <2,749></u>	<u>\$ 225,179</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	\$ 1,664,260
Aeronautics	1,515,516
Highway	2,541,549
Highway Maintenance	1,611,044
Motor Vehicle	1,607,676
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets	<u>8,022,214</u>
Total depreciation expense - governmental activities	<u>\$ 16,962,259</u>
Business-type Activities	
Arizona Highways Magazine Fund	<u>\$ 38,791</u>

B. Construction Commitments

The Department's outstanding commitments for contracts at June 30, 2007, were \$873,795,206.

	Expenditures To Date	Remaining Commitment
Construction Contracts:		
Rural Roadways	\$ 169,065,837	\$170,213,151
Small Urban Roadways	29,454,931	21,875,919
Urban Roadways	60,846,448	47,684,078
Large Urban Roadways	<u>356,465,009</u>	<u>356,235,098</u>
Sub-total	615,832,225	596,008,246
Design Contracts	952,896,629	133,156,414
Other Commitments	<u>335,606,580</u>	<u>144,630,546</u>
Total	<u>\$1,904,335,434</u>	<u>\$873,795,206</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 loans were made at a fixed rate and mature ten years from the date of origination. The State Aviation Fund amount represents loans to various local governments for construction of hangars, taxiways extension, 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, 2007:

Governmental Funds:	
Maricopa Regional Area Road Construction Fund	\$ 1,720,571
State Aviation Fund	<u>5,902,173</u>
	<u>\$ 7,622,744</u>
Proprietary Fund:	
Arizona Highways Magazine Fund	<u>\$ 3,196,298</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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 the 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, 2007, the bank held assignment on securities aggregating approximately \$5.7 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, 2007, were:

Receivables	Payables	Amount
Governmental activities:		
General Fund (State Highway Fund)	Highway User Revenue Fund	\$ 97,282,353
	Equipment Service Fund	1,100
	Debt Service Fund	110
	Motor Vehicle Division Clearing Fund	118,462
	Non-major governmental Funds	468,204
Motor Vehicle Division Clearing Fund	General Fund (State Highway Fund)	605,937
Highway User Revenue Fund	Motor Vehicle Division Clearing Fund	15,831,650
	General Fund (State Highway Fund)	57,600
Maricopa Regional Area Road Fund	General Fund (State Highway Fund)	639,320
Capital Project	General Fund (State Highway Fund)	134,907
Non-major governmental funds	Motor Vehicle Division Clearing Fund	2,945,058
	General Fund (State Highway Fund)	19,807
		<u>118,104,508</u>
Business-type activities:		
Highway Expansion and Extension Loan Program Fund	General Fund (State Highway Fund)	78,777
		<u>\$ 118,183,285</u>

The General Fund receivable of \$97,282,353 is an accrual for fuel tax revenues imposed in fiscal year 2007 from the Highway User Revenue Fund that will be collected in fiscal year 2008.

The Highway User Revenue Fund receivable of \$15,831,650 is an accrual for vehicle license taxes due in fiscal year 2007 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2008.

In a prior fiscal year, the General 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.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

Interfund transfers for the year ended June 30, 2007, consisted of the following:

	Interfund Transfer In:			Total
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Debt Service Fund	
<u>Interfund Transfer Out:</u>				
General Fund (State Highway Fund)	\$ -	\$ 72,928	\$ 129,707,596	\$129,780,524
Capital Projects Fund	1,346,728	351	1,359	1,348,438
Debt Service Fund	43,761	-	-	43,761
Maricopa Regional Area Road Construction Fund	37,094,890	-	-	37,094,890
Non-Major Governmental Funds	83,487	-	57,148,219	57,231,706
Total	<u>\$38,568,866</u>	<u>\$ 73,279</u>	<u>\$ 186,857,174</u>	<u>\$225,499,319</u>

The General Fund (State Highway Fund) (\$129,707,596) and Other Governmental Funds - Grant Anticipation Notes Fund (\$57,148,219) made transfers to the Debt Service Fund to pay bond debt service. The Maricopa Regional Area Road Construction Fund 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, 2007, 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>Year ending June 30</u>	<u>Amount</u>
2008	\$ 859,058
2009	899,965
2010	940,873
Future operating lease commitments	<u>\$ 2,699,896</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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>Year ending June 30</u>	<u>Amount</u>
2008	\$ 105,489
2009	117,324
2010	120,660
2011	124,095
2012	127,635
2013	<u>97,758</u>
Future operating lease commitments	<u>\$ 692,961</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><2,247,335></u>
Total	<u>\$ 13,315,053</u>

The future minimum lease obligations and the net present value of these minimums lease payments as of June 30, 2007, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2008	\$ 3,403,402
2009	3,403,402
2010	3,151,364
2011	966,759
2012	<u>374,385</u>
Total minimum lease payments	11,299,312
Less amount representing interest	<u><698,571></u>
Present value of minimum lease payments	<u>\$ 10,600,741</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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 \$1,223,425,000. During the year, Highway Revenue Bonds totaling \$325,000,000 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:

Purpose	Interest Rates	Amount
Governmental activities	3.8% - 5.5 %	\$ 1,090,475,000
Governmental activities - refunding	3.4% - 6.0%	400,125,000
		<u>\$ 1,490,600,000</u>

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

Fiscal year ending June 30	Highway Revenue Bonds	
	Principal	Interest
2008	\$ 60,645,000	\$75,538,204
2009	64,190,000	72,194,062
2010	68,140,000	68,991,162
2011	71,770,000	65,290,131
2012	75,415,000	61,692,081
2013-2017	438,195,000	247,377,369
2018-2022	504,645,000	127,063,704
2023-2026	<u>207,600,000</u>	<u>22,719,088</u>
	<u>\$1,490,600,000</u>	<u>\$740,865,801</u>

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa County Regional Area Road Bond Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund) issued by the Transportation Board. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. There were no Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year or issued during the fiscal year.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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 \$325,430,000,000.

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

Purpose	Interest Rates	Amount
Governmental activities	2.5% - 5.25%	\$ 282,860,000

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

Fiscal year ending June 30	GARVEE Bonds (Grant Anticipation Notes)	
	Principal	Interest
2008	\$ 36,565,000	\$ 13,299,868
2009	29,990,000	11,831,556
2010	31,350,000	10,467,556
2011	32,785,000	9,033,982
2012	34,360,000	7,460,782
2013-2016	<u>117,810,000</u>	<u>12,614,700</u>
	<u>\$282,860,000</u>	<u>\$64,708,444</u>

Notes Payable

The Department's outstanding notes payable as of June 30, 2007, was \$322,821,837. The governmental activities notes payable was \$168,287,371 and business-type activities was \$154,534,466. The notes payable represent the General Fund (State Highway Fund) loan payable to HELP for \$102,209,782 and the Board Funding Obligations (BFO) for loans from the State Treasurer for \$220,612,055 (principal of \$200,000,000 and accrued interest of \$20,612,055).

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

Fiscal year ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$125,000,000	\$ 7,443,201	\$140,000,000	\$ 16,160,000
2009	33,900,000	264,604	-	-
2010	-	-	-	-
2011	<u>3,309,782</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$162,209,782</u>	<u>\$ 7,707,805</u>	<u>\$140,000,000</u>	<u>\$ 16,160,000</u>

The notes payable amount for governmental activities of \$168,287,371 includes the accrued interest on the BFO of \$6,077,589. The notes payable for business-type activities of \$154,534,466 includes the accrued interest on the BFO of \$14,534,466.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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.

Refunded bonds of the Department deposited with escrow agents at June 30, 2007, 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	<u>48,595,000</u>
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, 2007, was as follows:

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One Year
Governmental Activities:					
Bonds and notes:					
Highway Revenue Bonds	\$ 1,223,425,000	\$ 325,000,000	\$ <57,825,000>	\$ 1,490,600,000	\$ 60,645,000
GARVEE Bonds (Grant Anticipation Notes)	325,430,000	-	<42,570,000>	282,860,000	36,565,000
Premium on bonds	<u>90,852,414</u>	<u>26,201,309</u>	<u><9,019,401></u>	<u>108,034,322</u>	<u>9,578,501</u>
Total bonds and notes	1,639,707,414	351,201,309	<109,414,401>	1,881,494,322	106,788,501
Capital leases	11,129,668	2,128,489	<2,657,415>	10,600,742	3,068,884
Compensated absences	12,010,473	14,988,320	<12,588,417>	14,410,376	10,121,661
Notes payable	<u>195,017,589</u>	<u>4,869,782</u>	<u><31,600,000></u>	<u>168,287,371</u>	<u>131,077,589</u>
Total governmental activities	<u>1,857,865,144</u>	<u>373,187,900</u>	<u><156,260,233></u>	<u>2,074,792,811</u>	<u>251,056,635</u>
Business-type Activities:					
Compensated absences	134,537	161,289	<144,625>	151,201	151,201
Notes payable	<u>150,494,466</u>	<u>4,040,000</u>	-	<u>154,534,466</u>	<u>154,534,466</u>
Total business-type activities	<u>150,629,003</u>	<u>4,201,289</u>	<u><144,625></u>	<u>154,685,667</u>	<u>154,685,667</u>
Total non-current liabilities	<u>\$ 2,008,494,147</u>	<u>\$ 377,389,189</u>	<u>\$ <156,404,858></u>	<u>\$ 2,229,478,478</u>	<u>\$ 405,742,302</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, \$719,920 of the internal service fund's compensated absences and \$8,550,822 of capital leases are included in the above amounts.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

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

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

H. Short-term Debt

The Department had no short-term debt activity for the fiscal year ended June 30, 2007.

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 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, 2007, approximately \$151.7 million was reserved in the General Fund (State Highway Fund) for this purpose. In addition, the Statewide Transportation Acceleration Needs account held \$317.4 million. The remaining \$12.9 million was reserved for highway construction from Federal highway fatality 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 and Grant Anticipation Notes (GARVEE Bonds). The Debt Service Fund reserve is for future debt service payments.

6. OTHER INFORMATION

A. Subsequent Events

In August 2007, the Department repaid \$160,000,000 principal amount of the Series 2003 Board Funding Obligations (BFOs) plus accrued interest of \$16,640,000. Of these totals, \$60,000,000 of the principal and \$6,240,000 of the interest repaid the BFOs deposited to the General Fund in fiscal year 2004, and \$100,000,000 of the principal and \$10,400,000 of the interest repaid a portion of the BFOs deposited to the HELP in fiscal year 2004. Concurrent with these repayments, the Department borrowed \$110,000,000 (\$50,000,000 deposited to HELP and \$60,000,000 deposited to the General Fund) under a new series of BFOs (Series 2007) that are payable no later than August 2011.

On September 19, 2007, House Bill 2793 became effective and extended the maximum term of Highway Revenue Bonds from 20 to 30 years.

On September 21, 2007, the Transportation Board adopted a Master Resolution relating to Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund). 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.

On November 6, 2007, the Transportation Board priced \$370,000,000 in Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund) 2007 Series to pay (i) the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona and (ii) the costs of issuing the 2007 Series Bonds. The 2007 Series Bonds were issued as senior lien bonds and mature from July 1, 2008 through July

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

1, 2025. Net proceeds totaled \$387,403,980 (after receipt of \$20,428,792 reoffering premium and payment of \$1,897,112 in underwriting fees and costs of issuance). The bonds were rated AA+ and Aa2 by Standard & Poor's Ratings services and Moody's Investors Service, respectively.

House Bill 2793, which passed during the 2007 Legislative Session, became effective on September 19, 2007. This bill changes the authorized uses of the HELP Fund to include rural public transit capital projects. Up to \$10,000,000 of the monies in the HELP Fund may be used to make loans for eligible transit capital projects.

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.

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. Retirement Plan

The Arizona State Retirement System Board administers the Arizona State Retirement Plan (Plan), a cost sharing multi-employer public employee defined benefit plan, for the benefit of Arizona employees and employees of certain other governmental entities. Plan provisions, including death, disability, and retirement benefits, are established by state statute. Substantially all employees of the Department are covered by the Plan.

The Arizona State Retirement System (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 System, 3300 North Central Avenue, P. O. Box 33910, Phoenix, Arizona 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2007

Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the year ended June 30, 2007, was computed to be 9.10 percent of covered payroll. The contribution rate for fiscal year 2006 was 6.90 percent. Contributions for the years ended June 30, 2007, 2006 and 2005 were \$16,206,154, \$12,104,582 and \$8,990,672, respectively, for both the employees and the Department, which were equal to the required contributions for each year.

The Department's total payroll for fiscal year 2007 was \$185.3 million. The Plan is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits are obligations of the Plan and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The contribution requirement for fiscal year 2007 was \$16.2 million each by both the employees and the Department.

D. Special Item

Arizona Revised Statutes, §28-7009, establishes the Statewide Transportation Acceleration Needs (STAN) account in order to provide funding for critically needed highway construction projects throughout Arizona. Laws 2006, Chapter 344, Section 48 provided initial funding for the STAN account in the form of a \$245,000,000 appropriation from the State General Fund, and a \$62,000,000 appropriation from the General Fund (State Highway Fund). As of June 30, 2007, these two appropriations totaling \$307,000,000 had been deposited in the STAN. Laws 2007, Chapter 255, Section 108 provides additional funding for the STAN in the form of a \$62,000,000 appropriation from the State Highway Fund in the fiscal year ending June 30, 2008. Arizona Revised Statutes, §28-7009, also allows the State Transportation Board to invest STAN funds with the State Treasurer, and allows all monies earned on the investment of STAN funds to be deposited to the STAN Account. The State Transportation Board has approved 6 design projects, 10 construction projects, and 1 right-of-way project for STAN funding.



Required Supplementary Information (Other than MD&A)

Budgetary Comparison Schedule – General Fund (State Highway Fund)

Notes to Required Supplementary Schedule

Information About Infrastructure Assets Reported Using the Modified Approach



Arizona Department of Transportation
Required Supplementary Information
June 30, 2007

Budgetary Comparison Schedule
General Fund (State Highway Fund)
For the fiscal year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive <Negative>
	Original	Final		
Expenditures appropriated by State legislature in 2007 budget				
Administration	\$ 41,392,500	\$ 43,892,900	\$ 43,727,609	\$ 165,291
Highways	235,670,400	248,384,600	247,869,264	515,336
Motor Vehicle	<u>91,847,900</u>	<u>99,479,600</u>	<u>98,809,023</u>	<u>670,577</u>
Total	<u>\$ 368,910,800</u>	<u>\$ 391,757,100</u>	390,405,896	<u>\$ 1,351,204</u>
Timing differences for Highway Maintenance:				
Prior year appropriation expenditures expended in current budgetary year			2,879,966	
Current year appropriation expenditures expended in future budgetary year			<2,203,883>	
Basis differences:				
Net increase <decrease> from cash basis for budgeting purposes and modified accrual basis for financial reporting purposes			<3,818,082>	
Entity differences:				
Funds not appropriated, but included for financial reporting purposes			9,793,706	
Perspective differences:				
Expenditures on modified accrual basis and not recognized on budgetary basis:				
Capital outlay and asset preservation			407,461,171	
Distribution to cities and counties			22,299,364	
Distribution to other state agencies			14,992,487	
Interest expense on loans borrowed from the Highway Expansion and Extension Loan Program			<u>2,472,429</u>	
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (General Fund) - Exhibit 4			<u>\$ 844,283,054</u>	

The notes to required supplementary information are an integral part of this statement.

Arizona Department of Transportation
Required Supplementary Information
June 30, 2007

Note to Required Supplementary Information

1. Budgets and budgetary accounting

Annual budgets for the operating expenditures 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 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, 2007

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 6,817 center lane miles (18,573 travel lane miles) of roads and 4,648 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 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 2008 and beyond was adopted by the Transportation Board on June 15, 2007.

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, 2007

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 2007, an overall rating of 3.87 was achieved, as shown in the following graph:

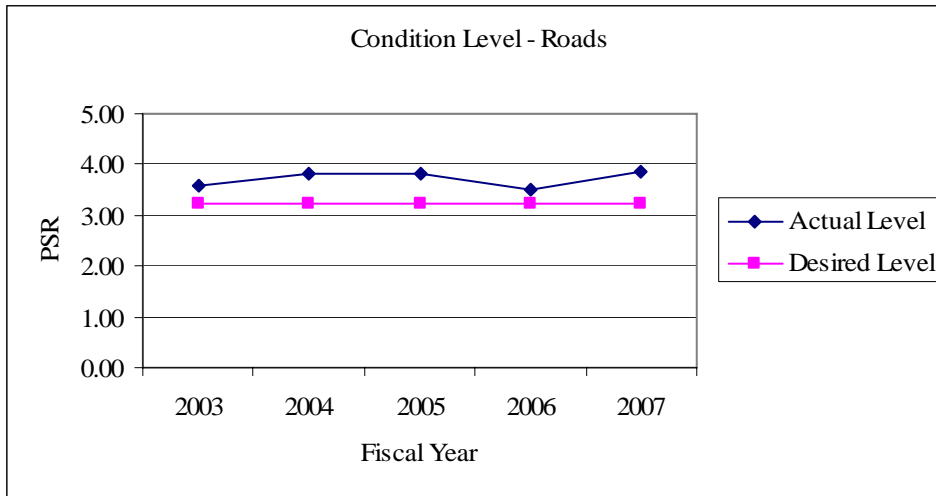


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT 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 2003 through 2007 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2003	\$243.5	\$220.4
2004	198.5	218.5
2005	235.7	195.0
2006	218.5	211.5
2007	216.4	196.5

Arizona Department of Transportation
 Required Supplementary Information
 June 30, 2007

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, 2007, the Department owns and maintains 4,648 bridges with an approximate total deck area of 44,356,907 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 2007, the CRI was computed at 93.6%.

Information About Infrastructure Assets Reported Using the Modified Approach – continued

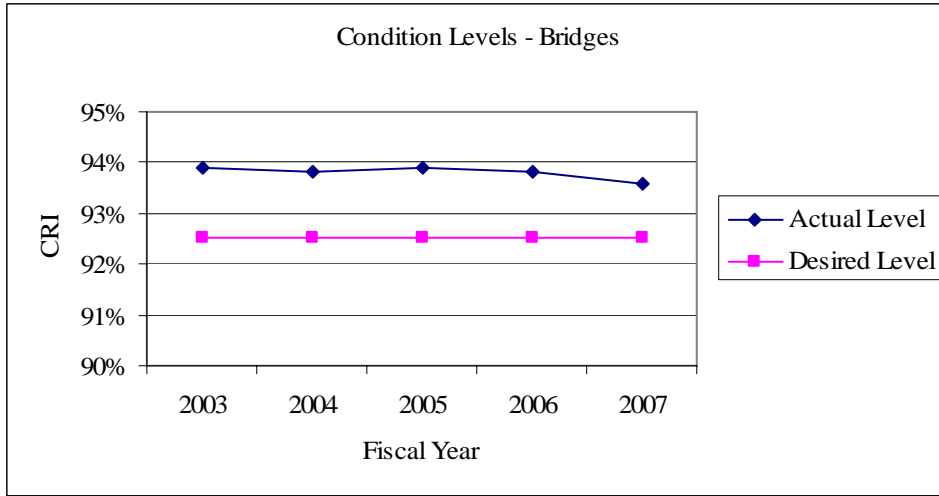


Figure 2

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.

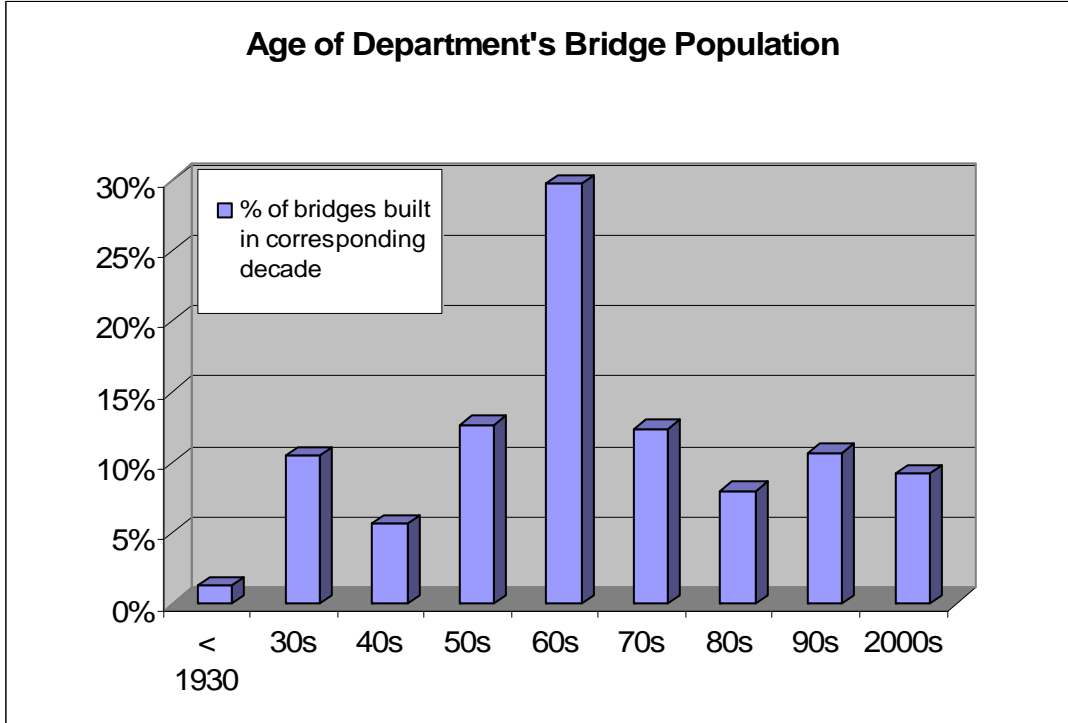


Figure 3

Arizona Department of Transportation
Required Supplementary Information
June 30, 2007

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 2003 through 2007 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2003	\$13.6	\$16.2
2004	8.7	9.2
2005	7.4	11.0
2006	10.6	11.3
2007	17.1	22.5



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 or seized aircraft, flight property taxes, and the operation of the Grand Canyon National Park Airport. The State Aviation Fund monies are used to build and maintain airport facilities throughout Arizona.

The Safety Enforcement and Transportation Infrastructure Fund is appropriated by the legislature and receives monies from 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 Vehicle Inspection and Title Enforcement Fund receives monies from 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 Deposit 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, 2007

	<u>State Aviation Fund</u>	<u>Safety Enforcement and Transportation Infrastructure Fund</u>	<u>Motor Vehicle Liability Insurance Enforcement Fund</u>	<u>Vehicle Inspection and Title Enforcement Fund</u>
ASSETS				
Unrestricted cash on deposit with the State Treasurer	\$ 34,478,751	\$ 3,339,089	\$ 8,573,523	\$ 3,518,555
Receivables:				
Accrued interest	104,553	16,907	-	-
Interfund	61,117	91,444	99,119	61,205
Notes and loans	5,902,173	-	-	-
Other	547,306	-	-	-
Amounts due from:				
U.S. Government	63,029	-	-	-
Restricted cash on deposit with the State Treasurer	-	-	-	-
Total assets	<u>\$ 41,156,929</u>	<u>\$ 3,447,440</u>	<u>\$ 8,672,642</u>	<u>\$ 3,579,760</u>
LIABILITIES				
Accounts payable	\$ 1,787,926	\$ -	\$ -	\$ -
Accrued payroll and other accrued expenditures	42,909	54,067	56,265	42,205
Contracts and retainage payable	-	-	-	-
Interfund payables	-	-	265	-
Amounts due to:				
Arizona counties and cities	-	-	-	-
Other state agencies	-	-	-	-
Deferred revenue	5,902,173	-	-	-
Total liabilities	<u>7,733,008</u>	<u>54,067</u>	<u>56,530</u>	<u>42,205</u>
FUND BALANCES				
Reserved for:				
Debt service	-	-	-	-
Capital projects	-	-	-	-
Unreserved special revenue funds	33,423,921	3,393,373	8,616,112	3,537,555
Total fund balances	<u>33,423,921</u>	<u>3,393,373</u>	<u>8,616,112</u>	<u>3,537,555</u>
Total liabilities and fund balances	<u>\$ 41,156,929</u>	<u>\$ 3,447,440</u>	<u>\$ 8,672,642</u>	<u>\$ 3,579,760</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
\$ 30,842	\$ -	\$ 4,935,312	\$ -	\$ -	\$ 54,876,072
-	15,074	30,383	-	-	166,917
-	2,632,173	-	-	19,807	2,964,865
-	-	-	-	-	5,902,173
-	-	-	-	3,665,554	4,212,860
-	-	-	-	15,378,788	15,441,817
-	3,250,095	-	90	13,241,509	16,491,694
<u>\$ 30,842</u>	<u>\$ 5,897,342</u>	<u>\$ 4,965,695</u>	<u>\$ 90</u>	<u>\$ 32,305,658</u>	<u>\$100,056,398</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,787,926
-	-	-	-	-	195,446
-	-	-	-	15,963,032	15,963,032
-	-	-	-	467,939	468,204
-	-	4,965,695	-	-	4,965,695
-	5,897,342	-	-	-	5,897,342
-	-	-	-	-	5,902,173
-	5,897,342	4,965,695	-	16,430,971	35,179,818
-	-	-	90	-	90
-	-	-	-	15,874,687	15,874,687
30,842	-	-	-	-	49,001,803
30,842	-	-	90	15,874,687	64,876,580
<u>\$ 30,842</u>	<u>\$ 5,897,342</u>	<u>\$ 4,965,695</u>	<u>\$ 90</u>	<u>\$ 32,305,658</u>	<u>\$100,056,398</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, 2007

	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	\$ 8,037,419	\$ 3,332,926	\$ -	\$ -
Fuel and motor carrier taxes and fees	438,862	-	3,036,703	1,808,130
Reimbursement of construction expenditures - federal aid	-	-	-	-
Other federal grants and reimbursements	609,848	-	-	-
Reimbursements from Arizona counties and cities	-	-	-	-
Interest on loans receivable	297,388	-	-	-
Interest on investments	1,382,947	88,323	-	-
Flight property taxes	15,302,697	-	-	-
Grand Canyon National Park Airport	1,133,347	-	-	-
Other	83,125	6,267	-	-
Total revenues	<u>27,285,633</u>	<u>3,427,516</u>	<u>3,036,703</u>	<u>1,808,130</u>
Expenditures:				
Current:				
Transportation				
Aeronautics	3,876,077	-	-	-
Highway	-	-	-	-
Motor Vehicle	-	571,465	3,062,205	1,306,070
Total Transportation	<u>3,876,077</u>	<u>571,465</u>	<u>3,062,205</u>	<u>1,306,070</u>
Intergovernmental:				
Distributions to Arizona counties and cities	15,707,174	-	-	-
Distributions to other state agencies	-	200,000	1,627,200	107,700
Total expenditures	<u>19,583,251</u>	<u>771,465</u>	<u>4,689,405</u>	<u>1,413,770</u>
Excess <deficiency> of revenues over <under> expenditures	7,702,382	2,656,051	<1,652,702>	394,360
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	7,702,382	2,656,051	<1,652,702>	394,360
Fund balances - July 1	25,721,539	737,322	10,268,814	3,143,195
Fund balances - June 30	<u>\$ 33,423,921</u>	<u>\$ 3,393,373</u>	<u>\$ 8,616,112</u>	<u>\$ 3,537,555</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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,370,345
-	32,418,849	1,000,000	-	-	38,702,544
-	-	-	57,148,219	-	57,148,219
-	-	-	-	40,558,982	41,168,830
-	-	-	-	12,238,611	12,238,611
-	-	-	-	-	297,388
-	90,125	233,813	3	-	1,795,211
-	-	-	-	-	15,302,697
-	-	-	-	-	1,133,347
4,050	-	-	-	8,838	102,280
<u>4,050</u>	<u>32,508,974</u>	<u>1,233,813</u>	<u>57,148,222</u>	<u>52,806,431</u>	<u>179,259,472</u>
-	-	-	-	-	3,876,077
-	-	-	-	48,760,126	48,760,126
-	1,373	3,579	-	-	4,944,692
-	<u>1,373</u>	<u>3,579</u>	-	<u>48,760,126</u>	<u>57,580,895</u>
-	-	1,230,234	-	-	16,937,408
-	32,507,601	-	-	-	34,442,501
-	<u>32,508,974</u>	<u>1,233,813</u>	-	<u>48,760,126</u>	<u>108,960,804</u>
4,050	-	-	57,148,222	4,046,305	70,298,668
-	-	-	<57,148,219>	-	<57,148,219>
-	-	-	-	<83,487>	<83,487>
-	-	-	<57,148,219>	<83,487>	<57,231,706>
4,050	-	-	3	3,962,818	13,066,962
26,792	-	-	87	11,911,869	51,809,618
<u>\$ 30,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90</u>	<u>\$ 15,874,687</u>	<u>\$ 64,876,580</u>



Fiduciary Fund 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, 2007

	Highway Properties -Privilege Tax Fund	Highway Properties - 24 Percent Fund	Total
ASSETS			
Restricted cash on deposit with the State Treasurer	\$ -	\$ 172,526	\$ 172,526
Other receivables	-	204	204
Total assets	\$ -	\$ 172,730	\$ 172,730
LIABILITIES			
Due to Arizona counties	\$ -	\$ 169,916	\$ 169,916
Other payables	-	2,814	2,814
Total liabilities	\$ -	\$ 172,730	\$ 172,730

Arizona Department of Transportation
Statement of Changes in Assets and Liabilities
Agency Funds
For the fiscal year ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>Highway Properties - Privilege Tax</u>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ 148	\$ 211	\$ <359>	\$ -
Total assets	<u>\$ 148</u>	<u>\$ 211</u>	<u>\$ <359></u>	<u>\$ -</u>
LIABILITIES				
Due to Department of Revenue	\$ 148	\$ 211	\$ <359>	\$ -
Total liabilities	<u>\$ 148</u>	<u>\$ 211</u>	<u>\$ <359></u>	<u>\$ -</u>
<u>Highway Properties - 24 Percent Fund</u>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ 192,496	\$ 178,675	\$ <198,645>	\$ 172,526
Other receivables	-	204	-	204
Total assets	<u>\$ 192,496</u>	<u>\$ 178,879</u>	<u>\$ <198,645></u>	<u>\$ 172,730</u>
LIABILITIES				
Due to Arizona counties	\$ 192,496	\$ 175,861	\$ <198,441>	\$ 169,916
Other payables	-	2,814	-	2,814
Total liabilities	<u>\$ 192,496</u>	<u>\$ 178,675</u>	<u>\$ <198,441></u>	<u>\$ 172,730</u>
<u>Total</u>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ 192,644	\$ 178,886	\$ <199,004>	\$ 172,526
Other receivables	-	204	-	204
Total assets	<u>\$ 192,644</u>	<u>\$ 179,090</u>	<u>\$ <199,004></u>	<u>\$ 172,730</u>
LIABILITIES				
Due to Arizona counties	\$ 192,496	\$ 175,861	\$ <198,441>	\$ 169,916
Due to Department of Revenue	148	211	<359>	\$ -
Other payables	-	2,814	-	2,814
Total liabilities	<u>\$ 192,644</u>	<u>\$ 178,886</u>	<u>\$ <198,800></u>	<u>\$ 172,730</u>



Capital Assets

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

Schedule by Source

Schedule by Function and Activity

Schedule of Changes by Function and Activity



Arizona Department of Transportation
 Capital Assets Used in the Operation of Governmental Funds
 Schedule by Source¹
 June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Governmental funds capital assets:		
Land	\$ 2,217,183,763	\$ 2,118,364,685
Buildings and improvements	155,682,847	149,209,322
Improvements other than buildings	15,862,586	15,273,226
Airport facilities	7,150,274	7,150,274
Machinery and equipment	53,475,186	51,442,224
Infrastructure	9,855,140,388	9,379,755,220
Construction in progress	<u>2,032,678,119</u>	<u>1,935,193,364</u>
Total governmental funds capital assets	<u>\$ 14,337,173,163</u>	<u>\$ 13,656,388,315</u>
Investment in governmental funds capital assets by source:		
Government funds	<u>\$ 14,337,173,163</u>	<u>\$ 13,656,388,315</u>
Total governmental funds capital assets	<u>\$ 14,337,173,163</u>	<u>\$ 13,656,388,315</u>

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 By Function and Activity¹
 June 30, 2007

Function and Activity	Land	Buildings and Improvements	Improvements other than Buildings	Airport Facilities	Machinery and Equipment	Infrastructure	Construction in Progress	Total
Administration	\$ 879,017	\$ 17,250,995	\$ 1,104,381	\$ -	\$ 17,630,199	\$ -	\$ -	\$ 36,864,592
Aeronautics	-	94,506	-	7,150,274	1,187,965	12,789,265	-	21,222,010
Highway:								
Administrative and other services	935,955	37,297,461	1,784,945	-	5,151,139	-	-	45,169,500
Highway construction	2,198,110,222	6,840,798	384,415	-	6,969,026	9,842,351,123	2,032,678,119	14,087,333,703
Highway development	710,073	98,846	350	-	2,544,888	-	-	3,354,157
Materials engineering	-	4,849,537	7,077	-	3,659,681	-	-	8,516,295
Traffic engineering	-	356,896	21,667	-	1,274,090	-	-	1,652,653
Transportation planning and research	-	152,944	122,946	-	322,686	-	-	598,576
Highway Maintenance	4,907,328	42,234,626	8,865,022	-	7,225,774	-	-	63,232,750
Motor Vehicle	11,641,168	46,506,238	3,571,783	-	7,509,738	-	-	69,228,927
Total governmental funds capital asset	\$ 2,217,183,763	\$ 155,682,847	\$ 15,862,586	\$ 7,150,274	\$ 53,475,186	\$ 9,855,140,388	\$ 2,032,678,119	\$ 14,337,173,163

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, 2007

Function and Activity	Governmental Funds Capital Assets July 1, 2006	Additions	Deductions	Governmental Funds Capital Assets June 30, 2007
Administration	\$ 34,184,265	\$ 4,280,614	\$ <1,600,287>	\$ 36,864,592
Aeronautics	21,154,678	72,902	<5,570>	21,222,010
Highway:				
Administrative and other services	40,529,977	4,639,523	-	45,169,500
Highway construction	11,481,588,630	607,943,313	<34,876,359>	12,054,655,584
Highway development	2,908,781	808,630	<363,254>	3,354,157
Materials engineering	8,780,168	462,952	<726,825>	8,516,295
Traffic engineering	1,397,134	279,192	<23,673>	1,652,653
Transportation planning and research	595,816	15,483	<12,723>	598,576
Highway Maintenance	62,877,574	421,598	<66,422>	63,232,750
Motor Vehicle	67,177,928	2,362,794	<311,795>	69,228,927
Functional sub-total	11,721,194,951	621,287,001	<37,986,908>	12,304,495,044
Construction in progress	1,935,193,364	578,716,070	<481,231,315>	2,032,678,119
Total governmental funds capital assets	<u>\$ 13,656,388,315</u>	<u>\$ 1,200,003,071</u>	<u>\$ <519,218,223></u>	<u>\$ 14,337,173,163</u>

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.

Statistical Section





Overview
Statistical Section

This part of the Arizona Department of Transportation's (Department's) 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
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007

Index
Statistical Section

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

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

Expenses:	2002	2003	2004	2005	2006	2007
Governmental activities:						
Administration	\$ 57,864	\$ 52,533	\$ 57,703	\$ 42,298	\$ 45,002	\$ 51,667
Aeronautics	3,751	3,848	7,512	9,804	10,705	5,418
Highway	46,543	45,644	48,797	72,665	62,713	79,279
Highway Maintenance	91,570	96,353	95,642	105,037	114,119	120,163
Motor Vehicle	82,904	83,090	86,845	91,676	96,937	105,961
Other	6,844	8,460	9,815	6,871	9,394	-
Non-capital, including asset preservation	96,629	277,975	378,789	209,902	1,453	173,078
Distributions to Arizona counties and cities	915,219	957,057	1,022,768	1,086,955	1,095,671	1,219,208
Distributions to other state agencies	149,341	192,536	161,029	306,853	206,903	114,795
Intergovernmental	24,791	30,235	39,205	42,440	36,771	48,760
Interest on long-term debt	89,605	84,084	89,431	86,870	88,279	82,450
Total governmental activities expenses	<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>
Business-type activities:						
Arizona Highways Magazine	10,711	11,118	10,007	10,270	8,175	8,072
Highway Expansion and Extension Loan Program	5,265	26,349	4,414	4,360	4,273	4,355
Total business-type activities expenses	<u>15,975</u>	<u>37,467</u>	<u>14,421</u>	<u>14,630</u>	<u>12,448</u>	<u>12,427</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>
Program Revenues:						
Governmental activities:						
Charges for services:						
Administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,843
Aeronautics	974	717	902	919	1,214	1,133
Highway	-	-	-	-	-	2,953
Highway Maintenance	-	-	-	1,518	537	577
Motor Vehicle	104,298	107,395	108,346	113,506	121,179	132,274
Other	3,341	4,219	4,848	5,564	7,099	-
Intergovernmental	4,111	5,080	4,129	4,760	4,040	12,239
Operating grants and contributions	56,481	34,160	44,008	58,948	67,241	72,679
Capital grants and contributions	470,772	453,758	418,174	484,276	387,614	354,024
Total governmental activities program revenues	<u>639,977</u>	<u>605,330</u>	<u>580,407</u>	<u>669,491</u>	<u>588,924</u>	<u>584,722</u>

Business-type activities:

Charges for services:

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

Net <expenses>/revenues:

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

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
Vehicle, registration, title, license, and related taxes	899,092	832,492	914,657	966,885	994,052	1,029,001
Fuel and motor carrier taxes	547,129	691,003	698,406	759,633	770,596	790,909
Flight property taxes	6,528	6,026	6,321	13,180	13,686	15,303
Interest on investments	29,863	19,803	8,352	19,245	28,538	55,760
Other	26,484	21,304	24,775	27,120	11,026	9,998
Governmental activities before accounting change	1,776,659	1,839,349	1,941,111	2,102,869	2,134,389	2,163,235
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

Business-type activities:

Interest on investments	5,625	2,440	1,588	2,764	3,518	5,563
Other	381	425	505	380	-	<3>
Total business-type activities	6,006	2,865	2,093	3,144	3,518	5,560
Total primary government	\$ 1,782,665	\$ 1,882,613	\$ 1,943,204	\$ 2,106,013	\$ 2,137,907	\$ 2,413,795

Change in Net Assets:

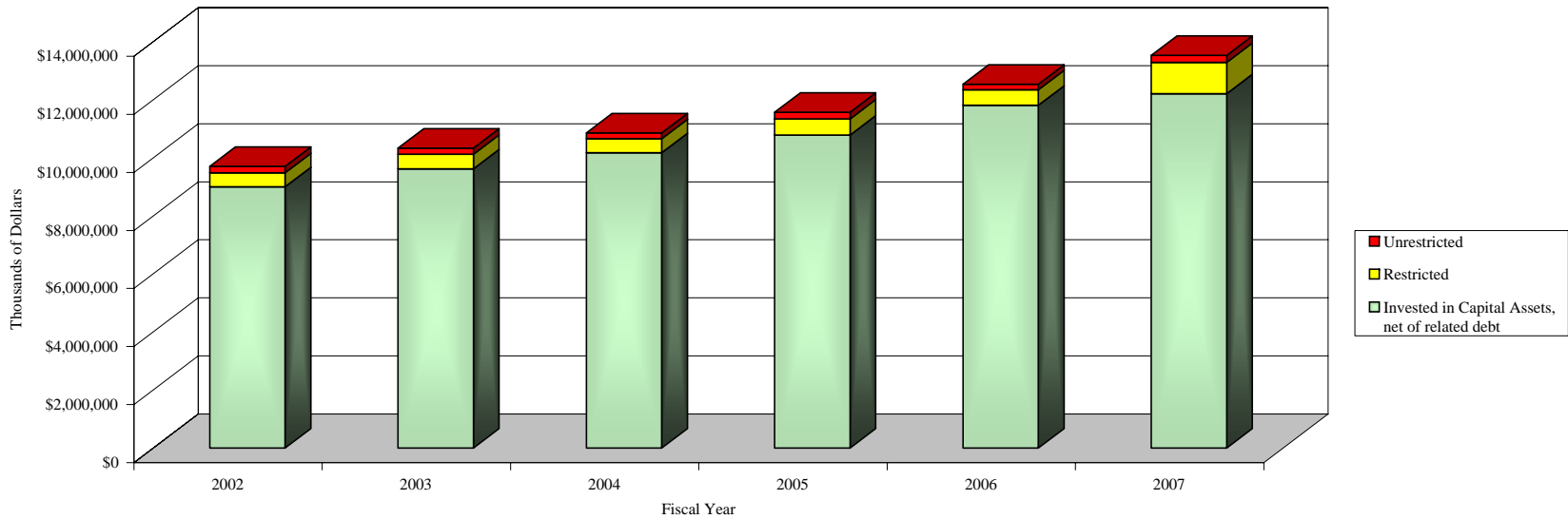
Governmental activities	\$ 851,575	\$ 653,263	\$ 523,982	\$ 710,989	\$ 955,366	\$ 992,178
Business-type activities	1,872	<21,124>	472	<34>	2,363	4,102
Total primary government	\$ 853,447	\$ 632,139	\$ 524,454	\$ 710,955	\$ 957,729	\$ 996,280

Table 2

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
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

Primary Government Net Assets By Type

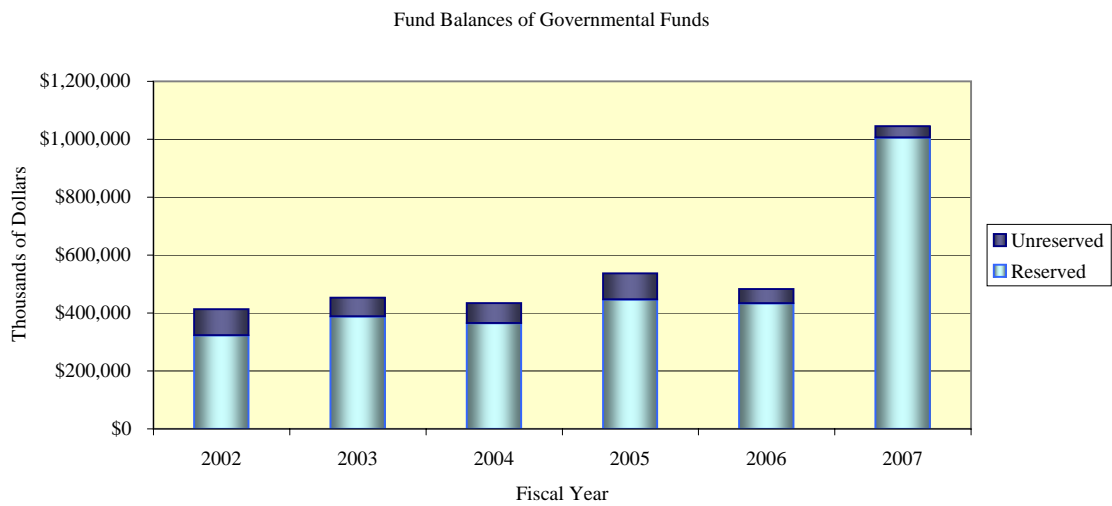


Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
For fiscal year ended June 30
(Thousands of Dollars)

	2002	2003	2004	2005	2006	2007
Revenues:						
Transportation excise taxes	\$ 267,563	\$ 268,721	\$ 288,600	\$ 316,806	\$ 316,491	\$ 262,264
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
Fuel and motor carrier taxes and fees	547,129	690,869	698,406	759,633	770,596	792,717
Reimbursement of construction expenditures - federal aid	516,647	459,458	421,220	503,646	407,891	334,376
Other federal grants and reimbursements	5,389	6,896	6,146	9,078	32,044	72,548
Reimbursements from Arizona counties and cities	12,346	24,818	38,012	32,186	13,566	34,971
Distributions from other state agencies	318	1,284	933	2,349	1,490	1,799
Interest on loans receivable	1,899	2,486	1,880	945	739	928
Interest on investments	29,697	19,702	8,333	19,162	28,351	55,393
Flight property taxes	6,528	6,026	6,321	13,180	13,686	15,303
Grand Canyon National Park Airport	941	717	902	919	1,214	1,133
Rental income	-	1,632	1,635	1,596	1,702	1,434
Other	25,037	6,021	5,161	6,216	6,490	7,088
Total revenues	\$ 2,416,993	\$ 2,428,652	\$ 2,500,553	\$ 2,746,107	\$ 2,801,525	\$ 2,739,333
Expenditures:						
Current:						
Transportation:						
Administration	\$ 56,230	\$ 51,485	\$ 56,484	\$ 40,599	\$ 43,372	\$ 44,875
Aeronautics	3,491	74,244	7,228	9,517	10,470	3,876
Highway	68,369	94,978	85,258	106,184	106,062	124,731
Highway Maintenance	89,314	81,517	95,144	105,887	111,378	118,940
Motor Vehicle	81,012	3,579	84,921	90,208	95,198	103,801
Other	2,369	2,304	2,940	1,802	2,309	-
Total Transportation	300,785	308,107	331,975	354,197	368,789	396,223
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
Distributions to other state agencies	28,880	189,784	160,029	306,852	206,903	114,795
Debt service:						
Principal	208,820	248,055	284,815	302,202	173,745	100,395
Interest	84,159	82,148	89,537	91,830	80,269	88,364
Bond issuance costs	1,049	2,424	2,546	1,996	1,252	1,592
Interest on notes payable	1,228	2,780	2,834	2,514	2,748	2,472
Non-capital, including asset preservation	89,147	146,168	378,788	209,902	306,170	122,782
Capital outlay	1,009,290	833,731	599,819	623,829	663,316	741,506
Total expenditures	\$ 2,769,152	\$ 2,779,848	\$ 2,873,111	\$ 2,980,277	\$ 2,994,154	\$ 2,786,012
Excess <deficiency> of revenues over <under> expenditures	<352,159>	<351,196>	<372,558>	<234,170>	(192,629)	(46,679)
Other financing sources <uses>:						
Transfers in	\$ 300,563	\$ 383,136	\$ 449,100	\$ 388,046	\$ 262,216	\$ 225,499
Transfers out for debt service	<291,854>	<321,327>	<374,852>	<374,162>	<251,891>	<186,856>
Transfers out other	<8,709>	<61,809>	<74,249>	<13,885>	<10,325>	<38,643>
Capital Leases	-	-	-	-	-	2,129
Sale of capital assets	-	7,229	16,023	18,392	11,118	10,162
Insurance Recovery	-	1,082	1,407	1,518	537	577
Debt issuance	142,000	331,475	319,942	292,645	118,250	325,000
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
Payment to refunded bond escrow agent	<77,135>	<107,735>	<145,965>	-	<161,726>	-
Total other financing sources<uses>	149,257	350,728	353,626	337,280	137,986	364,069
Net change in fund balances before accounting change	<202,902>	<468>	<18,932>	103,110	<54,643>	317,390
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
Fund balances - July 1	615,856	421,954	452,884	433,952	537,062	482,419
Fund balances - June 30	\$ 412,954	\$ 461,885	\$ 433,952	\$ 537,062	\$ 482,419	\$ 1,044,809
Debt Service as a Percentage of Non-Capital Expenditures	16.8%	17.2%	16.7%	16.9%	11.1%	9.4%
Debt Service as a Percentage of Total Revenues	12.2%	13.8%	15.2%	14.5%	9.2%	7.0%

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

	2002	2003	2004	2005	2006	2007
General fund						
Reserved	\$ 121,075	\$ 134,938	\$ 155,755	\$ 166,420	\$ 172,784	\$ 507,723
Unreserved	67,253	48,696	48,619	57,123	9,342	<10,032>
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>
All other governmental funds						
Reserved						
Debt service	\$ 24,986	\$ 20,786	\$ 18,592	\$ 2,288	\$ 2,159	\$ 2,688
Capital projects	176,245	232,079	190,640	277,884	258,236	495,428
Unreserved, reported in:						
Non-major special revenue funds	23,395	16,386	20,346	33,348	39,898	49,002
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>
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>



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

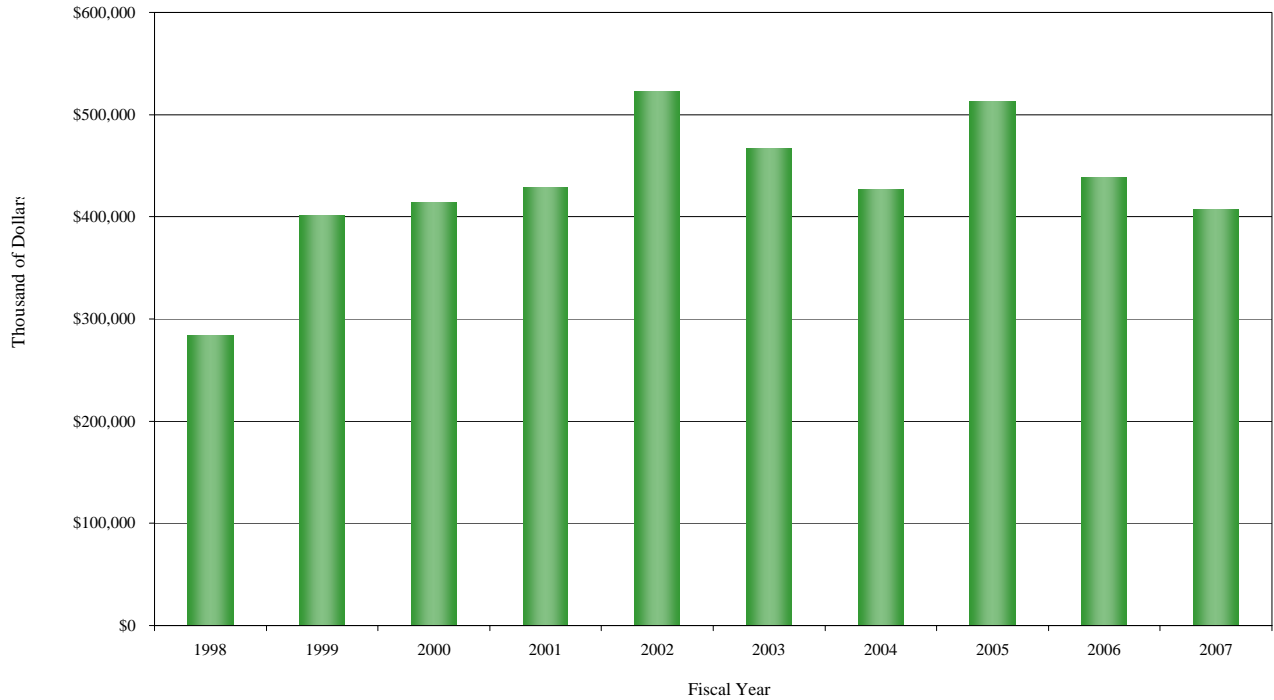
Fiscal Year	FAA	FRA	FTA	NHTSA	FHWA	FMCSA	BLM	BIA	Sub-total	FHWA ²	Total
2007	\$ 610	\$ -	\$ 10,169	\$ 101	\$ 353,192	\$ 1,769	\$ 544	\$ <21>	\$ 366,364	\$ 40,559	\$ 406,923
2006	4,338	-	8,837	69	389,575	2,231	162	-	405,212	33,268	438,480
2005	4,203	-	8,466	96	456,924	282	152	278	470,401	42,323	512,724
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
1998	2,379	14	3,392	49	278,148	-	-	-	283,982	-	283,982

SOURCE: Single Audit Reports - fiscal years 1998 through 2007.

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)

² Prior to 1999, the Local Agency Deposits Fund was an Expendable Trust Fund. It is now a Special Revenue Fund.

Total Expenditures of Federal Awards



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 Arizona counties, cities and other State agencies	Inter-governmental	Interest on long-term debt	Other	Arizona Highways Magazine	Highway Expansion and Loan Program	Total
2007	\$ 51,667	\$ 5,418	\$ 79,279	\$ 293,241	\$105,961	\$ 1,334,003	\$ 48,760	\$ 82,450	\$ -	\$ 8,072	\$ 4,355	\$ 2,013,206
2006	45,002	10,705	62,713	115,572	96,937	1,394,609	36,771	88,278	9,394	8,175	4,273	1,872,429
2005	42,298	9,804	72,665	314,938	91,676	1,393,808	42,440	86,870	6,871	10,270	4,360	2,076,000
2004	57,703	7,512	48,797	474,430	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

NOTE: ¹ Includes Non-capital, including asset preservation

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

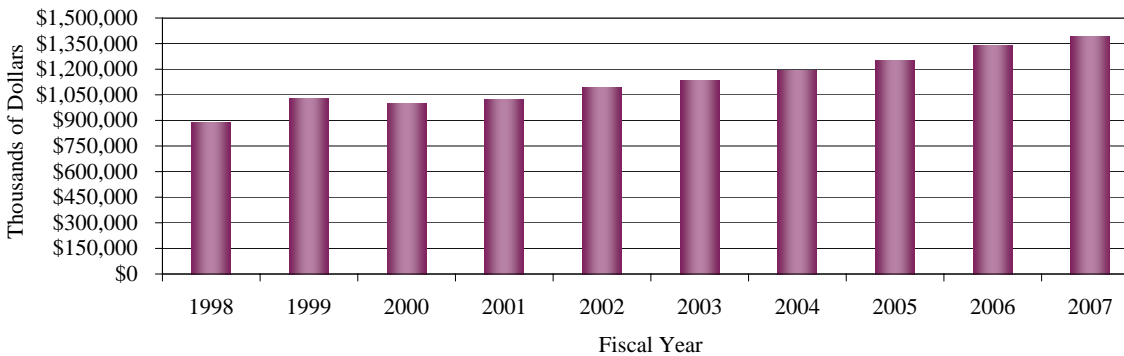
Fiscal Year	Program Revenues				General Revenues					Total Government-wide Revenues
	Governmental		Business-Type		Governmental		Business-Type			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Charges for Services	Taxes	Other Revenues	Interest on Investments	Other Revenues	Interest on Investments	
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

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

Fiscal Year	Motor Veh. Fuel Tax Revenue	Motor Veh. Reg. Fee Revenues	Motor Carrier Tax Revenues	Motor Veh. Operators' License Fees and Other Fees	Motor Veh. License (In Lieu) Tax Revenues	Total Deposited To Arizona Hwy. User Rev. Fund
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
1998	508,544	109,445	56,123	36,426	176,950	887,488

SOURCES: Basic Financial Statements - Fiscal Years 2002 through 2007, General Purpose Financial Statements - Fiscal Years 1998 through 2001, Arizona Highway User Revenue Fund Revenue Collections by Category - Fiscal Year 1998

Highway User Revenue Fund Collections



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
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
1998	435,882	263,220	163,973	14,688	1,000	8,519	887,282

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 2007, General Purpose Financial Statements - Fiscal Years 1998 through 2001, Monthly Reports MV675580-01 fiscal years 1998 through 2007 (adjusted for accrual basis).

NOTES: ¹In fiscal years 1998 through 2007, 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)

<u>Fiscal Year</u>	<u>Effective Date</u>	<u>Gasoline Tax</u>	<u>Use Fuel Tax ¹</u>
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
1998	12/31/1997	0.18	0.27

SOURCE: Arizona Revised Statutes §28-5606

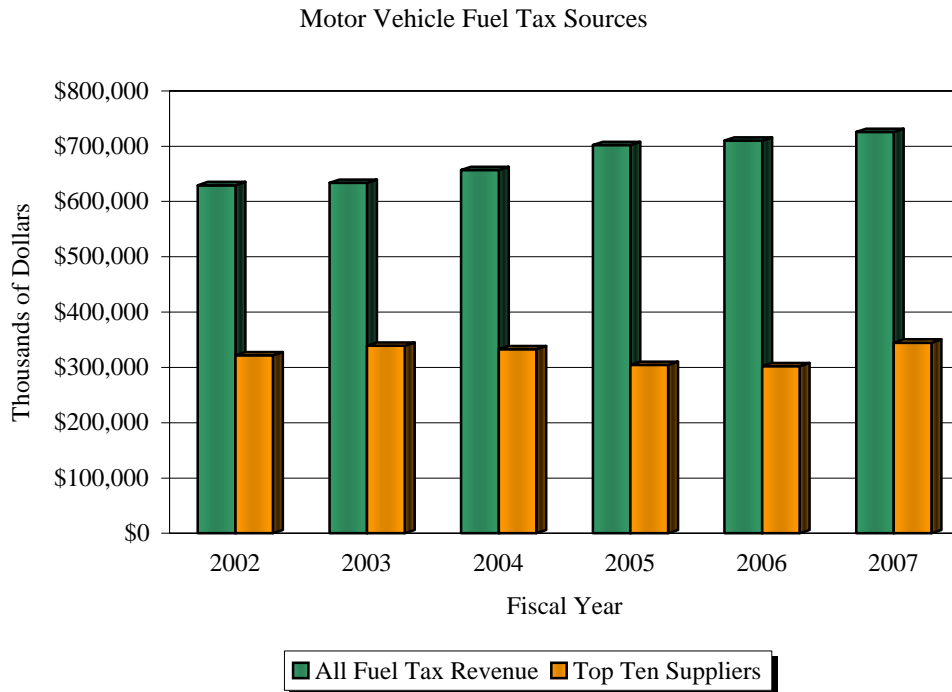
NOTE: Gasohol is currently taxed at the same rate as gasoline and use fuel. Use fuel is primarily diesel.

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
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		2004		2005		2006		2007	
	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	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%	7	5.9%	2	1.5%	0	0.0%	2	1.6%
26 - 50	6	8.3%	4	5.5%	6	9.4%	5	6.9%	4	4.9%	9	11.0%	13	16.8%	10	11.8%
51 - 100	3	8.7%	2	4.6%	2	4.5%	6	14.1%	6	15.5%	6	15.6%	5	14.4%	6	16.7%
101 - 200	3	14.8%	3	18.0%	5	29.3%	2	11.9%	4	24.8%	3	14.9%	3	16.0%	3	14.3%
201 - 300	3	32.1%	3	30.7%	3	29.6%	4	39.4%	3	25.3%	4	31.8%	3	25.3%	3	25.6%
> 300	2	24.4%	2	24.8%	1	13.2%	1	11.8%	1	12.7%	1	14.2%	1	17.0%	1	17.4%
	25	93.8%	25	92.1%	25	92.1%	25	89.6%	25	89.0%	25	89.0%	25	89.4%	25	87.4%
Total Gallons of Gasoline (Millions)		2,479,233		2,501,654		2,554,032		2,631,239		2,678,174		2,745,186		2,726,776		2,851,893
Gasoline % of Total		87.0%		84.9%		79.7%		81.0%		79.9%		77.4%		76.4%		77.7%
Total Gallons of Use Fuel (Diesel) (Millions)		369,033		445,453		652,439		616,165		672,345		799,351		843,445		817,099
Diesel % of Total		13.0%		15.1%		20.3%		19.0%		20.1%		22.6%		23.6%		22.3%

84

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

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 ^{1,2}	Total Principal Applicable to Limit	Legal Debt Margin	Total Principal Applicable to the Limit as a Percentage of Debt Limit
2007	\$ -	\$ 1,490,600	\$ -	-
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%
1998	800,000	568,150	231,850	71.02%

NOTE: 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 if 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.

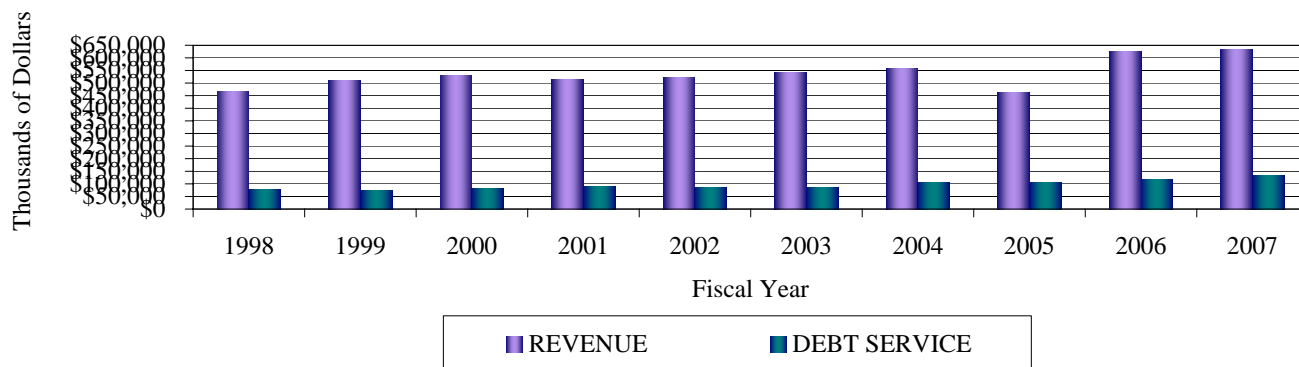
Arizona Department of Transportation
 Highway User Revenue Fund Series
 Bond Coverage
 For the fiscal year ended June 30
 (Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Pledged Revenues ¹	Coverage
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
1998	43,405	33,266	76,671	468,240	6.1

SOURCES: Highway User Revenue Fund Schedule 1 Summary For Revenue Collected Monthly Reports MV675577-1 fiscal years 1998 through 2007; Debt Service Funds - fiscal years 1998 through 2007

NOTE: ¹Includes 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.

Highway User Revenue Fund Series Bond Coverage



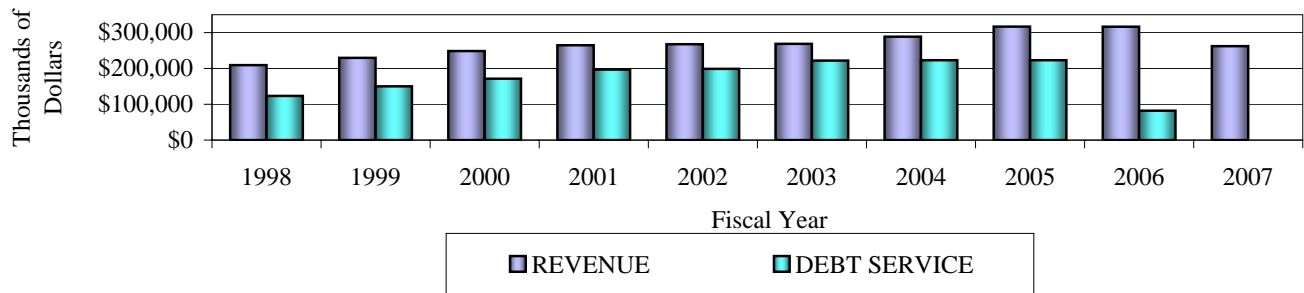
Arizona Department of Transportation
 Regional Area Road Fund Series
 Bond Coverage
 For the fiscal year ended June 30
 (Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Revenues	Coverage
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
1998	82,765	40,512	123,277	209,263	1.7

SOURCE: Maricopa County Regional Area Road Fund Report

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

Regional Area Road Fund Series Bond Coverage



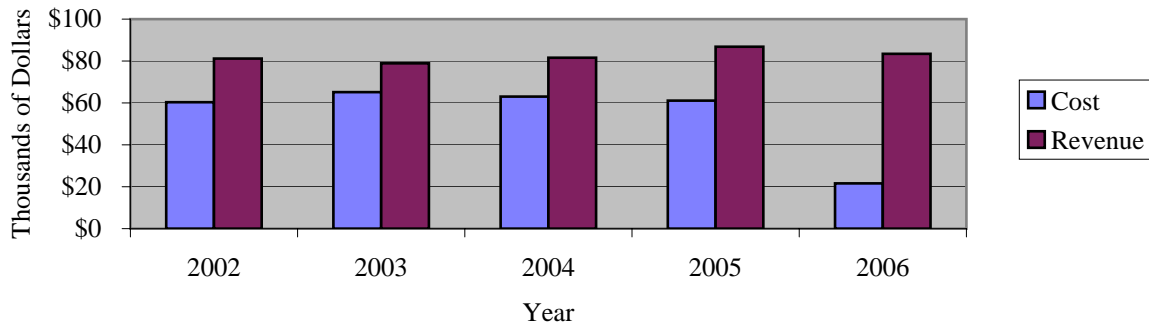
Arizona Department of Transportation
 Regional Area Road Fund Series
 Debt Service Revenue and Cost Per Capita
 For the fiscal year ended June 30
 (Thousands)

Fiscal Year	Principal	Interest	Total Cost	Revenue	Maricopa		
					County Population	Cost Per Capita	Revenue Per Capita
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
2002	163,455	35,445	198,900	267,563	3,296	60	81

SOURCE: Maricopa County Regional Area Road Fund Report
 Population data from the Department of Economic Security only available through 2006

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

Regional Area Road Fund Revenue and Cost Per Capita

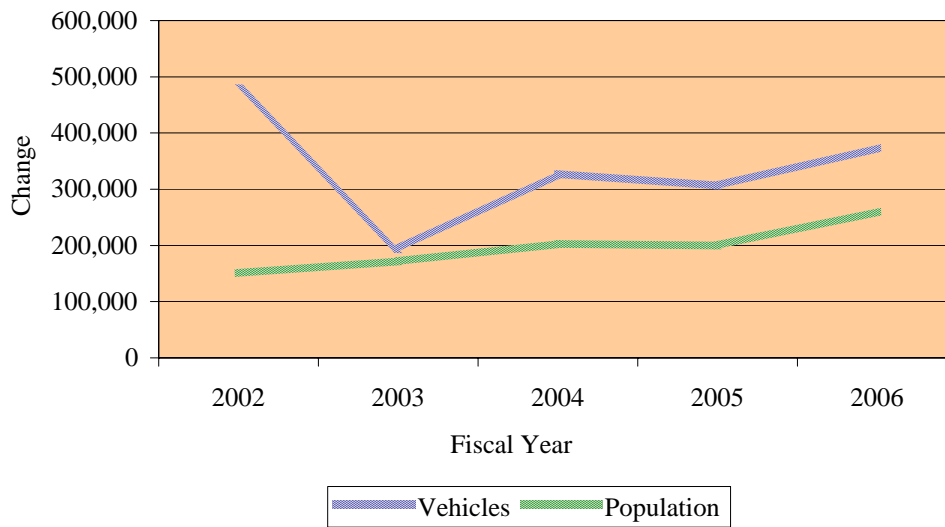


Arizona Department of Transportation
 Number of Vehicle Registrations Per Year
 For fiscal year ended June 30
 (Thousands)

Fiscal Year	Total Vehicles	Change in Number of Registered Vehicles	Arizona Population	Change in Population
2006	6,318	373	6,305	260
2005	5,945	306	6,045	200
2004	5,639	327	5,845	203
2003	5,312	193	5,643	172
2002	5,118	479	5,471	151

SOURCES: Vehicle registrations from Motor Vehicle Division's annual reports
 Population data from the Department of Economic Security only available through 2006

Change in Vehicles Registered Compared to Population Change

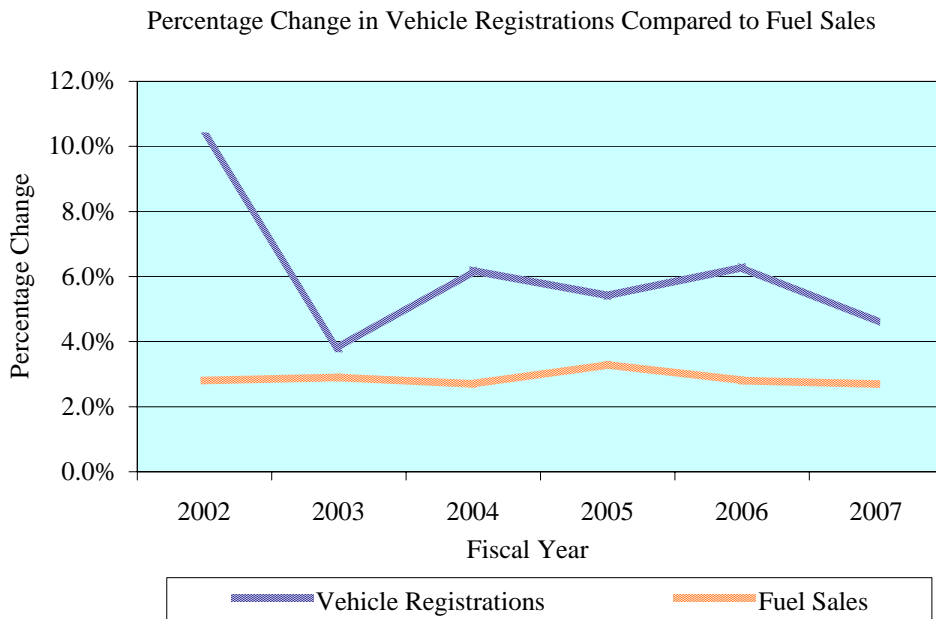


Arizona Department of Transportation
 Vehicle Registrations Per Year Compared to Fuel Sales
 For fiscal year ended June 30
 (Thousands)

Fiscal Year	Vehicle Registrations	Percentage Change	Fuel Sales ¹	Percentage Change
2007	6,609	4.6%	3,738,667	2.7%
2006	6,318	6.3%	3,640,854	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

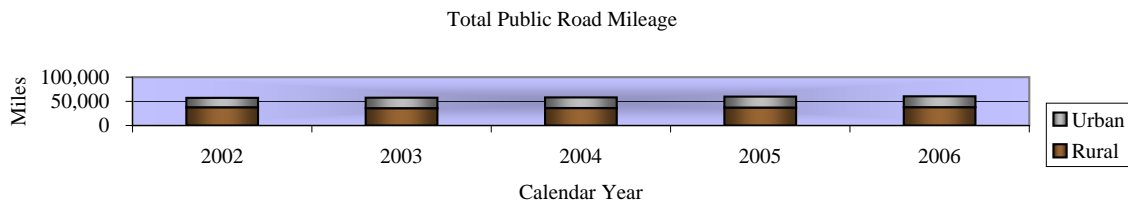
NOTE: ¹Fuel sales include both gasoline and use fuel (primarily diesel) sales



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)

FUNCTIONAL CLASSIFICATION	2002	2003	2004	2005	2006
RURAL:					
Interstate Freeway	996	980	980	981	981
Principal Arterial	1,187	1,141	1,187	1,167	1,168
Minor Arterial	1,274	1,276	1,343	1,363	1,359
Major Collector	4,473	4,233	4,301	4,332	4,303
Minor Collector	2,289	2,117	2,210	2,188	2,186
Local	<u>27,450</u>	<u>26,004</u>	<u>26,016</u>	<u>27,015</u>	<u>27,819</u>
TOTAL RURAL	<u><u>37,669</u></u>	<u><u>35,751</u></u>	<u><u>36,037</u></u>	<u><u>37,046</u></u>	<u><u>37,816</u></u>
URBAN:					
Interstate Freeway	172	187	188	188	188
Urban Expressway	153	145	150	156	168
Principal Arterial	1,000	1,087	1,156	1,400	1,400
Minor Arterial	1,274	1,189	1,279	1,790	1,792
Urban Collector	1,732	2,200	2,161	1,645	1,632
Local	<u>15,188</u>	<u>16,969</u>	<u>17,142</u>	<u>17,564</u>	<u>17,380</u>
TOTAL URBAN	<u><u>19,519</u></u>	<u><u>21,777</u></u>	<u><u>22,076</u></u>	<u><u>22,743</u></u>	<u><u>22,560</u></u>
STATEWIDE COMPOSITE:					
Freeways and Expressways	1,321	1,312	1,318	1,325	1,337
Arterials	4,735	4,693	4,965	5,720	5,719
Collectors	8,494	8,550	8,672	8,165	8,121
Locals	<u>42,638</u>	<u>42,973</u>	<u>43,158</u>	<u>44,579</u>	<u>45,199</u>
TOTAL STATEWIDE	<u><u>57,188</u></u>	<u><u>57,528</u></u>	<u><u>58,113</u></u>	<u><u>59,789</u></u>	<u><u>60,376</u></u>

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



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>
Operating:						
Administration State Highway Fund	465.5	425.5	405.0	406.0	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
Construction Operating Budget	-	-	619.0	619.0	616.0	616.0
Maintenance State Highway Fund	959.0	912.0	912.0	925.0	925.0	925.0
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
Public Transit - General Fund	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
Aeronautics	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
Safety Enforcement and Traffic Infrastructure Fund	29.0	29.0	29.0	31.0	22.0	-
Mandatory Insurance	16.0	16.0	16.0	17.0	29.0	50.0
Vehicle Inspections and Title Enforcement Fund	17.0	17.0	17.0	17.0	21.0	21.0
Air Quality Fund	-	-	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
Third Party Special Line Item	-	-	-	-	-	16.0
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>
Other Programs:						
Arizona Highways Magazine	72.0	72.0	72.0	72.0	72.0	33.0
Highway Construction	619.0	619.0	-	-	-	-
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	-	-	-	19.0	21.0	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	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>106.0</u>	<u>115.0</u>	<u>101.0</u>
Total All Programs	<u>4,858.0</u>	<u>4,688.0</u>	<u>4,693.0</u>	<u>4,732.0</u>	<u>4,764.0</u>	<u>4,792.0</u>

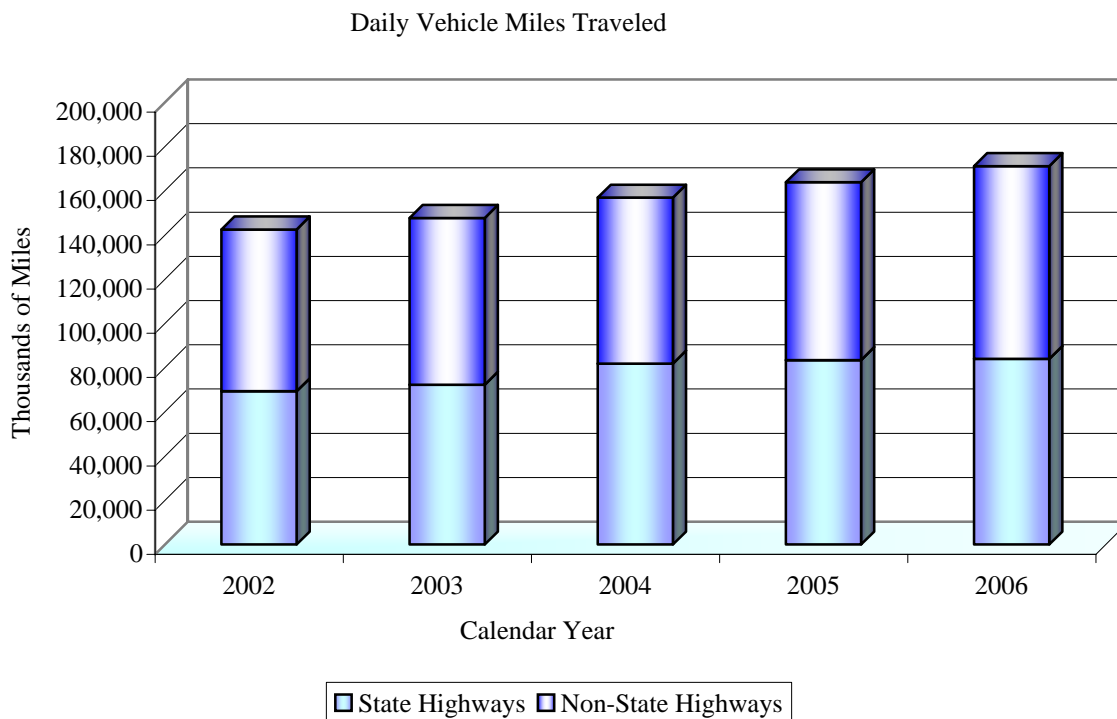
SOURCE: Arizona Department of Transportation 10-Year FTE History Report

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

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

Fiscal Year	Non-State Highways	State Highways	All Public Highways	Arizona Population	Daily Miles Per Capita
2006	87,212	83,934	171,146	6,305	27.1
2005	80,400	83,425	163,825	6,045	27.1
2004	75,070	81,808	156,878	5,845	26.8
2003	75,396	72,258	147,654	5,643	26.2
2002	73,192	69,311	142,503	5,471	26.0

SOURCES: Arizona's Highway Performance Monitoring System (HPMS)
 ADOT Transportation Planning Division office records
 Population data from the Department of Economic Security only available through 2006



ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by Financial Management Services, Fiscal Operations:

Craig Rudolph, CPA, CPFO, CGFM
Diane Wascher, CPA
Lawrence H. Ehrke, Jr.
Jennifer Crummey
Matthew Bailey
Joel Konopken
Sheryl Bodmer, CPA
Winifred Gettings
Patricia Markiw, CPA

Special acknowledgment goes to:

All Financial Management Services staff whose cooperation and hard work contributed to the compilation of financial information that appears in this report.

A special thank you to David McDarby of Communications and Community Partnerships for his graphic design.

State of Arizona

Department of Transportation

206 S. 17th Avenue
Phoenix, Arizona 85007
www.azdot.gov

