

Celebrating  100 Years of Arizona History
1912-2012

FISCAL YEAR

2012



Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2012

ADOT

Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2012

Prepared by Financial Management Services
State of Arizona Department of Transportation



206 South 17th Avenue
Phoenix, Arizona 85007
azdot.gov

Arizona Department of Transportation
 Comprehensive Annual Financial Report
 for the fiscal year ended June 30, 2012

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Celebrating ¹⁹¹²⁻²⁰¹² **100** Years of Arizona History

Comprehensive Annual Financial Report

FISCAL YEAR

2012



Introductory Section

ADOT



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janice K. Brewer
Governor

John S. Halikowski
Director

November 20, 2012

John A. Bogert
Deputy Director
for Operations

Floyd Roehrich, Jr.
Deputy Director
for Policy

The Honorable Janice K. Brewer
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) for the fiscal year ended June 30, 2012. 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 Statute, §41-1279.03, requires the State Auditor General to "conduct or cause to be conducted at least biennial financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the single audit act of 1984 (P.L. 98-502)." In fulfillment of this requirement, the Department prepared this CAFR, for the fiscal year ended June 30, 2012, and contracted with the independent auditing firm of Heinfeld, Meech & Co., P.C. 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, 2012, are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The independent auditors' report is presented as the first component of the Financial Section of this report.

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

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

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

been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

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

Profile of the Department

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

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

As of June 30, 2012, the Department was organized into five operating divisions supported by the Transportation Services Group. The five operating divisions include: Intermodal Transportation Division, Motor Vehicle Division, Enforcement and Compliance Division, Administrative Services Division, and Multimodal Planning Division.

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

Overall, the Department employs approximately 4,100 persons.

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

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

Factors Affecting Financial Condition

Arizona Economy In fiscal year 2012, the Arizona economy continued to improve with modest gains in employment, personal income and population. The housing market stabilized due to continued low interest rates and limited inventory of homes for sale. According to the July 19, 2012 Arizona Department of Administration's employment report, the Arizona unemployment rate decreased from 9.6 percent in June 2011 to 8.2 percent in June 2012. During this period, the private sector created 50,500 jobs while the government sector produced 6,800 new jobs. However, there remain economic uncertainties in the U.S. due to the European debt crisis and the expected U.S. "fiscal cliff".

For two years in a row, the Department's two main funding sources, the Highway User Revenue Fund (HURF) and Maricopa County Transportation Excise Tax posted positive year-over-year growth. In fiscal year 2012, the HURF revenue collections were \$1,210.6 million, an increase of 0.5 percent over fiscal year 2011, but 0.5 percent below the forecast. The Maricopa County Transportation Excise Tax revenues totaled \$324.2 million, an increase of 4.8 percent over fiscal year 2011 and 0.8 percent above the estimate. In spite of positive year-over-year growth, HURF and the Regional Area Road Fund (RARF) revenue sources remain at fiscal year 2005 revenue levels.

Arizona's economic activity is expected to continue to improve over the next two years. On May 4, 2012, the Arizona Department of Administration estimated Arizona non-farm employment will grow by 2.0 and 2.3 percent in calendar years 2012 and 2013, respectively. According to the June 1, 2012 Western Blue Chip report, the Arizona personal income is expected to increase by 5.0 percent in calendar year 2012 and 5.8 percent in calendar year 2013. Arizona's population is forecast to grow by 1.2 percent in calendar year 2012 and 1.4 percent in calendar year 2013.

The Department's fiscal year 2013 HURF revenue estimate is \$1,218.7 million, an increase of 0.7 percent over fiscal year 2012. The HURF average compound growth rate for fiscal years 2003 through 2012 was 1.0 percent. The distribution of HURF revenues in fiscal year 2013 is estimated to be as follows: State Highway Fund \$554.0 million; Arizona cities and towns \$334.6 million; Arizona counties \$208.5 million; Department of Public Safety \$120.0 million; Economic Strength Project Fund \$1.0 million; and the Motor Vehicle Division for the registration compliance/third party program \$0.6 million. An estimated \$24.1 million will be re-allocated from the State Highway Fund share of HURF vehicle license tax revenues to the State General Fund (\$2.9 million), the Department of Public Safety (\$2.5 million) and the motor vehicle division third parties (\$18.7 million).

The Maricopa County Transportation Excise Tax revenue forecast for fiscal year 2013 totals \$340.5 million, an increase of 5.0 percent over fiscal year 2012. The Maricopa County Transportation Excise Tax average compound growth rate for fiscal years 2003 through 2012 was 2.1 percent. The distribution of the Maricopa County Transportation Excise Tax revenue in fiscal year 2013 is estimated to be as follows: Maricopa County Regional Area Road Fund \$191.4 million for highways, \$35.7 million for arterial streets, and the Public Transportation Fund \$113.4 million.

Long-term Financial Planning The Department has developed a long-range forecasting model for revenues to be deposited in the Highway User Revenue Fund and the Maricopa County Regional Area Road Fund. This econometric modeling approach provides a framework that allows for the complex interaction of economic, demographic, and technological factors which influence revenue collections over the long term. Using this process, the Department updates and publishes its official forecast on an annual basis, after the close of the fiscal year, and uses this data in developing cash-flow projections for the statewide Highway Construction Program and the Regional Transportation Plan (RTP) Freeway Program, two components of the Five-Year Transportation Facilities Construction Program (the third component being the Airport Program). These cash-flow projections incorporate estimates of all funding sources available to the capital program and estimates of project-related and other expenditures.

Planned Construction Activity In June 2012, the Transportation Board approved a \$4.6 billion statewide Highway Construction Program as part of the Five-Year Transportation Facilities Construction Program for fiscal years 2013 through 2017. This program provides funding for highway facilities on the National Highway System and the statewide system, as well as the Maricopa County Regional Transportation Plan. Altogether (including Maricopa County), the program includes \$2.8 billion for system improvements, \$.5 billion for system management, and \$1.3 billion for system preservation.

The Five-Year Transportation Facilities Construction Program includes approximately \$2.1 billion for the RTP of freeway and expressway construction in Maricopa County, funded in large part from the Maricopa County Regional Area Road Fund. Obligations for the Regional Transportation Plan Freeway Program to date total \$3.8 billion. The Department currently has 11 major RTP Freeway Program projects under design and eight major projects under construction. The Department has acquired a total of 4,045 acres of land for the RTP Freeway Program.

As part of the Five-Year Transportation Facilities Construction Program, the Transportation Board also adopted a \$149 million (state share) Five-Year Airport Development Program that includes 734 projects at general aviation and air carrier airports located throughout the state.

Other Information


Single Audit The Department is required to undergo an annual Single Audit in accordance with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The Department's Single Audit information is included in the Single Audit of the State of Arizona for the fiscal year ended June 30, 2012.

Awards The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Arizona Department of Transportation for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This accomplishment was the twenty-second consecutive year that the Department has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

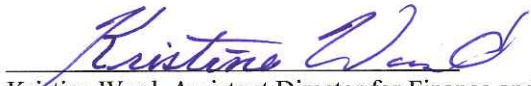
A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments We would like to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. A special note of thanks is extended to the staff of Fiscal Operations whose commitment, professionalism, and dedicated efforts contributed to the timely preparation of the fiscal year 2012 Comprehensive Annual Financial Report.

Respectfully Submitted,



John S. Halikowski, Director
Arizona Department of Transportation



Kristine Ward, Assistant Director for Finance and Accounting
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, 2011

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.



Linda C. Sandison

President

Jeffrey R. Enew

Executive Director

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

John S. Halikowski
Director

John A. Bogert
Deputy Director for Operations

Floyd P. Roehrich, Jr.
Deputy Director for Policy

Jennifer A. Toth
Assistant Director
Intermodal Transportation Division

Stacey K. Stanton
Assistant Director
Motor Vehicle Division

Terry W. Conner
Assistant Director
Enforcement and Compliance Division

Scott Omer
Assistant Director
Multimodal Planning Division

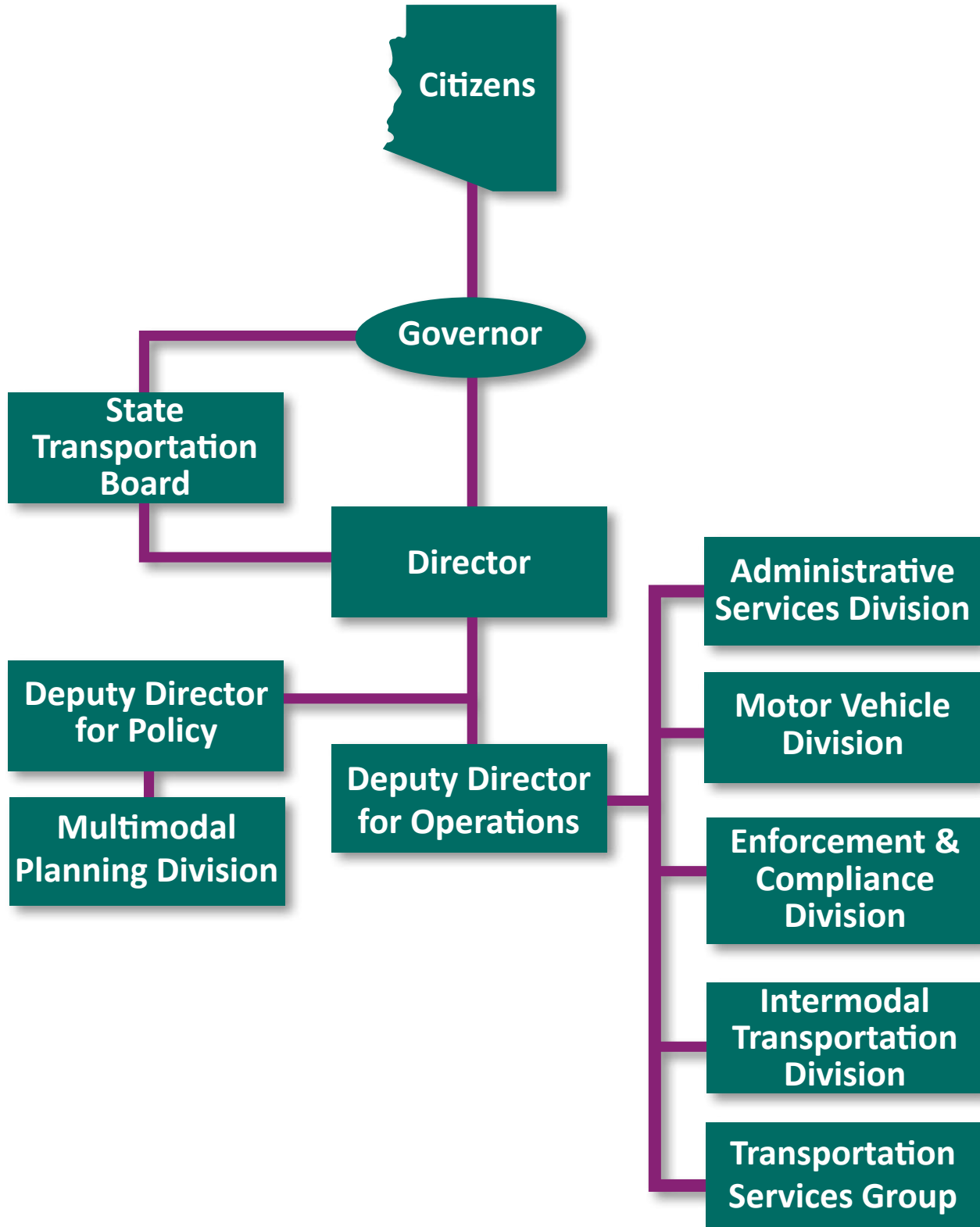
John H. Nichols
Assistant Director
Administrative Services

Kristine Ward
Assistant Director
for Finance and Accounting

Arizona State Transportation Board

Member	Counties	Term Expires
Barbara (Bobbie) Ann Lundstrom, Chairwoman	District 3 (Cochise, Greenlee, and Santa Cruz Counties)	2013
Victor Flores , Vice Chairman	District 1 (Maricopa County)	2014
William (Bill) J. Feldmeier	District 6 (Yavapai, Yuma, Mohave, and LaPaz Counties)	2012
Stephen W. Christy	District 2 (Pima County)	2015
Kelly O. Anderson	District 4 (Gila, Graham, and Pinal Counties)	2016
Hank Rogers	District 5 (Apache, Coconino, and Navajo Counties)	2017
Joseph E. La Rue	District 1 (Maricopa County)	2018

State of Arizona Department of Transportation Organization Chart



Celebrating ¹⁹¹²⁻²⁰¹² **100** Years of Arizona History

Comprehensive Annual Financial Report

FISCAL YEAR

2012



Financial Section

ADOT

Basic Financial Statements

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

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

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

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

Notes to the Financial Statements

INDEPENDENT AUDITORS' REPORT

The Honorable Janice K. Brewer
Governor of the State of Arizona

Members of the Arizona State 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 (Department), as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Arizona Department of Transportation. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

As discussed in Note 1.A, the financial statements of the Arizona Department of Transportation 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 of Arizona that is attributable to the Arizona Department of Transportation. They do not purport to, and do not, present fairly the financial position of the State of Arizona, as of June 30, 2012, 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 financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation, as of June 30, 2012, and the respective changes in its financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012 on our consideration of the Arizona Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14, budgetary comparison information on pages 53 and 54, and information about infrastructure assets reported using the modified approach on pages 55 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements as a whole. The accompanying supplementary information such as the Introductory Section, Supplementary Information, and Statistical Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplementary Information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 20, 2012

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2012

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, 2012. 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 \$16.7 billion, compared to \$16.0 billion for fiscal year 2011, an increase of 3.9 percent. Of this amount, \$107.8 million represents *unrestricted net assets* and may be used to meet the Department's ongoing obligations to citizens and creditors as compared to \$126.1 million at the end of 2011.
- The Department's capital assets are \$18.6 billion, compared to \$18.0 billion for fiscal year 2011, an increase of 3.5 percent. This increase is attributable to the results of increased highway construction activity. The Department's *invested in capital assets, net of related debt*, is \$15.8 billion, compared to \$15.2 billion for fiscal year 2011, an increase of 4.2 percent.
- The Department's non-current liabilities are \$3.3 billion, compared to \$3.1 billion in 2011. The Department had \$65.8 million more in bonds outstanding in 2012 than in 2011. During fiscal year 2012, there were \$759.2 million in bonds issued, \$180.4 million in bonds repaid, and \$512.9 million in bonds refunded.

Fund Level:

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of approximately \$1.2 billion, as compared to approximately \$1.1 billion in 2011.
- The total restricted fund balance is \$1.1 billion; the majority of this amount is restricted for capital projects. Inventories of \$8.2 million represent part of the nonspendable portion of fund balance while \$118.6 million represents the committed fund balance portion.
- The proprietary funds reported net assets at year-end of \$77.7 million, as compared to \$76.4 million in 2011.

Overview of the Financial Statements

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

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

The government-wide financial statements are designed to present an overall picture of the financial position of the Department. These statements consist of the Statement of Net Assets and the Statement of Activities, and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

Arizona Department of Transportation
Management's Discussion and Analysis (continued)
June 30, 2012

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, highway, highway maintenance, and motor vehicle. Taxes, fees, and federal grants finance most of these activities.

Business-type Activities

Activities for which the Department charges a fee to customers to pay for most or all of the costs of the services it provides are reported as business-type activities. The Department's *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.
- 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, bonds, notes payable, and others only appear as liabilities on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.

- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

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

The fund financial statements begin on page 17 and provide detailed information about the major individual funds. A fund is an accounting entity with a self-balancing set of accounts that the Department uses to keep track of specific sources of funding and spending for a particular purpose. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into three categories: governmental, proprietary, and fiduciary.

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

The Department maintains fifteen individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Debt Service Fund, and Capital Projects Fund, which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these 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 goods and services to outside customers, to 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 Revolving 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.

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 53-59 of this report.

Supplementary Information Other Supplementary Information includes the combining statements for the non-major governmental funds and agency funds, and is presented immediately following the Required Supplementary Information on budget and infrastructure assets. Combining and individual fund statements and schedules can be found on pages 60-65 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 address the financial position and changes to financial position for the Department as a whole as of and for the fiscal years ended June 30, 2012 and 2011.

The Department's combined net assets increased by \$618.6 million over the course of this fiscal year's operations, an increase of 3.9 percent. The net assets of the governmental activities increased by \$617.2 million, or 4.0 percent, and business-type activities increased by \$1.3 million, an increase of 1.7 percent over the previous year. The overall increase in the Department's net assets was due to an increase in the Department's infrastructure.

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June 30, 2012

The following table reflects the condensed Statement of Net Assets as of June 30, 2012 and 2011:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 1,514,737,093	\$ 1,401,025,969	\$ 80,112,945	\$ 79,028,924	\$ 1,594,850,038	\$ 1,480,054,893
Capital assets	18,607,570,621	17,975,953,546	43,102	53,658	18,607,613,723	17,976,007,204
Total assets	<u>20,122,307,714</u>	<u>19,376,979,515</u>	<u>80,156,047</u>	<u>79,082,582</u>	<u>20,202,463,761</u>	<u>19,456,062,097</u>
Liabilities						
Other liabilities	283,094,516	291,218,260	2,258,198	2,508,827	285,352,714	293,727,087
Non-current liabilities	<u>3,267,217,325</u>	<u>3,131,004,477</u>	<u>147,402</u>	<u>136,069</u>	<u>3,267,364,727</u>	<u>3,131,140,546</u>
Total liabilities	<u>3,550,311,841</u>	<u>3,422,222,737</u>	<u>2,405,600</u>	<u>2,644,896</u>	<u>3,552,717,441</u>	<u>3,424,867,633</u>
Net assets						
Invested in capital assets, net of related debt	15,796,384,864	15,159,085,525	43,102	53,658	15,796,427,966	15,159,139,183
Restricted	668,679,292	669,811,122	76,882,306	76,192,180	745,561,598	746,003,302
Unrestricted	<u>106,931,717</u>	<u>125,860,131</u>	<u>825,039</u>	<u>191,848</u>	<u>107,756,756</u>	<u>126,051,979</u>
Total net assets	<u>\$ 16,571,995,873</u>	<u>\$ 15,954,756,778</u>	<u>\$ 77,750,447</u>	<u>\$ 76,437,686</u>	<u>\$ 16,649,746,320</u>	<u>\$ 16,031,194,464</u>

In rounded figures, the total assets of the Department were \$20.2 billion, while total liabilities were \$3.6 billion, resulting in a net assets balance of \$16.6 billion. The majority of the Department's net assets, \$15.8 billion (95.0 percent), was invested in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), net of any related debt used to acquire those assets. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

The governmental activities reported an increase in capital assets with the largest increase being in the area of construction in progress. The Department issued four new bonds in fiscal year 2012 which caused the non-current liabilities to increase for the governmental activities.

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June 30, 2012

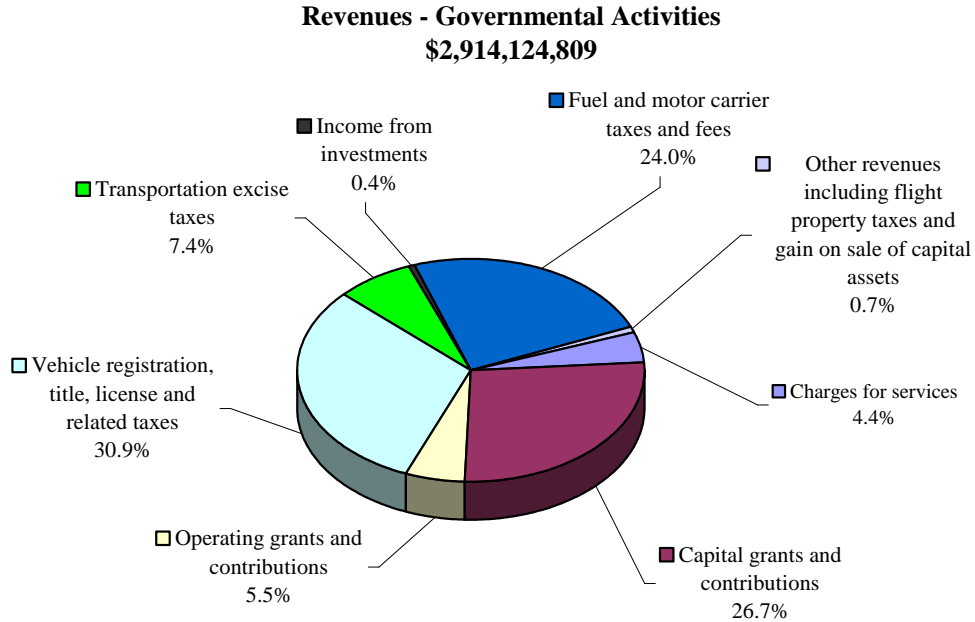
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net assets changed during the year, compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 127,347,062	\$ 133,661,283	\$ 5,582,832	\$ 5,772,911	\$ 132,929,894	\$ 139,434,194
Operating grants and contributions	161,992,343	220,759,085	-	-	161,992,343	220,759,085
Capital grants and contributions	776,813,570	743,718,082	-	-	776,813,570	743,718,082
General revenues:						
Transportation excise taxes	216,280,983	206,545,412	-	-	216,280,983	206,545,412
Vehicle registration, title, license and related taxes	899,344,827	874,191,798	-	-	899,344,827	874,191,798
Fuel and motor carrier taxes and fees	700,619,599	704,726,732	-	-	700,619,599	704,726,732
Flight property taxes	10,735,000	9,798,513	-	-	10,735,000	9,798,513
Income from investments	11,387,628	9,414,904	783,353	554,941	12,170,981	9,969,845
Gain <loss> on sale of capital assets	<895,030>	3,604,096	-	-	<895,030>	3,604,096
Other	10,498,827	12,491,462	-	-	10,498,827	12,491,462
Total revenues	<u>2,914,124,809</u>	<u>2,918,911,367</u>	<u>6,366,185</u>	<u>6,327,852</u>	<u>2,920,490,994</u>	<u>2,925,239,219</u>
Expenses						
Administration	94,074,541	93,040,027	-	-	94,074,541	93,040,027
Highway	39,631,797	37,069,567	-	-	39,631,797	37,069,567
Highway maintenance	125,330,823	129,699,887	-	-	125,330,823	129,699,887
Motor vehicle	116,095,447	99,948,875	-	-	116,095,447	99,948,875
Non-capital, including asset preservation	351,115,581	345,590,127	-	-	351,115,581	345,590,127
Distributions to Arizona counties and cities	1,005,113,813	1,024,756,349	-	-	1,005,113,813	1,024,756,349
Distributions to other state agencies	307,885,178	254,702,299	-	-	307,885,178	254,702,299
Local governmental assistance	93,557,474	163,035,322	-	-	93,557,474	163,035,322
Interest on long-term debt	164,081,060	128,768,466	-	-	164,081,060	128,768,466
Arizona Highways Magazine	-	-	4,978,502	5,664,153	4,978,502	5,664,153
Highway Expansion and Extension Loan Program	-	-	74,922	125,981	74,922	125,981
Total expenses	<u>2,296,885,714</u>	<u>2,276,610,919</u>	<u>5,053,424</u>	<u>5,790,134</u>	<u>2,301,939,138</u>	<u>2,282,401,053</u>
Change in net assets before transfers	617,239,095	642,300,448	1,312,761	537,718	618,551,856	642,838,166
Transfers	-	<851,400>	-	851,400	-	-
Change in net assets	617,239,095	641,449,048	1,312,761	1,389,118	618,551,856	642,838,166
Net assets - July 1	15,954,756,778	15,313,307,730	76,437,686	75,048,568	16,031,194,464	15,388,356,298
Net assets - June 30	<u>\$ 16,571,995,873</u>	<u>\$ 15,954,756,778</u>	<u>\$77,750,447</u>	<u>\$76,437,686</u>	<u>\$ 16,649,746,320</u>	<u>\$ 16,031,194,464</u>

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Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2012:



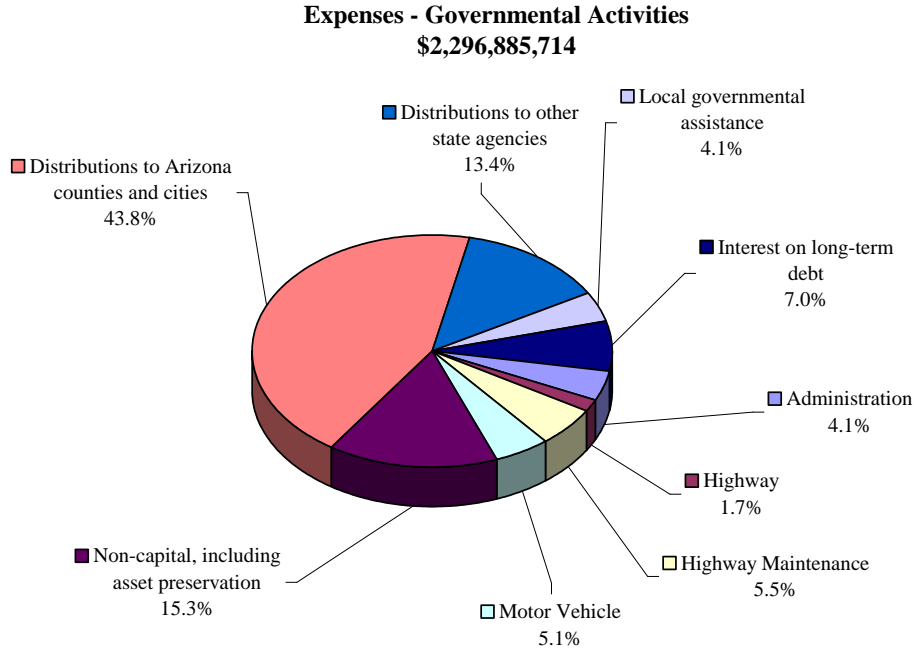
\$2.4 billion (or 81.6 percent) of the Department's revenues are from the following three revenue sources:

- Vehicle registration, title, license, and related taxes comprise the Department's largest revenue source of \$899.3 million (30.9 percent).
- Capital grants and contributions represent the Department's second largest revenue source of \$776.8 million (26.7 percent).
- Fuel and motor carrier taxes and fees represent the Department's third largest revenue source of \$700.6 million (24.0 percent).

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax, posted positive year-over-year growth in fiscal year 2012. HURF collections totaled approximately \$1.2 billion, an increase of 0.7 percent over fiscal year 2011. Maricopa County Transportation Excise Tax collections totaled \$324.2 million, an increase of 4.8 percent over fiscal year 2011, and 0.8 percent above the Department's estimate. The Transportation Excise Tax distribution to the Department was \$216.3 million compared to \$206.5 million for fiscal year 2011.

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The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2012:



\$1.7 billion (or 72.5 percent) of the Department's expenses were for the following:

- Distributions to Arizona counties and cities comprise the Department's largest expense of \$1.0 billion (43.8 percent).
- Non-capital, including asset preservation, represents the Department's second largest expense of \$351.1 million (15.3 percent).
- Distributions to other state agencies represent the Department's third largest expense of \$307.9 million (13.4 percent).

Distributions to Arizona counties and cities decreased in fiscal year 2012 as compared to fiscal year 2011. These decreases were due to the lack of legislative mandates to sweep funds and transfer excess fund balances from state agencies to the State General Fund.

The large decrease in operating grants and contributions expense was due primarily to less expenditures on American Recovery and Reinvestment Act (ARRA) projects.

Business-type Activities

Net assets for business-type activities increased by \$1.3 million in fiscal year 2012. Total revenues were \$6.4 million, with charges for services representing 87.7 percent and income from investments 12.3 percent. The total expenses for business-type activities were \$5.1 million.

The Highway Expansion and Extension Loan Program had a increase in total revenues (operating and non-operating) of \$66 thousand which was primarily due to the Department choosing not to loan money because the return on investment was not sufficient to merit the risk. Interest revenue increased this fiscal year due to the fund not issuing any new loans and receiving loan repayments, which increased average cash balances during the year.

The *Arizona Highways Magazine* had a decrease in operating revenues of \$28 thousand primarily due to a reduction in the number of subscribers for the monthly publication; and a reduction in the purchases of related products such as calendars, books, and holiday gift catalog items. Typically magazine subscribers also purchase these related products. This decline in demand is consistent with industry trends for many other consumer periodicals with revenues based predominantly on annual subscriptions, as well as an overall weak economy, especially in Arizona where the majority of subscribers are located.

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 60-63.

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$1.2 billion, an increase of \$120.9 million over the previous fiscal year. Of the \$1.2 billion balance, \$8.2 million for inventories represents that portion of the fund balance that is nonspendable; \$1.1 billion represents those funds that are restricted and used to pay for capital projects while \$15.3 million represents those funds that are restricted and used to pay for debt service; and \$118.6 million represents that portion of the fund balance that is committed.

The General Fund (State Highway Fund) is the primary operating fund of the Department. At the end of the current fiscal year, the nonspendable fund balance was \$8.2 million; the restricted fund balance was \$240.5 million; and the committed fund balance was \$81.3 million.

The Maricopa Regional Area Road Construction Fund is a major special revenue fund that receives a portion of Maricopa County Transportation Excise Tax monies that are used to provide a funding source for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system within Maricopa County. Total revenues collected in the fund in fiscal year 2012 were \$477.1 million; Transportation Excise Tax revenue of \$216.3 million (or 45.3 percent) was the bulk of the revenue. The remaining revenue was mainly federal revenue and income from 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 \$330.9 million were transferred in from the General Fund (State Highway Fund) (\$152.7 million), Maricopa Regional Area Road Construction Fund (\$103.2 million), and Grant Anticipation Notes Fund (\$75.0 million), and were used to pay the debt service.

The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities in the governmental funds. During the fiscal year, the Department's expenditures were \$163.9 million. Capital outlay expenditures of \$141.7 million (86.5 percent) accounted for the majority of the expenditures in the

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Capital Projects Fund. This expenditure for the acquisition and construction of new highways was converted to capital assets on the government-wide statements.

Budget Variances

As a consequence of lower revenue collections, the Department reduced its fiscal year 2012 operating spending levels in order to ensure that there would be sufficient cash in the General Fund (State Highway Fund) to cover debt service, contractor payments, fund transfers, and daily operational expenses. Accordingly, actual expenditures for fiscal year 2012 were less than the Department's appropriated budget. Variances reflect personnel savings resulting from the statewide hiring freeze, operational savings from the elimination of non-mission critical overtime and travel; and deferred roadway equipment replacement, facility repair, and routine highway repair and maintenance. Reference the budgetary comparison schedule on page 54.

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, 2012, amounts to \$18.6 billion (net of accumulated depreciation), a \$631.6 million increase over the previous fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,747,307,749	\$ 2,619,089,147	\$ 7,900	\$ 7,900	\$ 2,747,315,649	\$ 2,619,097,047
Buildings and improvements	108,712,313	110,771,178	23,678	35,069	108,735,991	110,806,247
Improvements other than buildings	24,475,649	25,532,416	-	-	24,475,649	25,532,416
Mobile fleet and aircraft	47,257,632	41,920,580	-	-	47,257,632	41,920,580
Machinery and equipment	13,332,478	12,089,608	11,524	10,689	13,344,002	12,100,297
Infrastructure	12,207,437,415	11,604,565,886	-	-	12,207,437,415	11,604,565,886
Construction in progress	3,459,047,385	3,561,984,731	-	-	3,459,047,385	3,561,984,731
Total	<u>\$ 18,607,570,621</u>	<u>\$ 17,975,953,546</u>	<u>\$ 43,102</u>	<u>\$ 53,658</u>	<u>\$ 18,607,613,723</u>	<u>\$ 17,976,007,204</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 6,751 center lane miles (21,440 travel lane miles) and 4,754 bridges that the Department is responsible for maintaining.

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

The Department manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The Department's serviceability rating goal is 3.23 for the overall system. The Department's most recent assessment indicated that an overall rating of 3.69 was achieved for fiscal year 2012.

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 2012, a CRI of 93.1 percent was achieved.

The estimated expenditures for roads in fiscal year 2012 were \$261.9 million while the actual expenditures were \$373.6 million as a result of completion of a number of American Recovery and Reinvestment Act (ARRA) projects. The estimated expenditures for bridges in fiscal year 2012 were \$12.5 million while the actual expenditures were \$20.6

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million as a result of an ongoing effort to maintain the ability of an older inventory of bridges to serve a growing population.

In addition to many smaller projects, the following major highway construction contracts in excess of \$10 million were started during fiscal year 2012:

Description	Contract Start Date	Contract Amount	Fiscal Year 2012
			Construction Expenditures
Capacity additions and major widening on State Route 303L at Interstate 10 interchange in Maricopa County	9/16/2011	\$ 133,909,898	\$ 43,199,841
Capacity additions and major widening on State Route 303L Peoria Avenue to Mountain View Road in Maricopa County	7/15/2011	128,777,023	52,691,559
Capacity additions and reconstruction on Interstate 10, Ruthrauff Road to Prince Road in Pima County	7/15/2011	76,438,548	21,655,651
New facilities - construction of new roads on State Route 24 from State Route 202L to Ellsworth Road in Maricopa County (Phase I)	2/17/2012	71,415,248	5,116,831
Capacity additions and major widening on State Route 303L Glendale Avenue to Peoria Avenue in Maricopa County	4/20/2012	65,104,896	1,532,077
Construct interim roadway on Northern Avenue from US Route 60 to State Route 303L in Maricopa County	7/20/2011	57,617,970	715,436
System preservation and relocations on Interstate 17 at the Cordes Junction traffic interchange in Yavapai County	7/15/2011	50,927,648	28,537,000
Capacity additions and major widening on State Route 303L Thomas Road to Camelback Road in Maricopa County	4/13/2012	31,450,018	-
Capacity additions and major widening on La Canada Drive, River Road to Ina Road in Pima County	9/28/2011	18,209,969	-
Capacity additions and major widening on State Route 89 Fain Road in Yavapai County	12/6/2011	16,267,842	6,234,028
System preservation - bridge replacement on State Route 70, the Gila River Bridge at Bylas #2945 in Graham County	11/18/2011	12,685,324	7,222,390
System preservation-restoration/rehab/resurface in Interstate 15 Virgin River to Utah State Line in Mohave County	4/20/2012	11,556,394	-

Furthermore, the following major highway construction projects had expenditures in excess of \$15 million in fiscal year 2012. These project expenditures include payments made to construction contractors (as shown above) as well as utility, design, right-of-way, and landscaping costs:

Location Description	2012 Project Expenditures
State Route 303L from Peoria Avenue to Mountain View Boulevard in Maricopa County	\$ 55,312,340
State Route 303L Interstate 10/State Route 303L Traffic Interchange in Maricopa County	52,612,564
State Route 101 Interstate 10 - Tatum Boulevard in Maricopa County	50,329,156
State Route 202L, Santan Freeway, Interstate 10 to Gilbert Road in Maricopa County	33,105,368
State Route 303L Camelback Road to Olive Avenue in Maricopa County	32,107,363
Interstate 17 Cordes Junction Traffic Interchange in Yavapai County	32,623,584
State Route 202L, Red Mountain Freeway, Higley Road to US Highway 60 in Maricopa County	26,035,101
Interstate 10 Ruthrauff Road to Prince Road in Pima County	25,860,831
Interstate 10 Val Vista Road to Early Road in Pinal County	24,917,319
Interstate 10 Salt River to Baseline Road in Maricopa County	21,663,521
Interstate 10 Interstate 8 to State Route 87 in Pinal County	20,400,724
Interstate 10 and State Route 90 Traffic Interchange in Cochise County	16,620,141

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

The Department's non-current liabilities for its governmental and business-type activities as of June 30, 2012, amount to \$3.2 billion, an increase of \$114.7 million from the previous fiscal year. The increase in capital leases was due to entering into new lease agreements in fiscal year 2012.

Governmental Activities	2012	2011
Highway revenue bonds	\$1,619,965,000	\$1,600,855,000
Transportation excise tax revenue bonds	981,845,000	877,845,000
Grant anticipation notes (GARVEE bonds)	335,230,000	392,495,000
Premium on bonds	227,329,835	180,225,182
Compensated absences	14,890,371	14,782,649
Capital leases	10,728,825	4,909,960
Advances and notes payable	55,666,442	59,891,686
Total governmental activities	3,245,655,473	3,131,004,477
Business-type Activities		
Compensated absences	147,402	136,069
Total business-type activities	147,402	136,069
Total non-current liabilities	\$ 3,245,802,875	\$ 3,131,140,546

The Department has issued revenue bonds in 55 separate issues between 1980 and 2012. All bonds outstanding as of June 30, 2012, are scheduled to mature on various dates, but none later than July 1, 2036. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and are not obligations of the State of Arizona. This data was gathered from the various bond records on file from the 1980s to the present.

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

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007, or by visiting our website at http://www.azdot.gov/Inside_ADOT/fms/PDF/CAFR12.pdf.

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Capital Projects Fund. This expenditure for the acquisition and construction of new highways was converted to capital assets on the government-wide statements.

Budget Variances

As a consequence of lower revenue collections, the Department reduced its fiscal year 2012 operating spending levels in order to ensure that there would be sufficient cash in the General Fund (State Highway Fund) to cover debt service, contractor payments, fund transfers, and daily operational expenses. Accordingly, actual expenditures for fiscal year 2012 were less than the Department's appropriated budget. Variances reflect personnel savings resulting from the statewide hiring freeze, operational savings from the elimination of non-mission critical overtime and travel; and deferred roadway equipment replacement, facility repair, and routine highway repair and maintenance. Reference the budgetary comparison schedule on page 54.

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, 2012, amounts to \$18.6 billion (net of accumulated depreciation), a \$631.6 million increase over the previous fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,747,307,749	\$ 2,619,089,147	\$ 7,900	\$ 7,900	\$ 2,747,315,649	\$ 2,619,097,047
Buildings and improvements	108,712,313	110,771,178	23,678	35,069	108,735,991	110,806,247
Improvements other than buildings	24,475,649	25,532,416	-	-	24,475,649	25,532,416
Mobile fleet and aircraft	47,257,632	41,920,580	-	-	47,257,632	41,920,580
Machinery and equipment	13,332,478	12,089,608	11,524	10,689	13,344,002	12,100,297
Infrastructure	12,207,437,415	11,604,565,886	-	-	12,207,437,415	11,604,565,886
Construction in progress	3,459,047,385	3,561,984,731	-	-	3,459,047,385	3,561,984,731
Total	<u>\$ 18,607,570,621</u>	<u>\$ 17,975,953,546</u>	<u>\$ 43,102</u>	<u>\$ 53,658</u>	<u>\$ 18,607,613,723</u>	<u>\$ 17,976,007,204</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 6,751 center lane miles (21,440 travel lane miles) and 4,754 bridges that the Department is responsible for maintaining.

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

The Department manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The Department's serviceability rating goal is 3.23 for the overall system. The Department's most recent assessment indicated that an overall rating of 3.69 was achieved for fiscal year 2012.

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 2012, a CRI of 93.1 percent was achieved.

Arizona Department of Transportation
Management's Discussion and Analysis (continued)
June 30, 2012

In addition to many smaller projects, the following major highway construction contracts in excess of \$10 million were started during fiscal year 2012:

Description	Contract Start Date	Contract Amount	Fiscal Year 2012
			Construction Expenditures
Capacity additions and major widening on State Route 303L at Interstate 10 interchange in Maricopa County	9/16/2011	\$ 133,909,898	\$ 43,199,841
Capacity additions and major widening on State Route 303L Peoria Avenue to Mountain View Road in Maricopa County	7/15/2011	128,777,023	52,691,559
Capacity additions and reconstruction on Interstate 10, Ruthrauff Road to Prince Road in Pima County	7/15/2011	76,438,548	21,655,651
New facilities - construction of new roads on State Route 24 from State Route 202L to Ellsworth Road in Maricopa County (Phase I)	2/17/2012	71,415,248	5,116,831
Capacity additions and major widening on State Route 303L Glendale Avenue to Peoria Avenue in Maricopa County	4/20/2012	65,104,896	1,532,077
Construct interim roadway on Northern Avenue from US Route 60 to State Route 303L in Maricopa County	7/20/2011	57,617,970	715,436
System preservation and relocations on Interstate 17 at the Cordes Junction traffic interchange in Yavapai County	7/15/2011	50,927,648	28,537,000
Capacity additions and major widening on State Route 303L Thomas Road to Camelback Road in Maricopa County	4/13/2012	31,450,018	-
Capacity additions and major widening on La Canada Drive, River Road to Ina Road in Pima County	9/28/2011	18,209,969	-
Capacity additions and major widening on State Route 89 Fain Road in Yavapai County	12/6/2011	16,267,842	6,234,028
System preservation - bridge replacement on State Route 70, the Gila River Bridge at Bylas #2945 in Graham County	11/18/2011	12,685,324	7,222,390
System preservation-restoration/rehab/resurface in Interstate 15 Virgin River to Utah State Line in Mohave County	4/20/2012	11,556,394	-

Furthermore, the following major highway construction projects had expenditures in excess of \$15 million in fiscal year 2012. These project expenditures include payments made to construction contractors (as shown above) as well as utility, design, right-of-way, and landscaping costs:

Location Description	2012 Project Expenditures
State Route 303L from Peoria Avenue to Mountain View Boulevard in Maricopa County	\$ 55,312,340
State Route 303L Interstate 10/State Route 303L Traffic Interchange in Maricopa County	52,612,564
State Route 101 Interstate 10 - Tatum Boulevard in Maricopa County	50,329,156
State Route 202L, Santan Freeway, Interstate 10 to Gilbert Road in Maricopa County	33,105,368
State Route 303L Camelback Road to Olive Avenue in Maricopa County	32,107,363
Interstate 17 Cordes Junction Traffic Interchange in Yavapai County	32,623,584
State Route 202L, Red Mountain Freeway, Higley Road to US Highway 60 in Maricopa County	26,035,101
Interstate 10 Ruthrauff Road to Prince Road in Pima County	25,860,831
Interstate 10 Val Vista Road to Early Road in Pinal County	24,917,319
Interstate 10 Salt River to Baseline Road in Maricopa County	21,663,521
Interstate 10 Interstate 8 to State Route 87 in Pinal County	20,400,724
Interstate 10 and State Route 90 Traffic Interchange in Cochise County	16,620,141

Arizona Department of Transportation
Management's Discussion and Analysis (continued)
June 30, 2012

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

The Department's non-current liabilities for its governmental and business-type activities as of June 30, 2012, amount to \$3.2 billion, an increase of \$114.7 million from the previous fiscal year. The increase in capital leases was due to entering into new lease agreements in fiscal year 2012.

Governmental Activities	2012	2011
Highway revenue bonds	\$1,619,965,000	\$1,600,855,000
Transportation excise tax revenue bonds	981,845,000	877,845,000
Grant anticipation notes (GARVEE bonds)	335,230,000	392,495,000
Premium on bonds	227,329,835	180,225,182
Compensated absences	14,890,371	14,782,649
Capital leases	10,728,825	4,909,960
Advances and notes payable	55,666,442	59,891,686
Total governmental activities	3,245,655,473	3,131,004,477
<hr/>		
Business-type Activities		
Compensated absences	147,402	136,069
Total business-type activities	147,402	136,069
Total non-current liabilities	\$ 3,245,802,875	\$ 3,131,140,546

The Department has issued revenue bonds in 55 separate issues between 1980 and 2012. All bonds outstanding as of June 30, 2012, are scheduled to mature on various dates, but none later than July 1, 2036. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and are not obligations of the State of Arizona. This data was gathered from the various bond records on file from the 1980s to the present.

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

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007, or by visiting our website at http://www.azdot.gov/Inside_ADOT/fms/PDF/CAFR12.pdf.

Arizona Department of Transportation
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Unrestricted cash on deposit with the State Treasurer	\$ 31,059,989	\$ 2,263,107	\$ 33,323,096
Receivables:			
Subscriptions, net of allowance for doubtful accounts	-	59,562	59,562
Accrued interest	-	2,308	2,308
Taxes and fees	64,439,338	-	64,439,338
Notes and loans	5,871,601	530,450	6,402,051
Other, net of allowance for doubtful accounts	16,432,878	151,605	16,584,483
Due from U.S. Government for reimbursable costs	143,308,526	-	143,308,526
Internal balances	<28,783>	28,783	-
Inventories	11,733,437	379,503	12,112,940
Other assets/prepaid items	18,168,740	348,079	18,516,819
Deferred charges	14,850,684	-	14,850,684
Restricted cash on deposit with the State Treasurer	1,208,900,683	76,349,548	1,285,250,231
Capital assets not subject to depreciation (Note 5A)	18,413,792,549	7,900	18,413,800,449
Capital assets subject to depreciation, net of accumulated depreciation (Note 5A)	<u>193,778,072</u>	<u>35,202</u>	<u>193,813,274</u>
Total assets	<u>20,122,307,714</u>	<u>80,156,047</u>	<u>20,202,463,761</u>
Liabilities			
Accounts payable and other current liabilities	6,939,613	21,683	6,961,296
Accrued payroll and other accrued expenses	5,159,106	31,644	5,190,750
Contracts and retainage payable	153,052,510	-	153,052,510
Due to other state agencies	11,330,261	-	11,330,261
Due to Arizona counties and cities	106,613,026	-	106,613,026
Unearned revenues (Note 5C)	-	2,204,871	2,204,871
Non-current liabilities (Note 5F):			
Due within one year	193,444,934	145,686	193,590,620
Due in more than one year	<u>3,073,772,391</u>	<u>1,716</u>	<u>3,073,774,107</u>
Total liabilities	<u>3,550,311,841</u>	<u>2,405,600</u>	<u>3,552,717,441</u>
Net assets			
Invested in capital assets, net of related debt	15,796,384,864	43,102	15,796,427,966
Restricted:			
Loans and other financial assistance	-	76,882,306	76,882,306
Debt service	2,517,544	-	2,517,544
Capital projects	666,161,748	-	666,161,748
Unrestricted	<u>106,931,717</u>	<u>825,039</u>	<u>107,756,756</u>
Total net assets	<u>\$ 16,571,995,873</u>	<u>\$ 77,750,447</u>	<u>\$ 16,649,746,320</u>

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

Arizona Department of Transportation
Statement of Activities
for the fiscal year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net <Expenses> Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Administration	\$ 94,074,541	\$ 11,947,241	\$ -	\$ 1,003,896	\$ <81,123,404>
Highway	39,631,797	1,681,192	71,510,313	775,809,674	809,369,382
Highway maintenance	125,330,823	2,289,515	-	-	<123,041,308>
Motor vehicle	116,095,447	111,429,114	-	-	<4,666,333>
Non-capital, including asset preservation	351,115,581	-	-	-	<351,115,581>
Distributions to other state agencies	307,885,178	-	-	-	<307,885,178>
Distributions to Arizona counties and cities	1,005,113,813	-	-	-	<1,005,113,813>
Local governmental assistance	93,557,474	-	90,482,030	-	<3,075,444>
Interest on long-term debt	164,081,060	-	-	-	<164,081,060>
Total governmental activities	<u>2,296,885,714</u>	<u>127,347,062</u>	<u>161,992,343</u>	<u>776,813,570</u>	<u><1,230,732,739></u>
Business-type Activities					
Arizona Highways Magazine	4,978,502	5,581,304	-	-	602,802
Highway Expansion and Extension Loan Program	74,922	1,528	-	-	<73,394>
Total business-type activities	<u>5,053,424</u>	<u>5,582,832</u>	<u>-</u>	<u>-</u>	<u>529,408</u>
Total	<u>\$2,301,939,138</u>	<u>\$132,929,894</u>	<u>\$ 161,992,343</u>	<u>\$776,813,570</u>	<u>\$ <1,230,203,331></u>
			Governmental Activities	Business-type Activities	Total
Net <expenses> revenues			\$ <1,230,732,739>	\$ 529,408	\$ <1,230,203,331>
General revenues:					
Transportation excise taxes			216,280,983	-	216,280,983
Vehicle registration, title, license, and related taxes and fees			899,344,827	-	899,344,827
Fuel and motor carrier taxes and fees			700,619,599	-	700,619,599
Flight property taxes			10,735,000	-	10,735,000
Income from investments			11,387,628	783,353	12,170,981
Loss on sale of capital assets			<895,030>	-	<895,030>
Other			10,498,827	-	10,498,827
Total general revenues			<u>1,847,971,834</u>	<u>783,353</u>	<u>1,848,755,187</u>
Change in net assets			617,239,095	1,312,761	618,551,856
Net assets - July 1			<u>15,954,756,778</u>	<u>76,437,686</u>	<u>16,031,194,464</u>
Net assets - June 30			<u>\$ 16,571,995,873</u>	<u>\$ 77,750,447</u>	<u>\$ 16,649,746,320</u>

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

Governmental Funds Financial Statements

Major Funds

General Fund (State Highway Fund)

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

Maricopa Regional Area Road Construction Fund

This fund receives certain Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system within Maricopa County.

Motor Vehicle Division Clearing Fund

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

Highway User Revenue Fund

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

Debt Service Fund

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

Capital Projects Fund

This fund is used to administer bond proceeds for Arizona Transportation Board Highway Revenue Bonds, Arizona Transportation Board Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes (GARVEE bonds). 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, 2012

	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	\$ -	\$ -	\$ -	\$ -
Receivables:				
Interfund (Note 5D)	82,468,517	-	-	26,504,603
Taxes and fees	-	-	8,832,922	55,606,416
Notes and loans	1,910,694	-	-	-
Other (net)	4,572,135	4,496,394	-	-
Amounts due from U.S. Government	68,941,477	56,090,676	-	-
Inventories	8,235,030	-	-	-
Land held for resale	18,168,740	-	-	-
Restricted cash on deposit with the State Treasurer	<u>240,480,792</u>	<u>392,042,197</u>	<u>36,230,945</u>	<u>82,197,312</u>
Total assets	<u>\$ 424,777,385</u>	<u>\$ 452,629,267</u>	<u>\$ 45,063,867</u>	<u>\$ 164,308,331</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 5,135,993	\$ -	\$ 825,919	\$ -
Accrued payroll and other accrued expenditures	4,769,006	57,708	-	2,617
Contracts and retainage payable	78,629,517	53,601,380	-	-
Interfund payables (Note 5D)	1,515,053	268,190	28,105,833	78,334,505
Amounts due to:				
Other state agencies	2,532,510	-	5,020,569	-
Arizona counties and cities	-	-	18,958,469	85,971,209
Surety and rental deposits	274,916	-	281,500	-
Deferred revenue (Note 5C)	<u>1,910,694</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>94,767,689</u>	<u>53,927,278</u>	<u>53,192,290</u>	<u>164,308,331</u>
Fund balances: (Note 5G)				
Unassigned	-	-	<8,128,423>	-
Nonspendable	8,235,030	-	-	-
Restricted	240,480,792	392,001,989	-	-
Committed	<u>81,293,874</u>	<u>6,700,000</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>330,009,696</u>	<u>398,701,989</u>	<u><8,128,423></u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 424,777,385</u>	<u>\$ 452,629,267</u>	<u>\$ 45,063,867</u>	<u>\$ 164,308,331</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
\$ -	\$ -	\$ 30,425,235	\$ 30,425,235
-	267,916	2,849,461	112,090,497
-	-	-	64,439,338
-	-	3,960,907	5,871,601
-	-	7,359,722	16,428,251
-	-	18,276,373	143,308,526
-	-	-	8,235,030
-	-	-	18,168,740
<u>15,385,296</u>	<u>429,407,905</u>	<u>13,156,236</u>	<u>1,208,900,683</u>
<u>\$ 15,385,296</u>	<u>\$ 429,675,821</u>	<u>\$ 76,027,934</u>	<u>\$ 1,607,867,901</u>
\$ 77,500		\$ 328,880	\$ 6,368,292
3,153	10,130	92,757	4,935,371
-	-	20,821,613	153,052,510
-	3,829,137	64,828	112,117,546
-	-	3,777,182	11,330,261
-	-	1,683,348	106,613,026
-	-	-	556,416
-	-	3,960,907	5,871,601
<u>80,653</u>	<u>3,839,267</u>	<u>30,729,515</u>	<u>400,845,023</u>
-	-	-	<8,128,423>
-	-	-	8,235,030
15,304,643	425,836,554	14,645,827	1,088,269,805
-	-	30,652,592	118,646,466
<u>15,304,643</u>	<u>425,836,554</u>	<u>45,298,419</u>	<u>1,207,022,878</u>
<u>\$ 15,385,296</u>	<u>\$ 429,675,821</u>	<u>\$ 76,027,934</u>	<u>\$ 1,607,867,901</u>

Arizona Department of Transportation
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2012

Total fund balances - governmental funds (Exhibit 3)	\$ 1,207,022,878
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 B1).	18,559,776,659
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).	51,059,771
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds (Note 4 B2).	5,871,601
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 B3).	<u><3,251,735,036></u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 16,571,995,873</u>

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

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the fiscal year ended June 30, 2012

	Special Revenue Funds			
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Revenues				
Transportation excise taxes	\$ -	\$ 216,280,983	\$ -	\$ -
Vehicle registration, title, license, and related taxes and fees	139,158,674	-	511,321,159	347,008,081
Fuel and motor carrier taxes and fees	361,456,432	-	21,602,754	285,498,976
Flight property taxes	-	-	-	-
Reimbursement of construction expenditures - federal aid	441,653,560	256,008,366	-	-
Other federal grants and reimbursements	71,510,313	-	-	-
Reimbursements from Arizona counties and cities	4,465,092	108,917	-	-
Distributions from other state agencies	1,842,194	-	-	-
Interest on loans receivable	102,476	-	-	-
Income from investments	3,011,762	2,939,107	-	376,364
Grand Canyon National Park Airport	-	-	-	-
Rental income	1,853,533	1,241,972	-	-
Other	3,751,810	514,069	-	1,739,867
Total revenues	<u>1,028,805,846</u>	<u>477,093,414</u>	<u>532,923,913</u>	<u>634,623,288</u>
Expenditures				
Current:				
Administration	67,902,634	335,844	8,128,423	-
Highway	40,479,111	1,871,272	-	-
Highway maintenance	118,230,113	-	-	-
Motor vehicle	104,039,377	-	1,381,383	4,434,310
Total current expenditures	<u>330,651,235</u>	<u>2,207,116</u>	<u>9,509,806</u>	<u>4,434,310</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
\$ -	\$ -	\$ -	\$ 216,280,983
-	-	13,059,618	1,010,547,532
-	-	32,061,437	700,619,599
-	-	10,735,000	10,735,000
-	-	73,238,527	770,900,453
-	-	85,926,299	157,436,612
-	-	5,071,191	9,645,200
-	-	-	1,842,194
-	-	248,372	350,848
778,417	3,780,091	244,626	11,130,367
-	-	821,236	821,236
-	-	-	3,095,505
-	-	2,171,717	8,177,463
<u>778,417</u>	<u>3,780,091</u>	<u>223,578,023</u>	<u>2,901,582,992</u>
66,160	257,943	3,935,891	80,626,895
-	-	93,557,474	135,907,857
-	-	-	118,230,113
-	-	4,472,314	114,327,384
<u>66,160</u>	<u>257,943</u>	<u>101,965,679</u>	<u>449,092,249</u>

(continued)

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the fiscal year ended June 30, 2012

	Special Revenue Funds			
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Expenditures (continued)				
Intergovernmental:				
Distributions to other state agencies	\$ 137,596	\$ -	\$ 142,354,604	\$ 132,956,096
Distributions to Arizona counties and cities	43,757,398	65,506,549	389,187,926	497,232,882
Debt service:				
Principal	3,536,603	12,366,560	-	-
Interest	214,058	-	-	-
Bond issuance costs	-	-	-	-
Non-capital, including asset preservation	213,277,218	52,147,365	-	-
Capital outlay	299,841,232	259,885,684	-	-
Total expenditures	<u>891,415,340</u>	<u>392,113,274</u>	<u>541,052,336</u>	<u>634,623,288</u>
Excess <deficiency> of revenues over <under> expenditures	137,390,506	84,980,140	<8,128,423>	-
Other financing sources <uses>				
Transfers in	-	-	-	-
Transfers out for debt service	<152,687,225>	<103,223,010>	-	-
Sale of capital assets	1,814,772	-	-	-
Insurance recovery	1,817,979	-	-	-
Debt issuance	-	9,541,317	-	-
Refunding debt issuance	-	-	-	-
Premium from debt issuance	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources <uses>	<u><149,054,474></u>	<u><93,681,693></u>	<u>-</u>	<u>-</u>
Net change in fund balances	<11,663,968>	<8,701,553>	<8,128,423>	-
Fund balances - July 1	341,673,664	407,403,542	-	-
Fund balances - June 30	<u>\$ 330,009,696</u>	<u>\$ 398,701,989</u>	<u>\$ <8,128,423></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
\$ -	\$ -	\$ 29,769,482	\$ 305,217,778
-	-	9,083,730	1,004,768,485
180,435,000	-	-	196,338,163
136,998,783	-	-	137,212,841
1,917,566	1,124,624	-	3,042,190
-	20,792,338	-	286,216,921
<u>-</u>	<u>141,744,920</u>	<u>185,530</u>	<u>701,657,366</u>
<u>319,417,509</u>	<u>163,919,825</u>	<u>141,004,421</u>	<u>3,083,545,993</u>
<318,639,092>	<160,139,734>	82,573,602	<181,963,001>
330,856,456	-	-	330,856,456
-	-	<74,946,221>	<330,856,456>
-	-	-	1,814,772
-	-	-	1,817,979
-	259,460,000	-	269,001,317
499,725,000	-	-	499,725,000
62,314,314	28,438,791	-	90,753,105
<560,228,345>	-	-	<560,228,345>
<u>332,667,425</u>	<u>287,898,791</u>	<u><74,946,221></u>	<u>302,883,828</u>
14,028,333	127,759,057	7,627,381	120,920,827
<u>1,276,310</u>	<u>298,077,497</u>	<u>37,671,038</u>	<u>1,086,102,051</u>
<u>\$ 15,304,643</u>	<u>\$ 425,836,554</u>	<u>\$ 45,298,419</u>	<u>\$ 1,207,022,878</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, 2012

Net change in fund balances - total governmental funds (Exhibit 4)	\$ 120,920,827
<p>Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:</p>	
Capital outlays are reported as expenditures in governmental funds (Note 4 C1).	626,256,345
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 C2).	<856,543,829>
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 C2).	729,804,921
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 C3).	5,206,470
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 C4).	<u><8,405,639></u>
Change in net assets of governmental activities (Exhibit 2)	<u><u>\$ 617,239,095</u></u>

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

Proprietary Funds Financial Statements

Major Funds

Arizona Highways Magazine Fund

The fund consists of receipts generated from the sale of the *Arizona Highways Magazine* and other branded products. The fund provides for the production and sale of the *Magazine* and related products that promote the State of Arizona.

Highway Expansion and Extension Loan Program Fund

This fund is an innovative financing mechanism to administer monies designated to provide loans and credit enhancement assistance to the Department and to sponsors of local transportation projects.

Non-Major Fund

Internal Service Fund

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

Arizona Department of Transportation
Statement of Net Assets
Proprietary Funds
June 30, 2012

	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	\$ -	\$ 2,263,107	\$ 2,263,107	\$ 634,754
Receivables:				
Interfund	-	26,571	26,571	478
Subscriptions, net of allowance for doubtful accounts	-	59,562	59,562	-
Accrued interest	2,308	-	2,308	-
Loans	530,450	-	530,450	-
Other, net allowance for doubtful accounts	-	151,605	151,605	4,627
Inventories	-	379,503	379,503	3,498,407
Prepaid items	-	348,079	348,079	-
Restricted cash on deposit with the State Treasurer	76,349,548	-	76,349,548	-
Total current assets	<u>76,882,306</u>	<u>3,228,427</u>	<u>80,110,733</u>	<u>4,138,266</u>
Non-current assets:				
Capital assets not subject to depreciation	-	7,900	7,900	-
Capital assets subject to depreciation, net of accumulated depreciation	-	35,202	35,202	47,793,962
Total non-current assets	<u>-</u>	<u>43,102</u>	<u>43,102</u>	<u>47,793,962</u>
Total assets	<u>76,882,306</u>	<u>3,271,529</u>	<u>80,153,835</u>	<u>51,932,228</u>
Liabilities				
Current liabilities:				
Accounts payable	-	21,683	21,683	14,905
Accrued payroll and other accrued expenses	-	31,644	31,644	223,735
Unearned revenues (Note 5C)	-	2,204,871	2,204,871	-
Compensated absences	-	145,686	145,686	570,588
Total current liabilities	<u>-</u>	<u>2,403,884</u>	<u>2,403,884</u>	<u>809,228</u>
Non-current liabilities:				
Compensated absences	-	1,716	1,716	63,229
Total non-current liabilities	<u>-</u>	<u>1,716</u>	<u>1,716</u>	<u>63,229</u>
Total liabilities	<u>-</u>	<u>2,405,600</u>	<u>2,405,600</u>	<u>872,457</u>
Net assets				
Invested in capital assets, net of related debt	-	43,102	43,102	47,793,962
Restricted for loans and other financial assistance	76,882,306	-	76,882,306	-
Unassigned	-	822,827	822,827	3,265,809
Total net assets	<u>\$ 76,882,306</u>	<u>\$ 865,929</u>	<u>77,748,235</u>	<u>\$ 51,059,771</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>2,212</u>	
Net assets of business-type activities			<u>\$ 77,750,447</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, 2012

	<u>Business-type Activities - Enterprise Funds</u>			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 \$28,162)	\$ -	\$ 4,889,261	\$ 4,889,261	\$ 28,028,438
Interest on loans receivables	1,528	-	1,528	-
Other	-	692,043	692,043	72,072
Total operating revenues	<u>1,528</u>	<u>5,581,304</u>	<u>5,582,832</u>	<u>28,100,510</u>
Operating expenses				
Publication and promotional cost	-	1,831,927	1,831,927	-
Repair and maintenance	-	10,802	10,802	1,694,730
Fuel and lubricants	-	-	-	12,416,564
Salaries and related benefits	16,645	1,571,889	1,588,534	11,489,199
Shipping and postage	-	633,517	633,517	-
Supplies	-	18,175	18,175	111,802
Equipment purchase and rental	-	26,274	26,274	148,771
Professional and outside services	12,875	606,551	619,426	36,728
Travel	-	14,113	14,113	49,046
Depreciation	-	14,254	14,254	7,489,883
Other	-	234,783	234,783	745,667
Total operating expenses	<u>29,520</u>	<u>4,962,285</u>	<u>4,991,805</u>	<u>34,182,390</u>
Operating income <loss>	<27,992>	619,019	591,027	<6,081,880>
Non-operating revenues <expenses>				
Income from investments	763,520	19,833	783,353	22,550
Investment expense	<44,902>	<1,205>	<46,107>	<1,224>
Gain <loss> on sale/disposal of capital assets	-	<1,912>	<1,912>	83,117
Insurance recoveries	-	-	-	471,536
Interest on capital leases	-	-	-	<34>
Distributions to other state agencies	<500>	<13,100>	<13,600>	<2,667,400>
Total non-operating revenues <expenses>	<u>718,118</u>	<u>3,616</u>	<u>721,734</u>	<u><2,091,455></u>
Capital contributions	-	-	-	13,379,805
Changes in net assets	690,126	622,635	1,312,761	5,206,470
Total net assets - July 1	<u>76,192,180</u>	<u>243,294</u>		<u>45,853,301</u>
Total net assets - June 30	<u>\$ 76,882,306</u>	<u>\$ 865,929</u>		<u>\$ 51,059,771</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			-	
Change in net assets of business-type activities			<u>\$ 1,312,761</u>	

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

Arizona Department of Transportation
Statement of Cash Flows
Proprietary Funds
for the fiscal year ended June 30, 2012

	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	\$ 110,214	\$ 4,788,657	\$ 4,898,871	\$ 16,765,742
Receipts from other agencies, Arizona counties, and cities	3,893,583	-	3,893,583	11,126,005
Payments to suppliers	<12,875>	<3,248,988>	<3,261,863>	<15,478,254>
Payments to employees	<22,783>	<1,615,219>	<1,638,002>	<11,914,787>
Other receipts <payments>	<30,590>	692,043	661,453	72,072
Net cash provided <used> by operating activities	<u>3,937,549</u>	<u>616,493</u>	<u>4,554,042</u>	<u>570,778</u>
Cash flows from non-capital financing activities				
Distributions to other state agencies	<500>	<13,100>	<13,600>	<2,667,400>
Transfers from <to> other funds	-	-	-	-
Net cash provided <used> by non-capital financing activities	<u><500></u>	<u><13,100></u>	<u><13,600></u>	<u><2,667,400></u>
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	-	-	684,847
Acquisition of capital assets	-	<5,610>	<5,610>	<72,539>
Insurance recoveries	-	-	-	471,536
Interest on capital leases	-	-	-	<34>
Net cash provided <used> by capital and related financing activities	<u>-</u>	<u><5,610></u>	<u><5,610></u>	<u>1,083,810</u>
Cash flows from investing activities				
Income from investments	763,520	19,833	783,353	22,550
Investment expense	<44,902>	<1,205>	<46,107>	<1,224>
Net cash provided <used> by investing activities	<u>718,618</u>	<u>18,628</u>	<u>737,246</u>	<u>21,326</u>
Net increase <decrease> in cash	4,655,667	616,411	5,272,078	<991,486>
Cash - July 1	71,693,881	1,646,696	73,340,577	1,626,240
Cash - June 30	<u>\$ 76,349,548</u>	<u>\$ 2,263,107</u>	<u>\$ 78,612,655</u>	<u>\$ 634,754</u>

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

Operating <loss> income	\$ <27,992>	\$ 619,019	\$ 591,027	\$ <6,081,880>
Adjustment to reconcile operating <loss> income to net cash provided by operating activities:				
Depreciation	-	14,254	14,254	7,489,883
Net changes in assets and liabilities:				
Receivables	4,002,269	48,091	4,050,360	<5,105>
Inventories	-	93,731	93,731	<219,916>
Prepaid items	-	43,966	43,966	-
Accounts payable	-	<10,544>	<10,544>	<104,076>
Accrued payroll and other accrued expenses	<2,499>	<58,302>	<60,801>	<379,421>
Unearned revenues	-	<148,694>	<148,694>	-
Compensated absences	<3,639>	14,972	11,333	2,879
Due to Arizona counties and cities	<30,590>	-	<30,590>	-
Advance/interfund payable	-	-	-	<131,586>
Net cash provided <used> by operating activities	<u>\$ 3,937,549</u>	<u>\$ 616,493</u>	<u>\$ 4,554,042</u>	<u>\$ 570,778</u>

Non-cash capital and financing activities

Certain vehicles were contributed to the Equipment Revolving Fund by the General Fund totaling \$13,379,805.

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

Fiduciary Funds Financial Statements

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, 2012

ASSETS

Restricted cash on deposit with the State Treasurer	\$ 413,045
Total assets	<u>\$ 413,045</u>

LIABILITIES

Due to Department of Revenue	\$ 721
Due to Arizona counties	<u>412,324</u>
Total liabilities	<u>\$ 413,045</u>

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

Celebrating ¹⁹¹²⁻²⁰¹² **100** Years of Arizona History

Comprehensive Annual Financial Report

FISCAL YEAR

2012



Notes to the Financial Statements

ADOT

Arizona Department of Transportation
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June 30, 2012

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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 Executive Officer and is directly responsible to the governor. The governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (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 is 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: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate statements are provided for governmental funds, 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 (FASB) Statements 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 a portion of Maricopa County Transportation Excise Tax monies collected by the Department of Revenue. These monies are expended for the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system, which are included in the Maricopa County Regional Transportation Plan.

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

Arizona Department of Transportation
Notes to the Financial Statements (continued)
June 30, 2012

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

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

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

The Department reports the following major proprietary funds:

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

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

Additionally, the Department reports the following funds:

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

The *Agency Fund* is custodial in nature (assets equal liabilities) and does 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 Revolving Fund to the other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

When both restricted and unrestricted resources are available for use, the Department generally expends the restricted resources first, and then unrestricted resources, as they are needed to maintain appropriate cash balances and finance the construction program.

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, 2012, the State's investment pool 2, pool 3, and pool 4 were not rated. The weighted average maturity at year end for investment pool 2 was 8.57 years while for investment pool 3 it was 4.84 years, and for investment pool 4 it was 5.22 years.

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

The Department's investments are included in the state investment pool and these investments are not shown in the Department's name. From the perspective of the Department, the pool functions as both a cash management pool and a demand deposit account. Therefore, the Department presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and carries the investments at amortized cost, which approximates fair value.

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

Receivables, Payables and Advances

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

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

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

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

The business-type activities' inventories are stated at the lower of cost or market. Costs of enterprise fund inventories consisting of resale products and supplies are generally determined by moving average cost and specific identification methods, respectively. Costs of the internal service fund's inventories (consisting of vehicle parts and supplies, fuels and lubricants, and other supplies) are determined by moving average cost methods.

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

Restricted Assets

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

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 asset's life are not capitalized. Outlays for capital assets are capitalized at the time of the purchase or, in the case of infrastructure, at the time of final acceptance by the Department from the contractor. Asset preservation costs are expensed as incurred.

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The Department depreciates non-infrastructure capital assets on a straight-line basis using the following estimated useful lives:

Assets	Years
Buildings and improvements	20-40
Improvements other than buildings	20-40
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 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 maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets, perform condition assessments of eligible assets and summarize the results using a measurement scale, estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department, and document that the assets are being preserved approximately at or above the established condition level.

Deferred/Unearned Revenues

In the government-wide statements and proprietary fund financial statements, deferred/unearned 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/unearned 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 unearned revenues relate to unearned subscription revenue for the *Arizona Highways Magazine*. Unearned subscription revenue is recorded when subscription orders are received and is amortized as revenue over the terms of the related subscriptions. Costs associated with the selling of subscriptions are expensed in the year incurred. In the fund statements for the General Fund (State Highway Fund), the deferred revenue represents the amount for the notes receivable for loans made to parties who purchased assets previously owned by the Department for highway construction purposes. For the Non-Major Governmental Funds, the deferred revenue represents loans to various local governments for 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 employee's hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is \$30,000. Per Arizona Revised Statute 38-615D, the benefit shall be paid either in a lump sum or in installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the state's financial statements as an Internal Service Fund.

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

Long-term Obligations

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

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

Net Assets/Fund Balance

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

Fund balances for governmental funds may be classified as nonspendable, restricted, committed, assigned, or unassigned in the fund financial statements. Nonspendable fund balance describes that portion of fund balance that cannot be spent because of its form; restricted fund balance describes that portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions; committed fund balance describes that portion which has self-imposed limitations; assigned fund balance describes that portion of fund balance that reflects a government's intended use of resources; and unassigned fund balance represents net resources in excess of what can properly be classified in one of the other categories.

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

E. Revenues and Expenditures/Expenses

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

In the governmental fund financial statements, revenues are reported by source. Expenditures are reported by function (e.g., Administration, Distributions to Arizona counties and cities, Distributions to other state agencies, Debt service, Capital outlay).

The Distributions to Arizona counties and cities and Distributions to other state agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to

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

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

- Enterprise Funds:
 - Arizona Highways Magazine Fund
 - Highway Expansion and Extension Loan Program Fund
- Internal Service Fund
- Equipment Revolving Fund

FIDUCIARY FUNDS

Agency Funds:

- Highway Properties–Privilege Tax Fund
- Highway Properties–24 Percent Fund

NON-MAJOR FUNDS

Other Governmental Funds:

- Special Revenue Funds:
 - State Aviation Fund
 - Safety Enforcement and Transportation Infrastructure Fund
 - Motor Vehicle Liability Insurance Enforcement Fund
 - Motor Vehicle Inspection and Title Enforcement Fund
 - Motor Carrier Safety Revolving Fund
 - Underground Storage Tank Fund
 - Economic Strength Project Fund
 - Grant Anticipation Notes Fund
 - Local Agency Deposits Fund

3. BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

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

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

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

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

For fiscal year 2012, the General Appropriation Act (Laws 2011Chapter 24), appropriated operating funds from the Highway User Revenue Fund. It appears that this was a one-time shift in funding as the appropriation was returned to the Department's General Fund (State Highway Fund) in fiscal year 2013. For consistency in reporting, the Department has shown the operating revenues and expenditures associated with this appropriation as part of the Department's General Fund (State Highway Fund).

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

A. New Accounting Pronouncements

Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

The objectives of this Statement are to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other post-employment benefit (OPEB) plans (i.e., agent employers). In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011. The Department has implemented this Statement as appropriate. There was no impact to the Department.

Statement No. 59 Financial Instruments Omnibus

The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The Department has implemented this Statement as appropriate. There was no impact to the Department.

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 total fund balances – governmental funds and net assets of governmental 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:

Arizona Department of Transportation
Notes to the Financial Statements (continued)
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1. Capital assets are not included on the fund statements, but are included on the government-wide statement as follows:

Capital assets not subject to depreciation	\$ 18,413,792,549
Capital assets subject to depreciation	<u>193,778,072</u>
	18,607,570,621
Less Internal Service Fund (Equipment Revolving Fund) assets	<u><47,793,962></u>
	<u>\$ 18,559,776,659</u>

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

Governmental funds:	
General Fund (State Highway Fund)	\$ 1,910,694
State Aviation Fund	<u>3,960,907</u>
	<u>\$ 5,871,601</u>

3. Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the current period on the fund statements. The detail for the difference is as follows:

Bonds payable	\$ <3,185,931,687>
Deferred charges - bond issuance costs	14,850,684
Capital leases	<10,728,825>
Compensated absences	<14,256,554>
Advances and notes payable	<55,666,442>
Business activity share of Equipment Revolving Fund gain <loss>	<u><2,212></u>
	<u>\$ <3,251,735,036></u>

C. Explanations of Reconciling Items of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net change 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	\$ 701,657,365
Reduction in construction in progress resulting from certain infrastructure projects being reclassified from capital outlay to non-capital	<35,074,585>
Change in net capital assets – Internal Service Fund (Equipment Revolving Fund)	<5,360,730>
Assets removed from service, net of accumulated depreciation	<19,847,667>
Other	81,287
Less depreciation expense – governmental funds	<7,709,442>
Less depreciation expense – Internal Service Fund (Equipment Revolving Fund)	<u><7,489,883></u>
	<u>\$ 626,256,345</u>

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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 debt 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	\$ <555,900,000>
Issuance of Transportation Excise Tax Revenue Bonds	<159,460,000>
Issuance of Grant Anticipation Notes (GARVEE bonds)	<43,825,000>
Premium on bonds	<90,753,104>
Bond issuance costs	2,935,593
Advances and notes payable	<9,541,317>
	<u>\$ <856,543,828></u>
Principal repayments:	
Highway Revenue Bonds	\$ 536,790,000
Transportation Excise Tax Revenue Bonds	55,460,000
Grant Anticipation Notes (GARVEE bonds)	101,090,000
Amortization of premium and discount	22,086,600
Amortization of debt issuance costs	<1,524,843>
Repayment of advances and notes payable	13,766,561
Repayment of capital leases	2,136,603
	<u>\$ 729,804,921</u>

3. The Internal Service Fund (Equipment Revolving Fund) is used by the Department to charge the cost for purchases and maintenance of equipment and material to be used by other funds and state agencies. The gain <loss> in the Internal Service Fund (Equipment Revolving Fund) represents over <under> billing and must be eliminated from the government-wide Statement of Activities for the business activity.

Internal Service Fund (Equipment Revolving Fund):	
Changes in net assets	\$ 5,206,470
Business activity share of Equipment Revolving Fund <gain> loss	-
	<u>\$ 5,206,470</u>

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

Notes and loans receivables	\$ <345,328>
Compensated absences	<104,843>
Assumption of lease by General Fund (State Highway Fund)	<7,955,468>
	<u>\$ <8,405,639></u>

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5. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

Capital assets activity for the year ended June 30, 2012, was as follows:

Governmental Activities	July 1, 2011 Beginning Balance	Increases	Decreases Including Transfers	June 30, 2012 Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,619,089,147	\$ 143,345,011	\$ <15,126,409>	\$ 2,747,307,749
Infrastructure	11,604,565,886	606,662,256	<3,790,727>	12,207,437,415
Construction in progress	<u>3,561,984,731</u>	<u>546,779,362</u>	<u><649,716,708></u>	<u>3,459,047,385</u>
Total capital assets, not being depreciated	<u>17,785,639,764</u>	<u>1,296,786,629</u>	<u><668,633,844></u>	<u>18,413,792,549</u>
Capital assets, being depreciated:				
Buildings and improvements	190,497,045	2,012,724	-	192,509,769
Improvements other than buildings	33,788,056	56,548	-	33,844,604
Machinery and equipment	48,688,697	4,154,515	<2,998,219>	49,844,993
Mobile fleet and aircraft	<u>140,054,475</u>	<u>13,287,238</u>	<u><6,178,640></u>	<u>147,163,073</u>
Total capital assets, being depreciated	<u>413,028,273</u>	<u>19,511,025</u>	<u><9,176,859></u>	<u>423,362,439</u>
Less accumulated depreciation for:				
Buildings and improvements	<79,725,867>	<4,071,589>	-	<83,797,456>
Improvements other than buildings	<8,255,640>	<1,113,315>	-	<9,368,955>
Machinery and equipment	<36,599,089>	<2,644,592>	2,731,166	<36,512,515>
Mobile fleet and aircraft	<u><98,133,895></u>	<u><7,369,829></u>	<u>5,598,283</u>	<u><99,905,441></u>
Total accumulated depreciation	<u><222,714,491></u>	<u><15,199,325></u>	<u>8,329,449</u>	<u><229,584,367></u>
Total capital assets, being depreciated, net	<u>190,313,782</u>	<u>4,311,700</u>	<u><847,410></u>	<u>193,778,072</u>
Governmental activities capital assets, net	<u>\$ 17,975,953,546</u>	<u>\$ 1,301,098,329</u>	<u>\$ <669,481,254></u>	<u>\$ 18,607,570,621</u>
Business-type Activities	July 1, 2011 Beginning Balance	Increases	Decreases	June 30, 2012 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>2,182,794</u>	<u>5,610</u>	<u><19,116></u>	<u>2,169,288</u>
Total capital assets, being depreciated	<u>3,163,951</u>	<u>5,610</u>	<u><19,116></u>	<u>3,150,445</u>
Less accumulated depreciation for:				
Buildings and improvements	<946,088>	<11,391>	-	<957,479>
Machinery and equipment	<u><2,172,105></u>	<u><2,863></u>	<u>17,204</u>	<u><2,157,764></u>
Total accumulated depreciation	<u><3,118,193></u>	<u><14,254></u>	<u>17,204</u>	<u><3,115,243></u>
Total capital assets, being depreciated, net	<u>45,758</u>	<u><8,644></u>	<u><1,912></u>	<u>35,202</u>
Business-type activities capital assets, net	<u>\$ 53,658</u>	<u>\$ <8,644></u>	<u>\$ <1,912></u>	<u>\$ 43,102</u>

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Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	\$ 2,336,233
Highway	2,022,235
Highway Maintenance	1,858,172
Motor Vehicle	<u>1,492,802</u>
	7,709,442
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets	<u>7,489,883</u>
Total depreciation expense - governmental activities	<u>\$ 15,199,325</u>
Business-type Activities	
Arizona Highways Magazine Fund	<u>\$ 14,254</u>

B. Construction Commitments

The Department's outstanding commitments for contracts at June 30, 2012, were \$746,407,282.

	Expenditures To Date	Remaining Commitments
Construction contracts:		
Rural roadways	\$1,399,277,575	\$136,565,122
Small urban roadways	420,495,868	29,429,253
Urban roadways	295,282,099	152,454,228
Large urban roadways	937,645,698	141,249,161
General roadways	<u>216,738,959</u>	<u>236,354,052</u>
Sub-total	3,269,440,199	696,051,816
Design contracts	852,772,536	5,789,314
Other commitments	<u>63,623,625</u>	<u>44,566,152</u>
Total	<u>\$4,185,836,360</u>	<u>\$746,407,282</u>

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

- Rural – outside of urbanized areas and urban clusters, generally long roads carrying little traffic.
- Urban – interstate highways, freeways, expressways, principal arteries serving major centers of activity in metropolitan areas.
- Small Urban – in areas of 5,000 to 49,999 in population.
- Urban – in areas of less than 200,000 in population.
- Large Urban – in areas of equal to or greater than 200,000 in population.

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Notes to the Financial Statements (continued)
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C. Deferred/Unearned Revenues

In the fund financial statements, the deferred/unearned revenues represent the amount for notes receivable for loans made to parties who purchased assets previously owned by the fund for highway construction purposes. The State Aviation Fund amount represents loans to various local governments for construction of hangars, taxiway extensions, runways, etc. These loans were made at fixed interest rates and with various maturity dates. The proprietary fund includes the amount for unearned subscriptions. The following schedule is a summary of the amounts outstanding as of June 30, 2012:

Governmental funds:		
General Fund (State Highway Fund)	\$ 1,910,694	
State Aviation Fund	<u>3,960,907</u>	
	<u>\$ 5,871,601</u>	
Proprietary funds:		
Arizona Highways Magazine Fund	<u>\$ 2,204,871</u>	

D. Interfund Receivables, Payables, Advances, and Transfers

The balances of current interfund receivables and payables as of June 30, 2012, were:

Receivables	Payables	Amount
Governmental activities:		
General Fund (State Highway Fund)	Highway User Revenue Fund	\$ 78,334,505
	Motor Vehicle Division Clearing Fund	239,773
	Capital Projects Fund	3,829,137
	Non-Major Governmental Funds	64,828
	Maricopa Area Road Fund	274
Capital Projects Fund	Maricopa Area Road Fund	267,916
Equipment Service Fund	General Fund (State Highway Fund)	478
Highway User Revenue Fund	Motor Vehicle Division Clearing Fund	24,990,028
	General Fund (State Highway Fund)	1,514,575
Non-Major Governmental Funds	Motor Vehicle Division Clearing Fund	<u>2,849,461</u>
		<u>112,090,975</u>
Business-type activities:		
Arizona Highways Magazine	Motor Vehicle Division Clearing Fund	<u>26,571</u>
		<u>\$ 112,117,546</u>

The General Fund (State Highway Fund) receivable of \$78,334,505 is an accrual for fuel taxes imposed in fiscal year 2012 from the Highway User Revenue Fund that will be collected in fiscal year 2013.

The Highway User Revenue Fund receivable of \$24,990,028 is an accrual for vehicle license taxes due in fiscal year 2012 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2013.

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Notes to the Financial Statements (continued)
June 30, 2012

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Interfund Transfers In:				
Interfund Transfers Out:	Debt Service Fund	Internal Service Fund (Equipment Fund)	Arizona Highways Magazine Fund	Total
General Fund (State Highway Fund)	\$ 152,687,225	\$ -	\$ -	\$ 152,687,225
Maricopa Regional Area Road Construction Fund	103,223,010	-	-	103,223,010
Non-Major Governmental Funds	74,946,221	-	-	74,946,221
Total	\$ 330,856,456	\$ -	\$ -	\$ 330,856,456

The General Fund (State Highway Fund) (\$152,687,225), the Maricopa Regional Area Road Construction Fund (\$103,223,010), and Non-Major Governmental Funds - Grant Anticipation Notes Fund (\$74,946,221) made transfers to the Debt Service Fund to pay bond debt service.

E. 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, 2012, approximated \$2.8 million.

In fiscal year 2002, the Department entered into a lease agreement with the city of Phoenix for a facility located on East Washington Street in Phoenix. During fiscal year 2010, the Department renegotiated the lease with the city. This renegotiated lease, effective July 1, 2010, will result in fewer square feet being leased by the Department than had been the case under the original lease. The future operating lease commitments are as follows:

Year ending June 30	Amount
2013	\$ 535,510
Future operating lease commitments	\$ 535,510

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:

Year ending June 30	Amount
2013	97,758
Future operating lease commitments	\$ 97,758

Arizona Department of Transportation
Notes to the Financial Statements (continued)
June 30, 2012

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:

	Governmental Activities
Assets:	
Machinery and equipment	\$ 12,478,493
Less accumulated depreciation	<1,222,464>
Total	\$ 11,256,029

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

	Governmental Activities
<u>Year Ending June 30</u>	
2013	2,654,766
2014	2,654,769
2015	2,654,767
2016	2,604,125
2017	743,698
Total minimum lease payments	11,312,125
Less amount representing interest	<583,300>
Present value of minimum lease payments	\$ 10,728,825

F. 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 \$1,600,855,000. During the year, Highway Revenue Bonds totaling \$555,900,000 were issued to (i) finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program, (ii) pay interest on any bonds issued for highway purposes, (iii) pay costs of issuing the bonds, and (iv) refund of the Board's outstanding Senior Series 2001 Bonds (\$19,290,000), Senior Series 2002 Bonds (\$38,195,000), Senior Refunding Series 2002A Bonds (\$65,625,000), Senior Series 2002B Bonds (\$88,170,000), Senior Series 2003 Bonds (\$89,895,000), and refund portions of the Board's outstanding Subordinated Series 2003A Bonds (\$75,465,000) and Subordinated Refunding Series 2004B (\$92,265,000).

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

Arizona Department of Transportation
Notes to the Financial Statements (continued)
June 30, 2012

Highway Revenue Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.0% - 5.5%	\$ 1,486,690,000
Governmental activities - refunding	5.0% - 5.25%	133,275,000
		<u>\$ 1,619,965,000</u>

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

Fiscal year ending June 30	Highway Revenue Bonds		
	Principal	Interest	Total
2013	60,540,000	78,455,334	138,995,334
2014	73,890,000	76,108,094	149,998,094
2015	77,190,000	72,806,964	149,996,964
2016	80,680,000	69,317,408	149,997,408
2017	84,390,000	65,607,448	149,997,448
2018-2022	486,145,000	263,838,672	749,983,672
2023-2027	442,415,000	135,673,890	578,088,890
2028-2032	228,990,000	56,932,188	285,922,188
2033-2036	85,725,000	7,620,500	93,345,500
	<u>\$ 1,619,965,000</u>	<u>\$ 826,360,498</u>	<u>\$ 2,446,325,498</u>

The Department has pledged future motor vehicle and related fuel fees and taxes to repay \$1,619,965,000 in outstanding Highway Revenue Bonds issued since 2001. Proceeds from the bonds finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2036. The total principal and interest remaining to be paid on the bonds is \$2,446.3 million. Principal and interest paid for the current year and total pledged revenues were \$139.0 million and \$369.8 million, respectively. The annual principal and interest payments on the bonds required 40.6 percent of the pledged revenues.

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa Regional Area Road Construction Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by a portion of transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amounts of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$877,845,000. During the year, Transportation Excise Tax Revenue Bonds totaling \$159,460,000 were issued to pay (1) costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona and (2) costs of issuing the bonds.

All Transportation Excise Tax Revenue Bonds mature no later than July 1, 2026. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.0% - 5.25%	\$ 981,845,000

Arizona Department of Transportation
Notes to the Financial Statements (continued)
June 30, 2012

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

Fiscal year ending June 30	Transportation Excise Tax Revenue Bonds		
	Principal	Interest	Total
2013	55,870,000	47,721,307	103,591,307
2014	58,600,000	44,988,107	103,588,107
2015	61,395,000	42,198,107	103,593,107
2016	64,355,000	39,233,431	103,588,431
2017	67,495,000	36,096,681	103,591,681
2018-2022	390,775,000	127,181,331	517,956,331
2023-2025	283,355,000	27,417,357	310,772,357
	<u>\$ 981,845,000</u>	<u>\$364,836,321</u>	<u>\$ 1,346,681,321</u>

The Department has pledged future transportation excise taxes to repay \$981,845,000 in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County. The bonds are payable solely from transportation excise taxes and are payable through 2026. The total principal and interest remaining to be paid on the bonds is \$1,346.7 million. Principal and interest paid for the current year and total pledged revenues were \$103.6 million and \$216.2 million, respectively. The annual principal and interest payments on the bonds required 50.2 percent of the pledged revenues.

Arizona Transportation Board Grant Anticipation Notes (GARVEE)

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The original amount of Grant Anticipation Notes (GARVEE – Grant Anticipation Revenue Vehicles) issued in prior years and outstanding at the start of the fiscal year was \$392,495,000. During the year, Grant Anticipation Notes (GARVEE bonds – Grant Anticipation Revenue Vehicles) totaling \$43,825,000 were issued to pay (1) cost of the projects (as specified) and (2) costs of issuing the bonds.

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

Purpose	Interest Rates	Amount
Governmental activities	2.5% - 5.25%	\$ 301,085,000
Governmental activities - refunding	3.625% - 5.0%	34,145,000
		<u>\$ 335,230,000</u>

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

Fiscal year ending June 30	Grant Anticipation Notes (GARVEE)		
	Principal	Interest	Total
2013	38,990,000	18,445,555	57,435,555
2014	48,530,000	16,436,331	64,966,331
2015	53,040,000	11,854,731	64,894,731
2016	47,350,000	9,552,631	56,902,631
2017	11,770,000	7,392,881	19,162,881
2018-2022	67,935,000	27,886,255	95,821,255
2023-2026	67,615,000	9,042,932	76,657,932
	<u>\$335,230,000</u>	<u>\$ 100,611,316</u>	<u>\$435,841,316</u>

Arizona Department of Transportation
Notes to the Financial Statements (continued)
June 30, 2012

The Department has pledged federal revenues to repay \$335,230,000 in outstanding Grant Anticipation Notes (GARVEE – Grant Anticipation Revenue Vehicles) issued since 2003. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona. The bonds are payable solely from federal revenues and are payable through 2026. The total principal and interest remaining to be paid on the bonds is \$435.8 million. Principal and interest paid for the current year and total pledged revenues were \$75.0 million and \$815.8 million, respectively. The annual principal and interest payments on the bonds required 6.8 percent of the pledged revenues.

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.

The Department refunded the Highway Revenue Bonds Senior Series 2001 Bonds (\$19,290,000), Senior Series 2002 Bonds (\$38,195,000), Senior Refunding Series 2002A Bonds (\$65,625,000), Senior Series 2002B Bonds (\$88,170,000), Senior Series 2003 Bonds (\$89,895,000), a portion of the Highway Revenue Bonds Subordinated Series 2003A Bonds (\$75,465,000), and Subordinated Refunding Series 2004B (\$92,265,000) to reduce the total debt service payments by \$2,433,907 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$24,116,137. The payment to the refunded bond escrow agent totaled \$511,869,785, representing principal of \$468,905,000, interest of \$20,620,609, and premium of \$22,344,176.

The Department advance refunded a portion of the Grant Anticipation Notes 2003A Series (\$18,335,000) and the 2004B Series (\$25,665,000) to reduce the total debt service payments by \$2,523,451 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,500,776. The payment to the refunded bond escrow agent totaled \$48,358,560 representing principal of \$44,000,000 and interest of \$4,358,560.

Refunded bonds of the Department deposited with escrow agents at June 30, 2012, are as follows:

Original Issue	Type	Escrow Maturity Date	Balance
2011 Series A	Highway Revenue Bonds	July 1, 2036	\$ 441,503,102
2011 Series B	Highway Revenue Bonds	July 1, 2019	70,366,683
2012	Grant Anticipation Notes	July 1, 2016	48,358,560
Total refunded bonds deposited with escrow agent			<u>\$ 560,228,345</u>

Advances and Notes Payable

The Department's outstanding advances and notes payable as of June 30, 2012, were \$55,666,442 in governmental activities. The advances and notes payable represent amounts for other intergovernmental advances.

Arizona Department of Transportation
Notes to the Financial Statements (continued)
June 30, 2012

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

Fiscal year ending June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 3,115,251	\$ -	\$ -	\$ -	\$ 3,115,251	\$ -
2014	30,209,502	-	-	-	30,209,502	-
2015	1,877,593	-	-	-	1,877,593	-
2021	151,430	-	-	-	151,430	-
2022	20,312,666	-	-	-	20,312,666	-
	<u>\$ 55,666,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,666,442</u>	<u>\$ -</u>

Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance July 1, 2011	Additions	Reductions	Ending Balance June 30, 2012	Due Within One Year
Governmental Activities					
Bonds and notes:					
Highway Revenue Bonds	\$ 1,600,855,000	\$ 555,900,000	\$ <536,790,000>	\$ 1,619,965,000	\$ 60,540,000
Transportation Excise Tax Revenue Bonds	877,845,000	159,460,000	<55,460,000>	981,845,000	55,870,000
Grant Anticipation Notes (GARVEE)	392,495,000	43,825,000	<101,090,000>	335,230,000	38,990,000
Premium on bonds	180,225,182	90,753,105	<22,086,600>	248,891,687	20,373,653
Total bonds and notes	3,051,420,182	849,938,105	<715,426,600>	3,185,931,687	175,773,653
Capital leases	4,909,960	7,955,468	<2,136,603>	10,728,825	2,418,377
Compensated absences	14,782,649	13,159,543	<13,051,821>	14,890,371	12,137,653
Advances and notes payable	59,891,686	9,541,317	<13,766,561>	55,666,442	3,115,251
Total governmental activities	<u>3,131,004,477</u>	<u>880,594,433</u>	<u><744,381,585></u>	<u>3,267,217,325</u>	<u>193,444,934</u>
Business-type Activities					
Compensated absences	136,069	106,251	<94,918>	147,402	145,686
Total business-type activities	<u>136,069</u>	<u>106,251</u>	<u><94,918></u>	<u>147,402</u>	<u>145,686</u>
Total non-current liabilities	<u>\$ 3,131,140,546</u>	<u>\$ 880,700,684</u>	<u>\$ <744,476,503></u>	<u>\$ 3,267,364,727</u>	<u>\$ 193,590,620</u>

The Internal Service Fund predominantly serves the governmental funds. Accordingly, long-term liabilities for that fund are included as part of the above totals for governmental activities. At year-end, \$633,817 of the Internal Service Fund's compensated absences is included in the above amounts.

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

Arizona Department of Transportation
Notes to the Financial Statements (continued)
June 30, 2012

G. Fund Balances

The Department's fund balance, as of June 30, 2012, is composed of the following:

	Unassigned	Nonspendable	Restricted	Committed	Total
Administration	\$ -	\$ -	\$ 15,325,091	\$ 89,686,579	\$ 105,011,670
Highway Operations	-	-	1,072,323,186	148,182	1,072,471,368
Highway Maintenance	-	-	-	7,067,355	7,067,355
Motor Vehicle	<8,128,423>	-	-	3,575,610	<4,552,813>
Inventories	-	8,235,030	-	-	8,235,030
Land Held for Resale	-	-	-	18,168,740	18,168,740
Other	-	-	621,528	-	621,528
	<u>\$ <8,128,423></u>	<u>\$ 8,235,030</u>	<u>\$ 1,088,269,805</u>	<u>\$ 118,646,466</u>	<u>\$ 1,207,022,878</u>

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

6. OTHER INFORMATION

A. 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.

Arizona Department of Transportation
Notes to the Financial Statements (continued)
June 30, 2012

B. Pension and Other Postemployment Benefits

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

The System issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910, or by calling (602) 240-2000 or (800) 621-3778.

Funding policy – The Arizona state legislature establishes and may amend active plan members’ and the Department’s contribution rates. For the year ended June 30, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement and 0.24 percent for long-term disability) of the members’ annual covered payroll and the Department was required by statute to contribute at the actuarially determined rate of 10.75 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members’ annual covered payroll.

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

Fiscal year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Total
2012	\$ 17,230,639	\$ 1,441,900	\$ 451,367	\$ 19,123,906
2011	14,551,983	1,175,632	423,310	16,150,925
2010	13,068,245	2,585,137	702,369	16,355,751

The Department's total payroll for fiscal year 2012 was \$188.1 million. The System is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits, health care benefits, and long term disability benefits are obligations of the System and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The contribution requirement for fiscal year 2012 was \$19.1 million each by both the employees and the Department.

Required Supplementary Information (Other than MD&A)

Budgetary Comparison Schedule – General Fund (State Highway Fund)

Note to Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

Arizona Department of Transportation
 Required Supplementary Information
 June 30, 2012

Budgetary Comparison Schedule
 General Fund (State Highway Fund)
 for the fiscal year ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive <Negative>
	Original	Final		
Expenditures appropriated by State legislature in 2012 budget				
Department of Transportation	\$326,374,600	\$326,374,600	\$ 323,368,206	\$ 3,006,394
Timing differences:				
Prior year appropriation expenditures expended in current budgetary year			5,661,900	
Basis differences:				
Net increase <decrease> from cash basis for budgeting purposes and modified accrual basis for financial reporting purposes			117,521	
Entity differences:				
Funds not appropriated, but included for financial reporting purposes			1,503,608	
Perspective differences:				
Expenditures on modified accrual basis and not recognized on budgetary basis:				
Capital outlay and asset preservation			513,118,450	
Distributions to Arizona counties and cities			43,757,398	
Distributions to other state agencies			137,596	
Interest expense			214,058	
Principal repayment of debt			<u>3,536,603</u>	
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (General Fund) - Exhibit 4			<u>\$ 891,415,340</u>	

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

Arizona Department of Transportation
Required Supplementary Information (continued)
June 30, 2012

Note to Required Supplementary Information

1. Budgets and budgetary accounting

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

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

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

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

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

Arizona Department of Transportation
Required Supplementary Information (continued)
June 30, 2012

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 6,751 center lane miles (21,440 travel line miles) of roads and 4,754 bridges that the Department is responsible to maintain.

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

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

As adopted by the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) on an annual basis, the Five-Year Transportation Facilities Construction Program (Program) contains estimated expenditures for highway system improvements and the preservation of existing roadway and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2012 and beyond was adopted by the Transportation Board on June 17, 2011.

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

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

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

Roads

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

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

Arizona Department of Transportation
 Required Supplementary Information (continued)
 June 30, 2012

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 2012, an overall rating of 3.69 was achieved, as shown in the following graph:

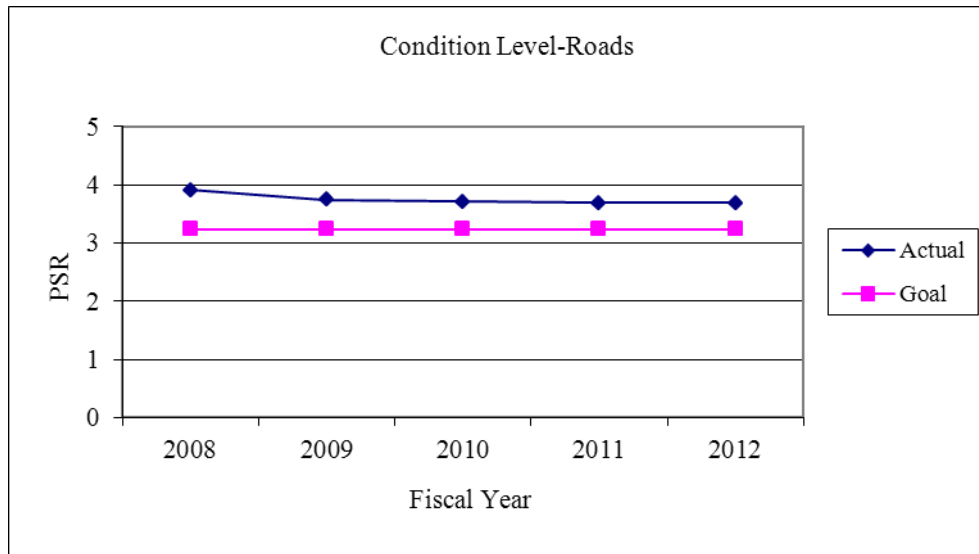


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the Department’s PMS, as well as other units within the Department. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2008 through 2012 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2008	\$260.7	247.9
2009	264.4	236.0
2010	227.4	220.9
2011	265.7	373.4
2012	261.9	373.6

Arizona Department of Transportation
 Required Supplementary Information (continued)
 June 30, 2012

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, 2012, the Department owned and maintained 4,754 bridges with an approximate total deck area of 47,959,739 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 other three 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 2012, the CRI was computed at 93.1%.

Information About Infrastructure Assets Reported Using the Modified Approach (continued)

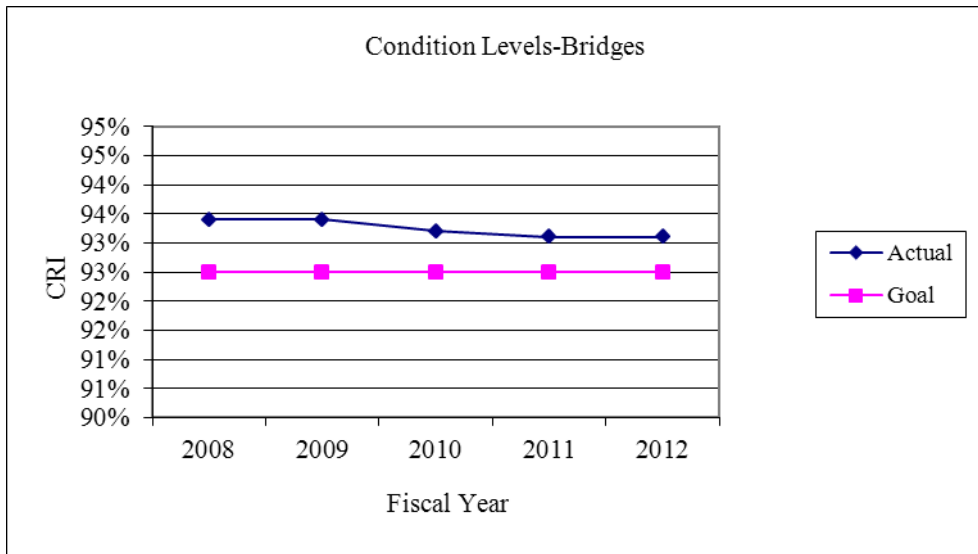


Figure 2

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 57% of the bridges in the state were constructed prior to the 1970s while only 13% have been constructed since 2000.

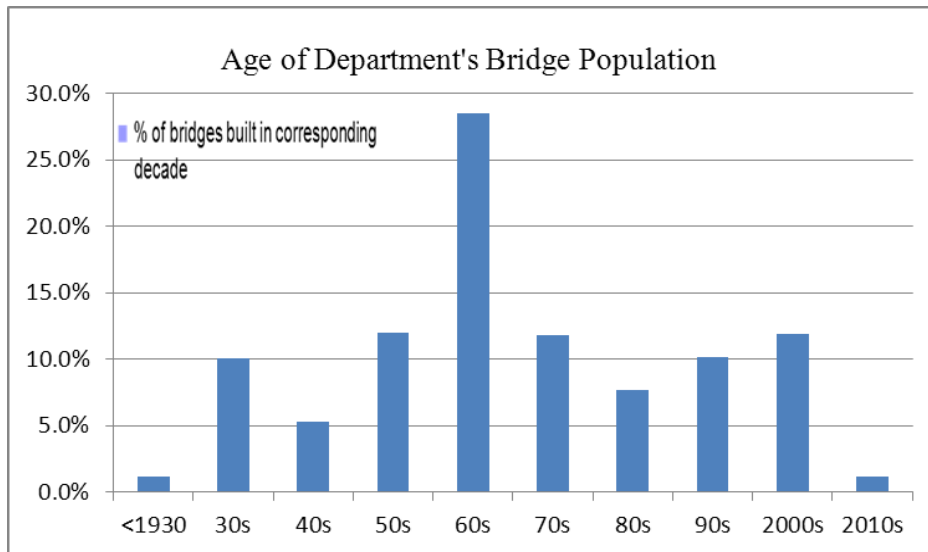


Figure 3

Arizona Department of Transportation
Required Supplementary Information (continued)
June 30, 2012

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 2008 through 2012 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2008	\$13.4	\$18.1
2009	14.3	17.3
2010	16.1	22.4
2011	11.8	26.0
2012	12.5	20.6

Actual expenditures on bridge preservation have exceeded estimated expenditures in each of the past five fiscal years. These higher-than-estimated expenditures have been the result of an ongoing effort to maintain the ability of an older inventory of bridges to serve a growing population. This trend explains why the higher expenditures have occurred simultaneously with a decline, during the same period, of the bridge network's Condition Rating Index (CRI), as described above.

Non-Major Governmental Funds Financial Statements

Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

Arizona Department of Transportation
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2012

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Motor Vehicle Inspection and Title Enforcement Fund
Assets				
Unrestricted cash on deposit with the State Treasurer	\$ 25,389,352	\$ 1,376,389	\$ 1,135,925	\$ 808,452
Receivables:				
Interfund	35,143	59,705	60,461	53,318
Notes and loans	3,960,907	-	-	-
Other (net)	2,649,826	-	-	-
Amounts due from U.S. Government	-	-	-	-
Restricted cash on deposit with the State Treasurer	-	-	-	-
Total assets	<u>\$ 32,035,228</u>	<u>\$ 1,436,094</u>	<u>\$ 1,196,386</u>	<u>\$ 861,770</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 328,880	\$ -	\$ -	\$ -
Accrued payroll and other accrued expenditures	22,646	20,280	23,357	26,474
Contracts and retainage payable	526,111	-	-	-
Interfund payables	-	-	-	-
Amounts due to:				
Other state agencies	-	-	-	-
Arizona counties and cities	-	-	-	-
Deferred revenue	3,960,907	-	-	-
Total liabilities	<u>4,838,544</u>	<u>20,280</u>	<u>23,357</u>	<u>26,474</u>
Fund balances:				
Restricted	-	-	-	-
Committed	27,196,684	1,415,814	1,173,029	835,296
Total fund balances	<u>27,196,684</u>	<u>1,415,814</u>	<u>1,173,029</u>	<u>835,296</u>
Total liabilities and fund balances	<u>\$ 32,035,228</u>	<u>\$ 1,436,094</u>	<u>\$ 1,196,386</u>	<u>\$ 861,770</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
\$ 31,769	\$ -	\$ 1,683,348	\$ -	\$ -	\$ 30,425,235
-	2,640,834	-	-	-	2,849,461
-	-	-	-	-	3,960,907
-	-	-	-	4,709,896	7,359,722
-	-	-	-	18,276,373	18,276,373
-	1,199,996	-	2,558	11,953,682	13,156,236
<u>\$ 31,769</u>	<u>\$ 3,840,830</u>	<u>\$ 1,683,348</u>	<u>\$ 2,558</u>	<u>\$ 34,939,951</u>	<u>\$ 76,027,934</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 328,880
-	-	-	-	-	92,757
-	-	-	-	20,295,502	20,821,613
-	63,648	-	-	1,180	64,828
-	3,777,182	-	-	-	3,777,182
-	-	1,683,348	-	-	1,683,348
-	-	-	-	-	3,960,907
-	<u>3,840,830</u>	<u>1,683,348</u>	-	<u>20,296,682</u>	<u>30,729,515</u>
-	-	-	2,558	14,643,269	14,645,827
<u>31,769</u>	-	-	-	-	<u>30,652,592</u>
<u>31,769</u>	-	-	<u>2,558</u>	<u>14,643,269</u>	<u>45,298,419</u>
<u>\$ 31,769</u>	<u>\$ 3,840,830</u>	<u>\$ 1,683,348</u>	<u>\$ 2,558</u>	<u>\$ 34,939,951</u>	<u>\$ 76,027,934</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, 2012

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Motor Vehicle Inspection and Title Enforcement Fund
Revenues				
Vehicle registration, title, license, and related taxes and fees	\$ 9,975,520	\$ 3,084,098	\$ -	\$ -
Fuel and motor carrier taxes and fees	308,752	-	2,152,197	1,492,819
Flight property taxes	10,735,000	-	-	-
Reimbursement of construction expenditures - federal aid	488,436	-	-	-
Other federal grants and reimbursements	-	-	-	-
Reimbursements from Arizona counties and cities	515,460	-	-	-
Interest on loans receivable	248,372	-	-	-
Income from investments	197,405	13,605	-	-
Grand Canyon National Park Airport	821,236	-	-	-
Other	<u>2,170,359</u>	<u>1,764</u>	<u>-</u>	<u>13,094</u>
Total revenues	<u>25,460,540</u>	<u>3,099,467</u>	<u>2,152,197</u>	<u>1,505,913</u>
Expenditures				
Current:				
Administration	3,935,286	-	-	-
Highway	-	-	-	-
Motor vehicle	<u>-</u>	<u>1,843,590</u>	<u>1,090,320</u>	<u>1,473,250</u>
Total current expenditures	<u>3,935,286</u>	<u>1,843,590</u>	<u>1,090,320</u>	<u>1,473,250</u>
Intergovernmental:				
Distributions to other state agencies	727,100	1,553,300	325,500	7,900
Distributions to Arizona counties and cities	8,172,293	-	-	-
Capital outlay	<u>185,530</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>13,020,209</u>	<u>3,396,890</u>	<u>1,415,820</u>	<u>1,481,150</u>
Excess <deficiency> of revenues over <under> expenditures	12,440,331	<297,423>	736,377	24,763
Other financing sources <uses>				
Transfers out for debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources <uses>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	12,440,331	<297,423>	736,377	24,763
Fund balances - July 1	<u>14,756,353</u>	<u>1,713,237</u>	<u>436,652</u>	<u>810,533</u>
Fund balances - June 30	<u>\$ 27,196,684</u>	<u>\$ 1,415,814</u>	<u>\$ 1,173,029</u>	<u>\$ 835,296</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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,059,618
-	27,107,669	1,000,000	-	-	32,061,437
-	-	-	-	-	10,735,000
-	-	-	72,750,091	-	73,238,527
-	-	-	-	85,926,299	85,926,299
-	-	-	-	4,555,731	5,071,191
-	-	-	-	-	248,372
-	12,437	12,167	9,012	-	244,626
-	-	-	-	-	821,236
<13,500>	-	-	-	-	2,171,717
<13,500>	27,120,106	1,012,167	72,759,103	90,482,030	223,578,023
-	-	-	605	-	3,935,891
-	-	-	-	93,557,474	93,557,474
-	64,424	730	-	-	4,472,314
-	64,424	730	605	93,557,474	101,965,679
-	27,055,682	100,000	-	-	29,769,482
-	-	911,437	-	-	9,083,730
-	-	-	-	-	185,530
-	27,120,106	1,012,167	605	93,557,474	141,004,421
<13,500>	-	-	72,758,498	<3,075,444>	82,573,602
-	-	-	<74,946,221>	-	<74,946,221>
-	-	-	<74,946,221>	-	<74,946,221>
<13,500>	-	-	<2,187,723>	<3,075,444>	7,627,381
45,269	-	-	2,190,281	17,718,713	37,671,038
\$ 31,769	\$ -	\$ -	\$ 2,558	\$ 14,643,269	\$ 45,298,419

Fiduciary Funds Financial Statements

Combining Statement of Net Assets

Statement of Changes in Assets and Liabilities

Agency Funds

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

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

Arizona Department of Transportation
 Combining Statement of Net Assets
 Agency Funds
 June 30, 2012

	Highway Properties - Privilege Tax Fund	Highway Properties - 24 % Lieu Tax Fund	Total
ASSETS			
Restricted cash on deposit with the State Treasurer	\$ 721	\$ 412,324	\$ 413,045
Total assets	\$ 721	\$ 412,324	\$ 413,045
LIABILITIES			
Due to Department of Revenue	\$ 721	\$ -	\$ 721
Due to Arizona counties	-	412,324	412,324
Total liabilities	\$ 721	\$ 412,324	\$ 413,045

Arizona Department of Transportation
Statement of Changes in Assets and Liabilities
Agency Funds
for the fiscal year ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
<u>Highway Properties - Privilege Tax Fund</u>				
Assets				
Restricted cash on deposit with the State Treasurer	\$ -	\$ 7,354	\$ <6,633>	\$ 721
Total assets	<u>\$ -</u>	<u>\$ 7,354</u>	<u>\$ <6,633></u>	<u>\$ 721</u>
Liabilities				
Due to Department of Revenue	\$ -	\$ 721	\$ -	\$ 721
Due to Arizona counties	-	6,633	<6,633>	-
Total liabilities	<u>\$ -</u>	<u>\$ 7,354</u>	<u>\$ <6,633></u>	<u>\$ 721</u>
<u>Highway Properties - 24 Percent Fund</u>				
Assets				
Restricted cash on deposit with the State Treasurer	\$ 415,227	\$ 423,986	\$ <426,889>	\$ 412,324
Total assets	<u>\$ 415,227</u>	<u>\$ 423,986</u>	<u>\$ <426,889></u>	<u>\$ 412,324</u>
Liabilities				
Due to Arizona counties	\$ 415,227	\$ 423,986	\$ <426,889>	\$ 412,324
Total liabilities	<u>\$ 415,227</u>	<u>\$ 423,986</u>	<u>\$ <426,889></u>	<u>\$ 412,324</u>
<u>Total</u>				
Assets				
Restricted cash on deposit with the State Treasurer	\$ 415,227	\$ 431,340	\$ <433,522>	\$ 413,045
Total assets	<u>\$ 415,227</u>	<u>\$ 431,340</u>	<u>\$ <433,522></u>	<u>\$ 413,045</u>
Liabilities				
Due to Department of Revenue	\$ -	\$ 721	\$ -	\$ 721
Due to Arizona counties	415,227	430,619	<433,522>	412,324
Total liabilities	<u>\$ 415,227</u>	<u>\$ 431,340</u>	<u>\$ <433,522></u>	<u>\$ 413,045</u>

Celebrating ^{☆☆☆}100 Years of Arizona History
1912-2012

Comprehensive Annual Financial Report

FISCAL YEAR

2012



Statistical Section

ADOT

Arizona Department of Transportation
Overview – Statistical Section
for the fiscal year ended June 30, 2012

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

Arizona Department of Transportation
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for the fiscal year ended June 30, 2012

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

Expenses	2003	2004	2005
Governmental Activities:			
Administration	\$ 52,533	\$ 57,703	\$ 42,298
Aeronautics	3,848	7,512	9,804
Highway ¹	45,644	93,656	125,889
Highway maintenance	96,353	95,642	105,037
Motor vehicle	83,090	86,845	91,676
Other	8,460	9,815	6,871
Non-capital, including asset preservation ¹	277,975	333,930	156,678
Distributions to other state agencies	192,536	161,029	306,853
Distributions to Arizona counties and cities	957,057	1,022,768	1,086,955
Local governmental assistance	30,235	39,205	42,440
Interest on long-term debt	84,084	89,431	86,870
Total governmental activities expenses	<u>1,831,815</u>	<u>1,997,536</u>	<u>2,061,371</u>
Business-type Activities:			
Arizona Highways Magazine	11,118	10,007	10,270
Highway Expansion and Extension Loan Program	26,349	4,414	4,360
Total business-type activities expenses	<u>37,467</u>	<u>14,421</u>	<u>14,630</u>
Total primary government expenses	<u>\$ 1,869,282</u>	<u>\$ 2,011,957</u>	<u>\$ 2,076,001</u>
Program Revenues			
Governmental Activities:			
Charges for services:			
Administration	\$ -	\$ -	\$ -
Aeronautics	717	902	919
Highway	-	-	-
Highway maintenance	-	-	1,518
Motor vehicle	107,395	108,346	113,506
Other	4,220	4,848	5,564
Local governmental assistance	5,080	4,129	4,760
Operating grants and contributions	34,160	44,008	58,948
Capital grants and contributions	453,758	418,174	484,276
Total governmental activities program revenues	<u>605,330</u>	<u>580,407</u>	<u>669,491</u>
Business-type Activities:			
Charges for services:			
Arizona Highways Magazine	9,596	9,271	8,443
Highway Expansion and Extension Loan Program	3,881	3,529	3,009
Total business-type activities program revenues	<u>13,477</u>	<u>12,800</u>	<u>11,452</u>
Total primary governmental program revenues	<u>\$ 618,807</u>	<u>\$ 593,207</u>	<u>\$ 680,943</u>
Net <expenses>/revenues:			
Governmental Activities	\$ <1,226,485>	\$ <1,417,129>	\$ <1,391,880>
Business-type Activities	<23,989>	<1,621>	<3,178>
Total primary government net expense	<u>\$ <1,250,474></u>	<u>\$ <1,418,750></u>	<u>\$ <1,395,058></u>

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

2006	2007	2008	2009	2010	2011	2012
\$ 45,002	\$ 51,667	\$ 54,918	\$ 56,066	\$ 65,781	\$ 93,040	\$ 94,075
10,705	5,418	4,373	10,993	-	-	-
118,147	138,788	132,874	116,742	34,721	37,070	39,632
114,119	120,163	137,100	110,963	102,932	129,700	125,331
96,937	105,961	112,880	133,415	102,926	99,949	116,095
9,394	-	-	-	-	-	-
<53,981>	113,569	187,004	216,198	122,747	345,590	351,116
206,903	114,795	176,692	413,940	251,392	254,702	307,885
1,095,671	1,219,208	1,238,383	1,091,893	1,057,720	1,024,756	1,005,114
36,771	48,760	37,285	48,571	83,230	163,035	93,557
88,279	82,450	92,295	114,683	129,626	128,768	164,081
<u>1,767,947</u>	<u>2,000,779</u>	<u>2,173,804</u>	<u>2,313,464</u>	<u>1,951,075</u>	<u>2,276,610</u>	<u>2,296,886</u>
8,175	8,072	7,712	7,410	6,288	5,664	4,979
4,273	4,355	4,053	2,112	147	126	75
<u>12,448</u>	<u>12,427</u>	<u>11,765</u>	<u>9,522</u>	<u>6,435</u>	<u>5,790</u>	<u>5,054</u>
<u>\$ 1,780,395</u>	<u>\$ 2,013,206</u>	<u>\$ 2,185,569</u>	<u>\$ 2,322,986</u>	<u>\$ 1,957,510</u>	<u>\$ 2,282,400</u>	<u>\$ 2,301,940</u>
\$ -	\$ 8,843	\$ 9,706	\$ 8,752	\$ 9,766	\$ 10,770	\$ 11,947
1,214	1,133	940	936	-	-	-
-	2,953	1,451	1,765	1,266	2,798	1,681
537	577	1,765	887	1,858	2,667	2,290
121,179	132,274	127,900	117,267	111,412	117,427	111,429
7,099	-	-	-	-	-	-
4,040	12,239	8,263	9,789	5	-	-
67,241	72,679	79,747	90,619	146,936	220,759	161,992
<u>387,614</u>	<u>354,024</u>	<u>523,728</u>	<u>552,488</u>	<u>575,448</u>	<u>743,718</u>	<u>776,814</u>
<u>588,924</u>	<u>584,722</u>	<u>753,500</u>	<u>782,503</u>	<u>846,691</u>	<u>1,098,139</u>	<u>1,066,153</u>
8,012	8,060	7,624	6,291	5,975	5,619	5,581
3,281	2,909	1,755	1,128	566	154	2
<u>11,293</u>	<u>10,969</u>	<u>9,379</u>	<u>7,419</u>	<u>6,541</u>	<u>5,773</u>	<u>5,583</u>
<u>\$ 600,217</u>	<u>\$ 595,691</u>	<u>\$ 762,879</u>	<u>\$ 789,922</u>	<u>\$ 853,232</u>	<u>\$ 1,103,912</u>	<u>\$ 1,071,736</u>
\$ <1,179,023>	\$ <1,416,057>	\$ <1,420,304>	\$ <1,530,961>	\$ <1,104,384>	\$ <1,178,471>	\$ <1,230,733>
<1,155>	<1,458>	<2,386>	<2,103>	106	<17>	529
<u>\$ <1,180,178></u>	<u>\$ <1,417,515></u>	<u>\$ <1,422,690></u>	<u>\$ <1,533,064></u>	<u>\$ <1,104,278></u>	<u>\$ <1,178,488></u>	<u>\$ <1,230,204></u>

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

General Revenues and Other Changes in Net Assets	2003	2004	2005
Governmental Activities:			
Transportation excise taxes	\$ 268,721	\$ 288,600	\$ 316,806
Vehicle registration, title, license, and related taxes and fees	832,492	914,657	966,885
Fuel and motor carrier taxes and fees	691,003	698,406	759,633
Flight property taxes	6,026	6,321	13,180
Income from investments	19,803	8,352	19,245
Other	21,304	24,775	27,120
Transfers	-	-	-
Governmental activities before accounting change	<u>1,839,349</u>	<u>1,941,111</u>	<u>2,102,869</u>
Cumulative effect of accounting change	40,399	-	-
Special Item - State appropriation for Statewide Transportation Acceleration Needs (STAN)	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>1,879,748</u>	<u>1,941,111</u>	<u>2,102,869</u>
Business-type Activities:			
Income from investments	2,440	1,588	2,764
Other	426	505	380
Transfers	-	-	-
Total business-type activities	<u>2,866</u>	<u>2,093</u>	<u>3,144</u>
Total primary government	<u>\$ 1,882,614</u>	<u>\$ 1,943,204</u>	<u>\$ 2,106,013</u>
Change in Net Assets			
Governmental Activities	\$ 653,263	\$ 523,982	\$ 710,989
Business-type Activities	<u><21,123></u>	<u>472</u>	<u><34></u>
Total primary government	<u>\$ 632,140</u>	<u>\$ 524,454</u>	<u>\$ 710,955</u>

2006	2007	2008	2009	2010	2011	2012
\$ 316,491	\$ 262,264	\$ 253,742	\$ 219,165	\$ 199,672	\$ 206,545	\$ 216,281
994,052	1,029,001	1,033,505	976,075	893,287	874,191	899,345
770,596	790,909	766,394	667,200	690,503	704,727	700,620
13,686	15,303	13,822	11,975	9,527	9,798	10,735
28,538	55,760	59,528	33,588	16,347	9,415	11,388
11,026	9,998	38,772	22,831	8,966	16,095	10,442
-	-	-	<500>	-	<851>	-
<u>2,134,389</u>	<u>2,163,235</u>	<u>2,165,763</u>	<u>1,930,334</u>	<u>1,818,302</u>	<u>1,819,920</u>	<u>1,848,811</u>
-	-	-	-	-	-	-
-	245,000	-	-	-	-	-
<u>2,134,389</u>	<u>2,408,235</u>	<u>2,165,763</u>	<u>1,930,334</u>	<u>1,818,302</u>	<u>1,819,920</u>	<u>1,848,811</u>
3,518	5,563	4,788	1,612	514	554	783
-	<3>	<17>	<1>	-	-	-
-	-	-	500	-	851	-
<u>3,518</u>	<u>5,560</u>	<u>4,771</u>	<u>2,111</u>	<u>514</u>	<u>1,405</u>	<u>783</u>
<u>\$ 2,137,907</u>	<u>\$ 2,413,795</u>	<u>\$ 2,170,534</u>	<u>\$ 1,932,445</u>	<u>\$ 1,818,816</u>	<u>\$ 1,821,325</u>	<u>\$ 1,849,594</u>
\$ 955,366	\$ 992,178	\$ 745,459	\$ 399,373	\$ 713,918	\$ 641,449	\$ 617,239
<u>2,363</u>	<u>4,102</u>	<u>2,385</u>	<u>8</u>	<u>620</u>	<u>1,389</u>	<u>1,313</u>
<u>\$ 957,729</u>	<u>\$ 996,280</u>	<u>\$ 747,844</u>	<u>\$ 399,381</u>	<u>\$ 714,538</u>	<u>\$ 642,838</u>	<u>\$ 618,552</u>

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

	2003	2004	2005
Revenues			
Transportation excise taxes	\$ 268,721	\$ 288,600	\$ 316,806
Vehicle registration, title, license, and related taxes and fees	940,022	1,023,004	1,080,391
Fuel and motor carrier taxes and fees	690,869	698,406	759,633
Flight property taxes	6,026	6,321	13,180
Reimbursement of construction expenditures - federal aid	459,458	421,220	503,646
Other federal grants and reimbursements	6,896	6,146	9,078
Reimbursements from Arizona counties and cities	24,818	38,012	32,186
Distributions from other state agencies	1,284	933	2,349
Interest on loans receivable	2,486	1,880	945
Income from investments	19,702	8,333	19,162
Grand Canyon National Park Airport	717	902	919
Rental income	1,632	1,635	1,596
Other	6,021	5,161	6,216
Total revenues	<u>2,428,652</u>	<u>2,500,553</u>	<u>2,746,107</u>
Expenditures			
Current:			
Transportation:			
Administration	51,485	56,484	40,599
Aeronautics	74,244	7,228	9,517
Highway	94,978	130,117	159,408
Highway maintenance	81,517	95,144	105,887
Motor vehicle	3,579	84,921	90,208
Other	2,304	2,940	1,802
Total Transportation	<u>308,107</u>	<u>376,834</u>	<u>407,421</u>
Transportation not appropriated by State legislature:	9,594	-	-
Intergovernmental:			
Distributions to other state agencies	189,784	160,029	306,852
Distributions to Arizona counties and cities	957,057	1,022,768	1,086,955
Debt service:			
Principal	248,055	284,815	302,202
Interest	84,928	92,371	94,344
Bond issuance costs	2,424	2,546	1,996
Non-capital, including asset preservation	146,168	333,929	156,678
Capital outlay	<u>833,731</u>	<u>599,819</u>	<u>623,829</u>
Total expenditures	<u>2,779,848</u>	<u>2,873,111</u>	<u>2,980,277</u>
Excess <deficiency> of revenues over <under> expenditures	\$ <351,196>	\$ <372,558>	\$ <234,170>

2006	2007	2008	2009	2010	2011	2012
\$ 316,491	\$ 262,264	\$ 253,742	\$ 219,165	\$ 199,672	\$ 206,545	\$ 216,281
1,207,265	1,159,379	1,159,474	1,064,147	1,002,312	991,335	1,010,548
770,596	792,717	768,046	696,075	692,632	704,727	700,620
13,686	15,303	13,822	11,975	9,527	9,799	10,735
407,891	334,376	494,584	531,981	544,498	736,803	770,900
32,044	72,548	79,747	94,521	146,936	219,743	157,437
13,566	34,971	38,609	27,498	31,503	10,078	9,645
1,490	1,799	463	876	936	845	1,842
739	928	697	427	596	436	351
28,351	55,393	59,197	33,221	15,853	9,083	11,130
1,214	1,133	940	936	866	798	821
1,702	1,434	1,367	1,788	1,800	2,554	3,096
6,490	7,088	6,206	21,579	6,370	9,913	8,177
<u>2,801,525</u>	<u>2,739,333</u>	<u>2,876,894</u>	<u>2,704,189</u>	<u>2,653,501</u>	<u>2,902,659</u>	<u>2,901,583</u>
43,372	44,875	44,322	46,056	52,971	81,477	80,627
10,470	3,876	4,089	10,471	-	-	-
161,496	184,240	171,134	163,570	115,061	200,216	135,908
111,378	118,940	135,629	111,346	94,014	120,716	118,230
95,198	103,801	110,982	131,665	101,142	98,115	114,327
2,309	-	-	-	-	-	-
<u>424,223</u>	<u>455,732</u>	<u>466,156</u>	<u>463,108</u>	<u>363,188</u>	<u>500,524</u>	<u>449,092</u>
-	-	-	-	-	-	-
206,903	114,795	173,405	404,569	244,836	254,210	305,218
1,190,962	1,217,883	1,241,110	1,100,959	1,046,576	1,022,512	1,004,768
173,745	100,395	192,663	199,687	144,232	201,219	196,338
83,017	90,836	102,583	126,932	143,133	144,748	137,213
1,252	1,592	3,447	3,967	121	2,099	3,043
250,736	63,273	158,991	142,604	217,338	313,179	286,217
<u>663,316</u>	<u>741,506</u>	<u>989,882</u>	<u>1,077,835</u>	<u>998,502</u>	<u>709,250</u>	<u>701,657</u>
<u>2,994,154</u>	<u>2,786,012</u>	<u>3,328,237</u>	<u>3,519,661</u>	<u>3,157,926</u>	<u>3,147,741</u>	<u>3,083,546</u>
\$ <192,629>	\$ <46,679>	\$ <451,343>	\$ <815,472>	\$ <504,425>	\$ <245,082>	\$ <181,963>

(continued)

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

	2003	2004	2005
Other financing sources <uses>			
Transfers in	\$ 383,136	\$ 449,100	\$ 388,046
Transfers out for debt service	<321,327>	<374,852>	<374,162>
Transfers out other	<61,809>	<74,249>	<13,885>
Capital leases	-	-	-
Sale of capital assets	7,229	16,023	18,392
Insurance recovery	1,082	1,407	1,518
Debt issuance	331,475	319,942	292,645
Debt issuance - refunding bond	90,530	130,573	-
Premium from debt issuance	28,147	31,647	24,726
Payment to refunded bond escrow agent	<107,735>	<145,965>	-
Total other financing sources<uses>	<u>350,728</u>	<u>353,626</u>	<u>337,280</u>
Net change in fund balances before accounting change	<468>	<18,932>	103,110
Cumulative effect of accounting change for year 2003	40,399	-	-
Special item - State appropriation for Statewide Transportation Acceleration Needs (STAN)	-	-	-
Net change in fund balances	39,931	<18,932>	103,110
Fund balances - July 1	421,954	452,884	433,952
Fund balances - June 30	<u>\$ 461,885</u>	<u>\$ 433,952</u>	<u>\$ 537,062</u>
Debt service as a percentage of non-capital expenditures	17.2%	16.7%	16.9%
Debt service as a percentage of total revenues	13.8%	15.2%	14.5%

Table A-2

2006	2007	2008	2009	2010	2011	2012
\$ 262,216	\$ 225,499	\$ 303,513	\$ 239,447	\$ 271,408	\$ 331,547	\$ 330,856
<251,891>	<186,856>	<231,563>	<221,232>	<266,934>	<331,547>	<330,856>
<10,325>	<38,643>	<71,950>	<17,252>	<9,013>	<2,400>	-
-	2,129	-	-	-	-	-
11,118	10,162	28,233	2,127	3,088	3,712	1,815
537	577	1,765	887	1,765	2,529	1,818
118,250	325,000	711,479	796,819	32,628	349,698	269,001
147,400	-	-	-	-	-	499,725
22,407	26,201	31,862	58,123	-	38,876	90,753
<161,726>	-	-	-	-	-	<560,228>
<u>137,986</u>	<u>364,069</u>	<u>773,339</u>	<u>858,919</u>	<u>32,942</u>	<u>392,415</u>	<u>302,884</u>
<54,643>	317,390	321,996	43,447	<471,483>	147,333	120,921
-	-	-	-	-	-	-
-	245,000	-	-	-	-	-
<54,643>	562,390	321,996	43,447	<471,483>	147,333	120,921
537,062	482,419	1,044,809	1,366,805	1,410,252	938,769	1,086,102
\$ 482,419	\$ 1,044,809	\$ 1,366,805	\$ 1,410,252	\$ 938,769	\$ 1,086,102	\$ 1,207,023
11.1%	9.4%	12.8%	13.5%	13.3%	14.3%	14.1%
9.2%	7.0%	10.4%	12.2%	10.8%	12.0%	12.1%

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011 ¹	2012
General Fund (State Highway Fund):										
Reserved	\$ 134,938	\$ 155,755	\$ 166,420	\$ 172,784	\$ 507,723	\$ 505,691	\$ 230,885	\$ 270,550	\$ -	\$ -
Unreserved	48,696	48,619	57,123	9,342	(10,032)	57,899	94,686	80,251	-	-
Nonspendable	-	-	-	-	-	-	-	-	9,765	8,235
Restricted	-	-	-	-	-	-	-	-	229,559	240,481
Committed	-	-	-	-	-	-	-	-	102,350	81,294
Total General Fund	\$ 183,634	\$ 204,374	\$ 223,543	\$ 182,126	\$ 497,691	\$ 563,590	\$ 325,571	\$ 350,801	\$ 341,674	\$ 330,010
All other governmental funds										
Reserved:										
Debt service	\$ 20,786	\$ 18,592	\$ 2,288	\$ 2,159	\$ 2,688	\$ 3,212	\$ 2,692	\$ 1,894	\$ -	\$ -
Capital projects	232,079	190,640	277,884	258,236	495,428	774,644	1,078,478	576,331	-	-
Unreserved, reported in:										
Non-major special revenue funds	16,386	20,346	33,348	39,898	49,002	25,359	3,574	9,743	-	-
Unassigned	-	-	-	-	-	-	-	-	-	(8,128)
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	719,966	847,789
Committed	-	-	-	-	-	-	-	-	24,462	37,352
Total all other governmental funds	\$ 269,251	\$ 229,578	\$ 313,520	\$ 300,293	\$ 547,118	\$ 803,215	\$ 1,084,744	\$ 587,968	\$ 744,428	\$ 877,013
Total general and other governmental funds	\$ 452,885	\$ 433,952	\$ 537,063	\$ 482,419	\$ 1,044,809	\$ 1,366,805	\$ 1,410,315	\$ 938,769	\$ 1,086,102	\$ 1,207,023

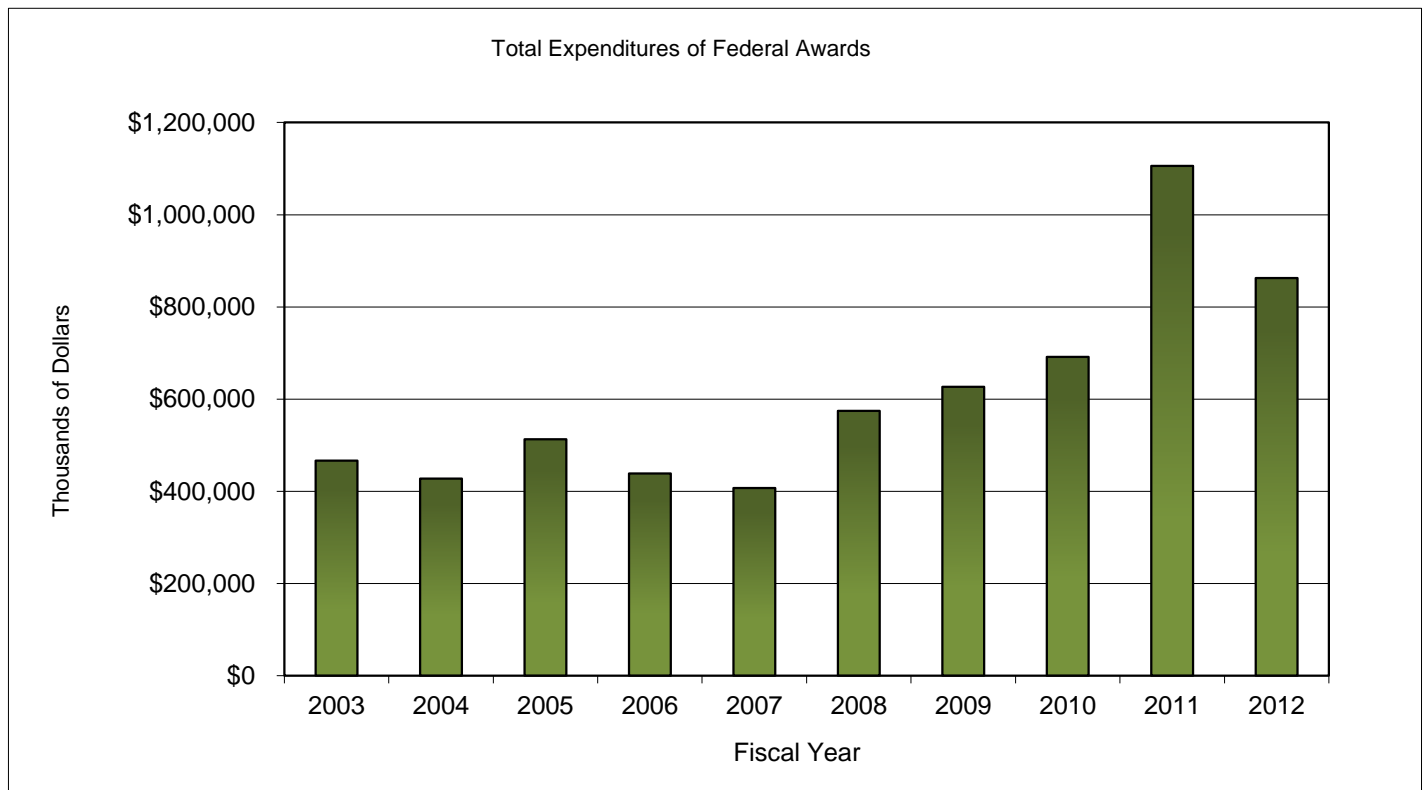
NOTE: ¹ GASB 54 rules state that Fund Balances should be reported with the categories listed in the above table for 2011. Years 2003 - 2010 will continue to be reported in the old format until 10 years of information is available.

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	USGSA	USDA	Sub-total	FHWA	Total
2012	\$ 488	\$ -	\$ 19,261	\$ -	\$ 755,092	\$ 1,518	\$ -	\$ -	\$ 541	\$ 80	\$776,980	\$ 85,557	\$ 862,537
2011	3,844	-	21,451	1,132	904,735	3,891	1,004	-	-	-	936,057	169,779	1,105,836
2010	7,938	-	22,769	120	574,068	4,148	124	-	-	-	609,167	82,267	691,434
2009	3,902	-	13,853	101	571,867	4,734	268	-	-	-	594,725	31,776	626,501
2008	715	-	15,530	106	523,810	2,642	57	-	-	-	542,860	31,472	574,332
2007	610	-	10,169	101	353,192	1,769	544	<21>	-	-	366,364	40,559	406,923
2006	4,338	-	8,837	69	389,575	2,231	162	-	-	-	405,212	33,268	438,480
2005	4,203	-	8,466	96	456,924	282	152	278	-	-	470,401	42,323	512,724
2004	480	-	5,549	84	384,416	434	79	-	-	-	391,042	36,324	427,366
2003	242	-	6,618	87	433,472	466	30	-	-	-	440,915	25,439	466,354

SOURCE: Single Audit Reports - fiscal years 2003 through 2012

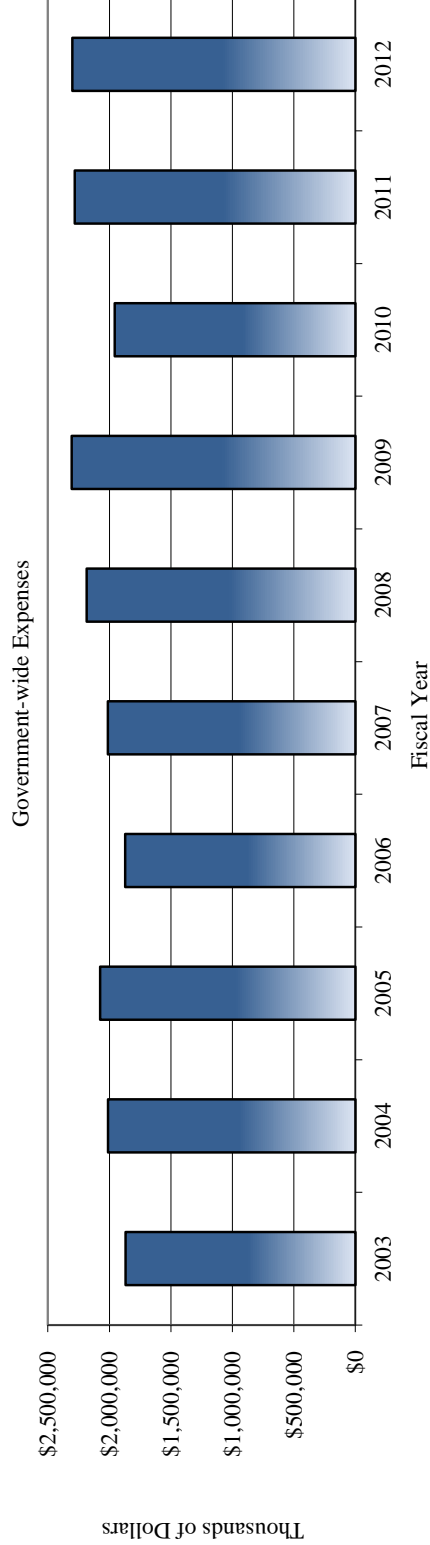
NOTE: ¹ Federal Aviation Administration (FAA); Federal Railroad Administration (FRA); Federal Transit Administration (FTA) - previously Urban Mass Transit Administration (UMTA); National Highway Transportation Safety Administration (NHTSA); Federal Highway Administration (FHWA); Federal Motor Carrier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



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

Fiscal Year	Admin.	Aeronautics	Highway	Highway Maintenance ¹	Motor Vehicle	Distributions to Arizona Counties, Cities and Other State Agencies				Local Governmental Assistance	Premium on Long-Term Debt	Interest on Long-Term Debt	Other	Arizona Highways Magazine	Highway Expansion and Extension Loan Program	Total
						Other State Agencies	Local Governmental Assistance	Premium on Long-Term Debt	Interest on Long-Term Debt							
2012	\$ 94,075	\$ -	\$ 39,632	\$ 476,447	\$ 116,095	1,312,999	\$ 93,557	\$ 1,419	\$ 162,662	-	\$ 4,978	\$ 75	\$ 2,301,939			
2011	93,040	-	37,070	475,290	99,949	1,279,459	163,035	-	128,768	-	5,664	126	2,282,401			
2010	65,781	-	34,721	225,679	102,926	1,309,112	83,230	-	129,626	-	6,288	147	1,957,510			
2009	56,282	10,993	116,697	311,605	133,243	1,505,835	48,571	-	114,683	-	7,410	2,110	2,307,429			
2008	54,918	4,373	132,874	324,104	112,880	1,415,075	37,285	-	92,295	-	7,712	4,053	2,185,569			
2007	51,667	5,418	138,788	233,732	105,961	1,334,003	48,760	-	82,450	-	8,072	4,355	2,013,206			
2006	45,002	10,705	118,147	60,138	96,937	1,394,609	36,771	-	88,278	9,394	8,175	4,273	1,872,429			
2005	42,298	9,804	125,889	261,714	91,676	1,393,808	42,440	-	86,870	6,871	10,270	4,360	2,076,000			
2004	57,703	7,512	93,656	429,571	86,845	1,183,797	39,205	-	89,431	9,815	10,007	4,414	2,011,956			
2003	52,533	3,848	45,644	374,328	83,090	1,149,593	30,235	-	84,084	8,460	11,118	26,349	1,869,282			

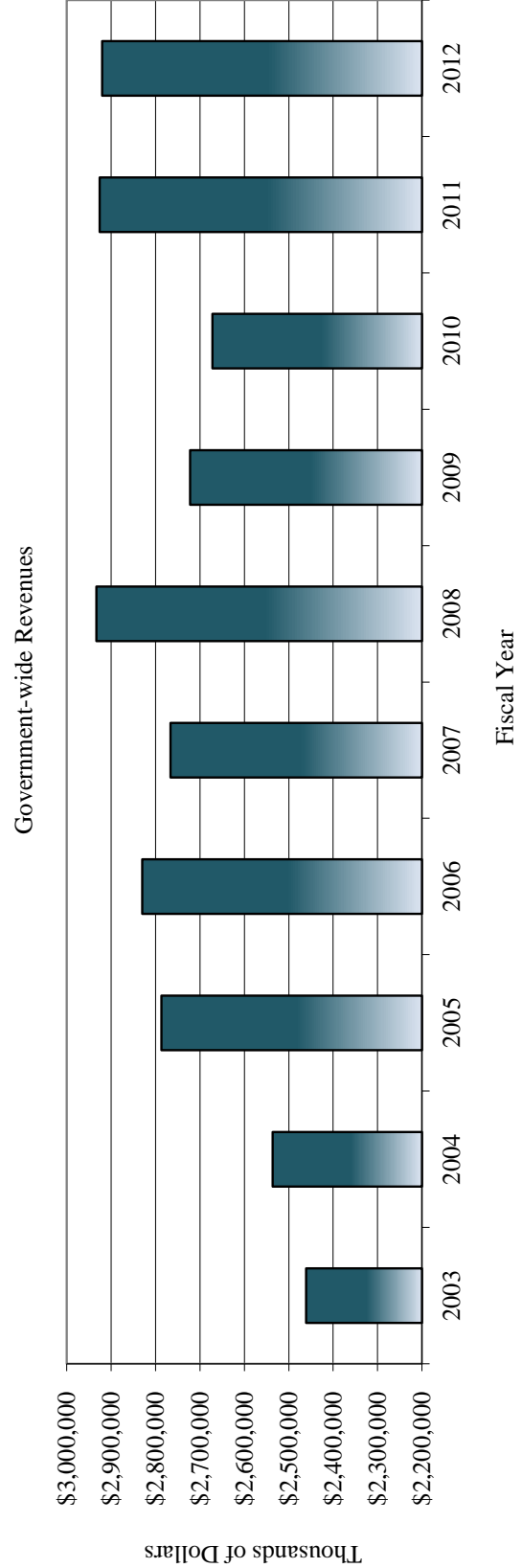
NOTE: ¹ Includes Non-capital, including asset preservation.



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

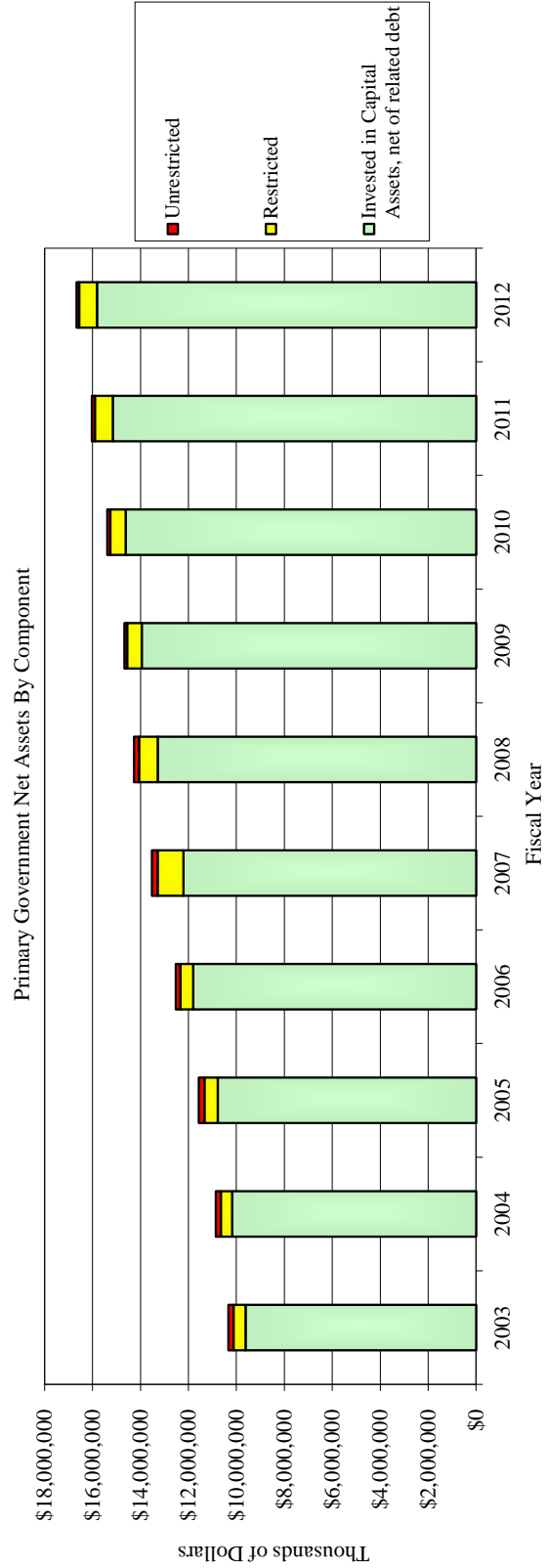
Fiscal Year	Program Revenues				General Revenues				Total	
	Governmental		Business-Type		Governmental		Business-Type			
	Charges for Services and Contributions	Operating Grants and Contributions	Capital Grants and Contributions	Charges for Services	Taxes	Other Revenues ¹	Income from Investments	Other Revenues ¹		Income from Investments
2012	\$ 127,347	\$ 161,992	\$ 776,814	\$ 5,583	\$ 1,826,980	\$ 9,604	\$ 11,388	\$ -	\$ 783	\$ 2,920,491
2011	133,661	220,759	743,718	5,773	1,795,291	16,079	9,402	851	555	2,926,089
2010	124,307	146,936	575,448	6,541	1,792,989	8,965	16,347	-	514	2,672,047
2009	139,396	90,619	552,488	7,418	1,874,415	22,331	33,588	500	1,612	2,722,367
2008	150,024	79,747	523,728	9,379	2,067,464	38,772	59,528	<18>	4,788	2,933,412
2007	158,019	72,679	354,024	10,969	2,097,476	9,998	57,760	<3>	5,563	2,766,485
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	381	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

NOTE: ¹ Includes transfers for multiple years.



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

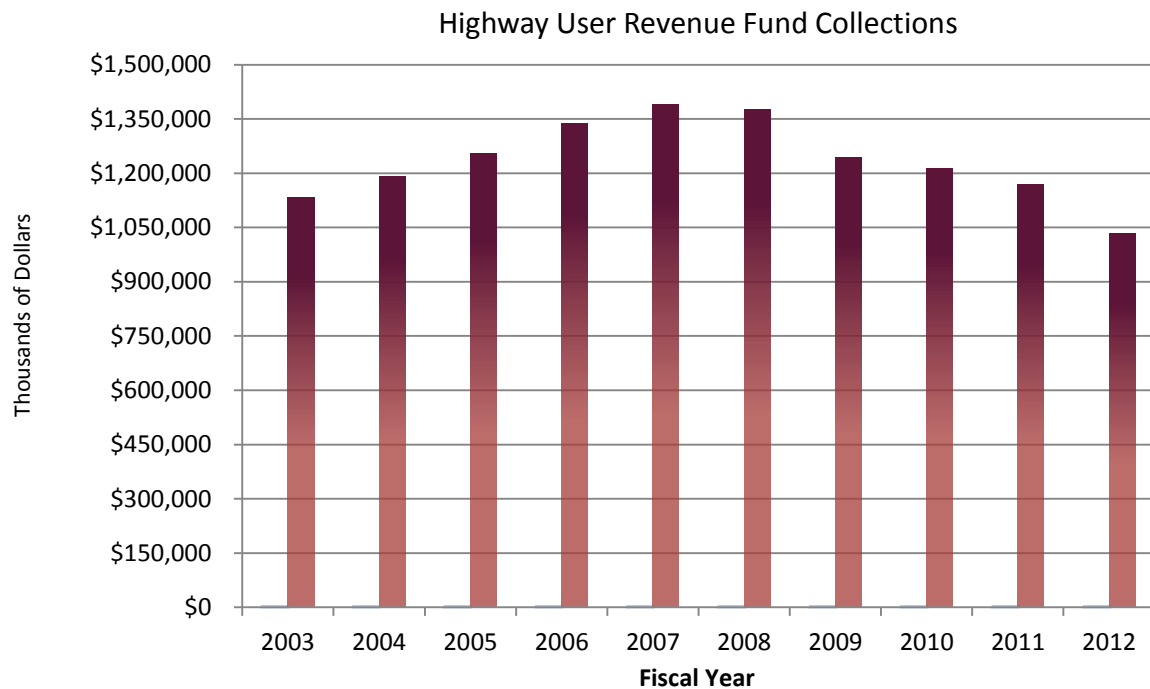
Fiscal Year	Governmental Activities			Business-type Activities			Primary Government		
	Invested in Capital Assets, Net of Related Debt		Total	Invested in Capital Assets, Net of Related Debt		Total	Invested in Capital Assets, Net of Related Debt		Total
	Restricted	Unrestricted		Restricted	Unrestricted		Restricted	Unrestricted	
2012	\$ 666,828	\$ 106,932	\$ 16,591,813	\$ 43	\$ 76,882	\$ 825	\$ 743,710	\$ 107,757	\$ 16,669,563
2011	669,811	125,860	15,954,757	54	76,192	192	746,003	126,052	16,031,194
2010	566,794	126,415	15,313,308	92	75,619	<663>	642,213	125,752	15,388,156
2009	534,535	113,053	14,599,390	131	74,703	<406>	609,238	112,647	14,673,818
2008	704,929	209,650	14,200,017	173	74,115	132	779,044	209,782	14,274,437
2007	1,006,512	236,186	13,454,559	225	71,708	102	1,078,220	236,288	13,526,594
2006	466,337	189,669	12,462,382	249	67,713	<30>	534,050	189,639	12,530,314
2005	491,995	234,548	11,507,017	499	65,273	<204>	557,268	234,344	11,572,585
2004	408,410	208,032	10,796,027	810	63,900	892	472,310	208,924	10,861,629
2003	439,045	211,796	10,272,045	1,126	63,225	780	502,270	212,576	10,337,176



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

Fiscal Year	Motor Vehicle Fuel Tax Revenues	Motor Vehicle Reg. Fee Revenues	Motor Carrier Tax Revenues	Motor Vehicle Operators' License Fees and Other Fees	Motor Vehicle License (In Lieu) Tax Revenues	Total Deposited to Arizona Hwy. User Rev. Fund
2012	\$ 538,352	\$ 180,685	\$ 17,085	\$ 69,765	\$ 228,317	\$ 1,034,204
2011	636,507	175,179	17,466	64,361	275,132	1,168,645
2010	633,771	170,453	17,157	59,431	331,080	1,211,892
2009	637,054	178,953	18,930	58,500	349,399	1,242,836
2008	697,771	196,151	21,758	60,630	400,787	1,377,097
2007	725,787	194,308	22,473	57,085	389,503	1,389,156
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

SOURCES: Basic Financial Statements - fiscal years 2003 through 2012



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
2012	\$ 401,172	\$ 306,376	\$ 190,857	\$ 123,211	\$ 1,000	\$ 11,588	\$1,034,204
2011	522,556	341,502	212,739	79,216	1,000	11,631	1,168,644
2010	520,484	339,900	211,741	78,626	1,000	60,141	1,211,892
2009	513,379	346,443	215,817	84,950	1,000	81,247	1,242,836
2008	680,530	415,556	258,871	10,000	1,000	11,140	1,377,097
2007	688,451	417,541	260,107	10,000	1,000	12,057	1,389,156
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

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 2003 through 2012

NOTE: ¹ An appropriation for Arizona State Parks is included. Fiscal years 2005, 2009, 2010, 2011 and 2012 include distributions to State General Fund.

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

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

SOURCE: Arizona Revised Statutes §28-5606

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

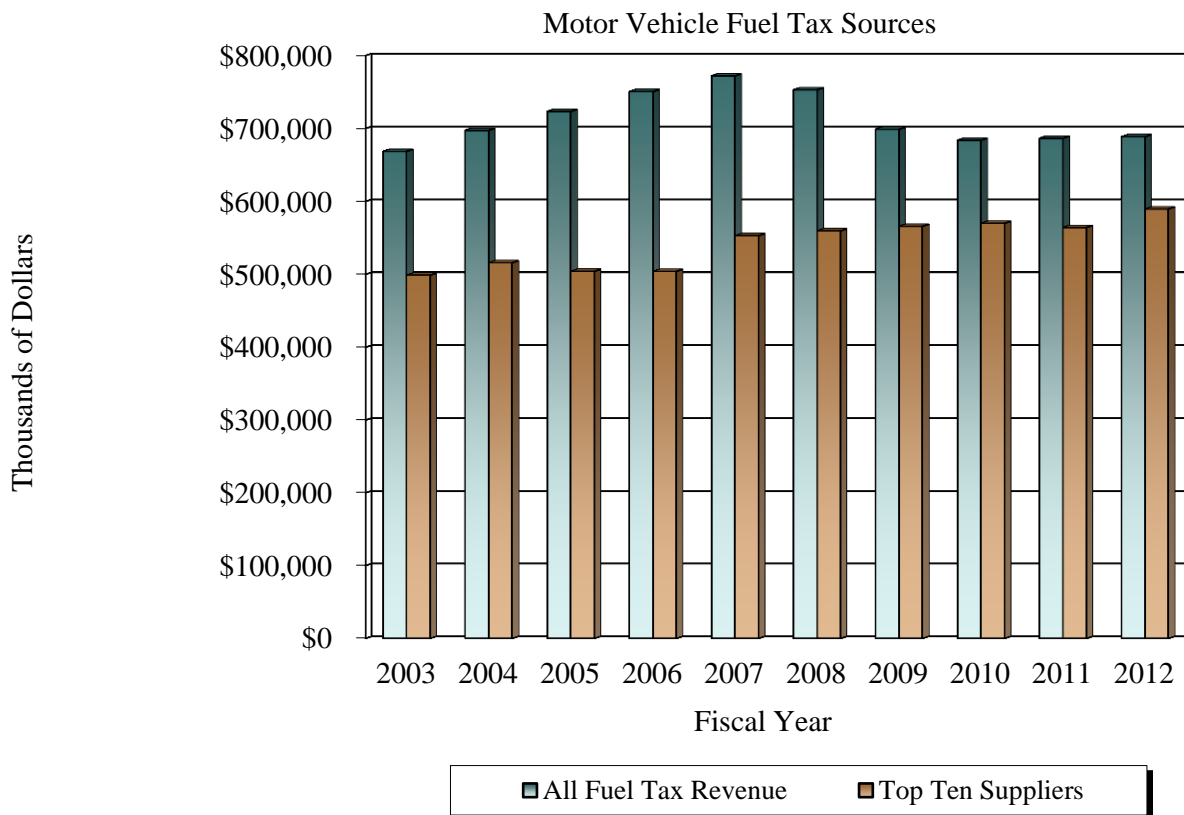
¹ Lightweight motor vehicles under 26,000 pounds pay \$.18 per gallon.

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
2012	3,025,722	\$ 589,607	\$ 688,642	85.6%
2011	2,898,241	564,353	686,591	82.2%
2010	2,905,890	569,974	683,880	83.3%
2009	2,871,995	565,889	698,959	81.0%
2008	2,839,622	559,609	753,036	74.3%
2007	2,807,989	552,977	772,100	71.6%
2006	2,588,981	504,052	750,574	67.2%
2005	2,545,685	504,128	723,425	69.7%
2004	2,627,194	515,901	697,428	74.0%
2003	2,553,905	498,892	668,643	74.6%

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

NOTE: Above data reflects a change in gasoline and use fuel gallons reported by the Revenue & Fuel Tax Administration for 2003 - 2012.



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

Range - in Millions of Gallons	2003			2004			2005			2006			2007																																															
	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Suppliers within Range	Percentage of Total Gallons Sold	Suppliers within Range	Suppliers within Range	Percentage of Total Gallons Sold																																														
	< 25	7	3.8%	4	1.6%	3	1.5%	5	2.4%	6	2.0%	26 - 50	2	2.5%	4	3.1%	2	2.4%	1	1.0%	51 - 100	6	12.3%	8	16.7%	6	13.0%	5	12.0%	6	21.8%	3	17.6%	201 - 300	5	39.0%	4	27.6%	3	19.0%	4	38.5%	> 300	2	23.0%	3	35.4%	3	30.9%	4	40.4%	25	94.4%	25	94.6%	25	94.5%	25	94.7%	25

NOTE: Above data reflects a change in gasoline and use fuel gallons reported by the Revenue & Fuel Tax Administration for 2003 - 2010.

Total Gallons of Gasoline (Thousands)	2,575,965	2,650,746	2,730,911	2,781,197	2,871,528
Gasoline % of Total	76.6%	75.8%	75.5%	74.3%	74.5%
Total Gallons of Use Fuel (Diesel) (Thousands)	788,622	845,256	887,406	963,551	981,647
Diesel % of Total	23.4%	24.2%	24.5%	25.7%	25.5%

NOTE: Above data reflects a change in gasoline and use fuel gallons reported by the Revenue & Fuel Tax Administration for 2003 - 2010.

(continued)

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

Range - in Millions of Gallons	2008			2009			2010			2011			2012		
	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	1.5%	7	3.3%	7	2.7%	7	3.2%	15	5.9%				
26 - 50	6	4.2%	5	5.2%	8	9.2%	5	4.9%	1	1.3%					
51 - 100	3	12.1%	2	3.2%	1	1.5%	3	4.6%	1	1.8%					
101 - 200	5	11.1%	3	11.4%	2	9.8%	3	15.3%	3	16.1%					
201 - 300	3	34.8%	3	17.9%	3	21.7%	3	19.0%	1	7.7%					
> 300		32.7%	5	55.8%	4	51.6%	4	49.8%	4	65.3%					
	25	96.4%	25	96.8%	25	96.5%	25	96.8%	25	98.1%					

NOTE: Above data reflects a change in gasoline and use fuel gallons reported by the Revenue & Fuel Tax Administration for 2003 - 2010.

Total Gallons of Gasoline (Thousands)	2,797,714	2,634,840	2,616,186	2,616,570
Gasoline % of Total	74.5%	75.3%	76.0%	75.9%
Total Gallons of Use Fuel (Diesel) (Thousands)	959,406	864,455	824,996	837,151
Diesel % of Total	25.5%	24.7%	24.0%	24.2%

NOTE: Above data reflects a change in gasoline and use fuel gallons reported by the Revenue & Fuel Tax Administration for 2003 - 2010.

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
2012	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A
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%

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

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

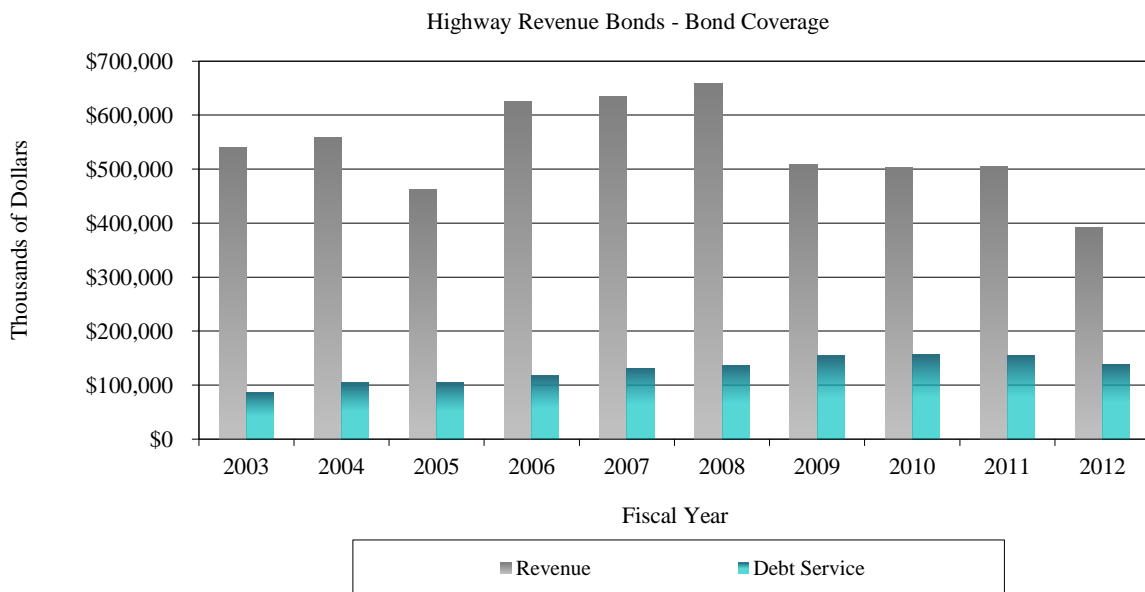
Arizona Department of Transportation
 Highway Revenue Bonds
 Bond Coverage
 for the fiscal year ended June 30
 (Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Pledged Revenues ^{1,2}	Coverage
2012	\$ 67,885	\$ 71,113	\$ 138,998	\$ 392,648	2.8
2011	71,770	83,960	155,730	504,175	3.2
2010	68,140	87,661	155,801	502,874	3.2
2009	64,190	89,825	154,015	509,183	3.3
2008	60,645	75,538	136,183	658,616	4.8
2007	57,825	73,785	131,610	635,140	4.8
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

SOURCES: Highway User Revenue Fund Schedule fiscal years 2003 through 2012; Debt Service Funds fiscal years 2003 through 2012.

NOTES: ¹ Includes vehicle license tax revenues distributed directly to the State Highway Fund. Fiscal year 2005 is net of a \$118 million distribution to the State General Fund. Fiscal year 2009 is net of \$66 million, 2010 is net of \$44 million and 2011 is net of \$45 million distribution to the State General Fund.

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



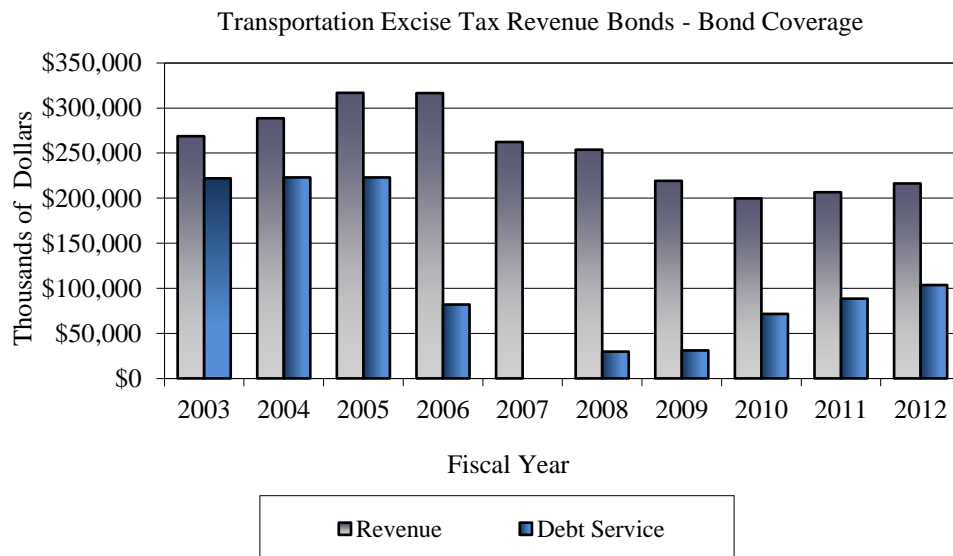
Arizona Department of Transportation
 Transportation Excise Tax Revenue Bonds
 Bond Coverage
 for the fiscal year ended June 30
 (Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Pledged Revenues ¹	Coverage
2012	55,460	\$48,129	\$103,589	\$ 216,281	2.1
2011	45,970	42,496	88,466	206,545	2.3
2010	33,315	38,225	71,540	199,672	2.8
2009	13,825	17,193	31,018	219,165	7.1
2008	19,045	10,673	29,718	253,742	8.5
2007	-	-	-	262,264	N/A
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

SOURCE: Maricopa County Regional Area Road Fund Report

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

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

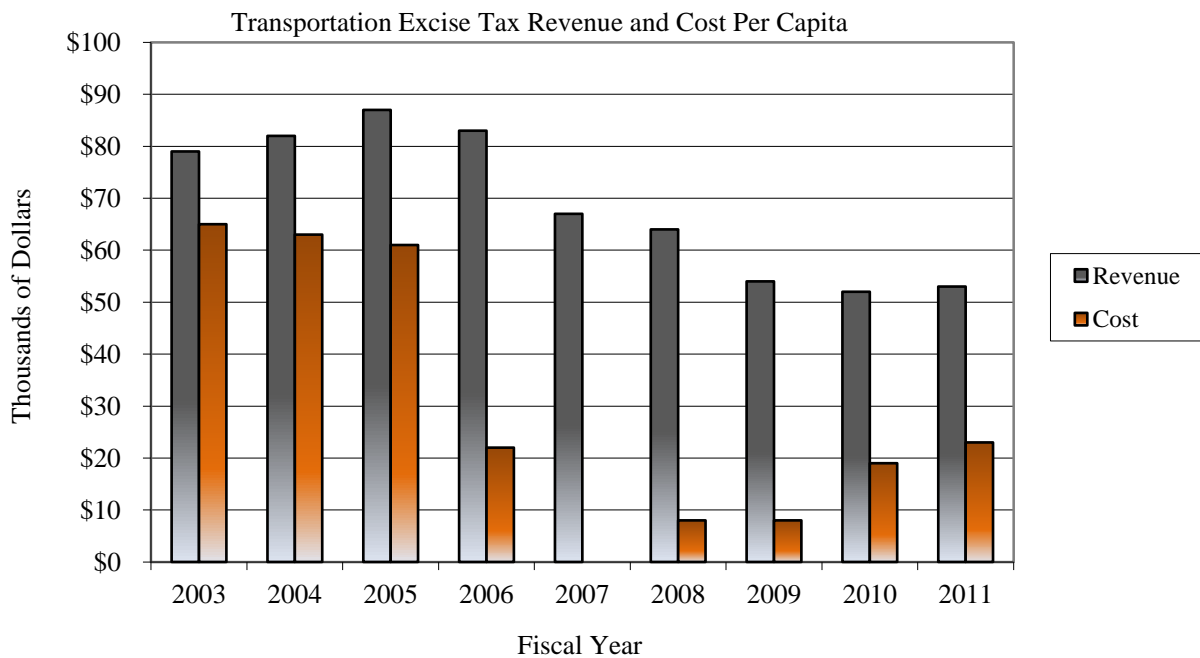


Arizona Department of Transportation
 Transportation Excise Tax Revenue Bonds
 Debt Service Revenue and Cost Per Capita
 for the fiscal year ended June 30
 (Thousands)

Fiscal Year	Principal	Interest	Total Cost	Revenue ¹	Maricopa County Population	Cost per capita	Revenue per capita
2011	\$45,970	\$ 42,496	\$ 88,466	\$ 206,545	3,880	\$ 23	\$ 53
2010	33,315	38,225	71,540	199,672	3,817	19	52
2009	13,825	17,193	31,018	219,165	4,023	8	54
2008	19,045	10,673	29,718	253,742	3,955	8	64
2007	-	-	-	262,264	3,907	-	67
2006	80,375	1,567	81,942	316,491	3,793	22	83
2005	208,625	14,318	222,943	316,806	3,649	61	87
2004	199,400	23,553	222,953	288,600	3,538	63	82
2003	190,415	31,533	221,948	268,721	3,406	65	79

SOURCES: Maricopa County Regional Area Road Fund Report; population data from the U.S. Census Bureau available only through 2011

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



Arizona Department of Transportation
Ratios of Outstanding Debt by Type
for the fiscal year ended June 30
(Thousands of Dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental Activities										
Highway Revenue Bonds	\$ 734,155	\$ 932,700	\$ 1,017,360	\$ 1,161,355	\$ 1,223,425	\$ 1,490,600	\$ 1,623,905	\$ 1,740,765	\$ 1,672,625	\$ 1,600,855
Transportation Excise Tax Revenue Bonds	602,890	488,400	289,000	80,375	-	-	350,955	777,130	743,815	877,845
Grant Anticipation Notes (GARVEE)	182,295	169,145	308,585	363,970	325,430	282,860	298,280	329,650	304,480	392,495
Premium on bonds	9,358	34,423	60,481	76,721	90,852	108,034	128,586	173,313	158,601	180,225
Capital leases	1,557	916	1,121	5,910	11,130	10,601	7,535	4,326	1,304	4,910
Advances and notes payable	192,849	180,438	165,305	169,473	195,018	168,287	56,739	42,668	60,711	59,892
Total Governmental activities	1,723,104	1,806,022	1,841,852	1,857,804	1,845,855	2,060,382	2,466,000	3,067,852	2,941,536	3,116,222
Business-Type Activities										
Notes payable	145,536	151,545	142,414	146,454	150,494	154,534	2,170	-	-	-
Total Business-type Activities	145,536	151,545	142,414	146,454	150,494	154,534	2,170	-	-	-
Total Primary Government	\$ 1,868,640	\$ 1,957,567	\$ 1,984,266	\$ 2,004,258	\$ 1,996,349	\$ 2,214,916	\$ 2,468,170	\$ 3,067,852	\$ 2,941,536	\$ 3,116,222
Debt as a Percentage of Personal Income	1.26%	1.26%	1.17%	1.07%	0.96%	1.01%	1.10%	1.40%	1.31%	1.37%
Amount of Debt per Capita ¹	\$ 343	\$ 350	\$ 345	\$ 335	\$ 322	\$ 348	\$ 380	\$ 465	\$ 441	\$ 481

SOURCES:

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

U.S. Bureau of the Census (also for population) population data only available through 2011

NOTE:

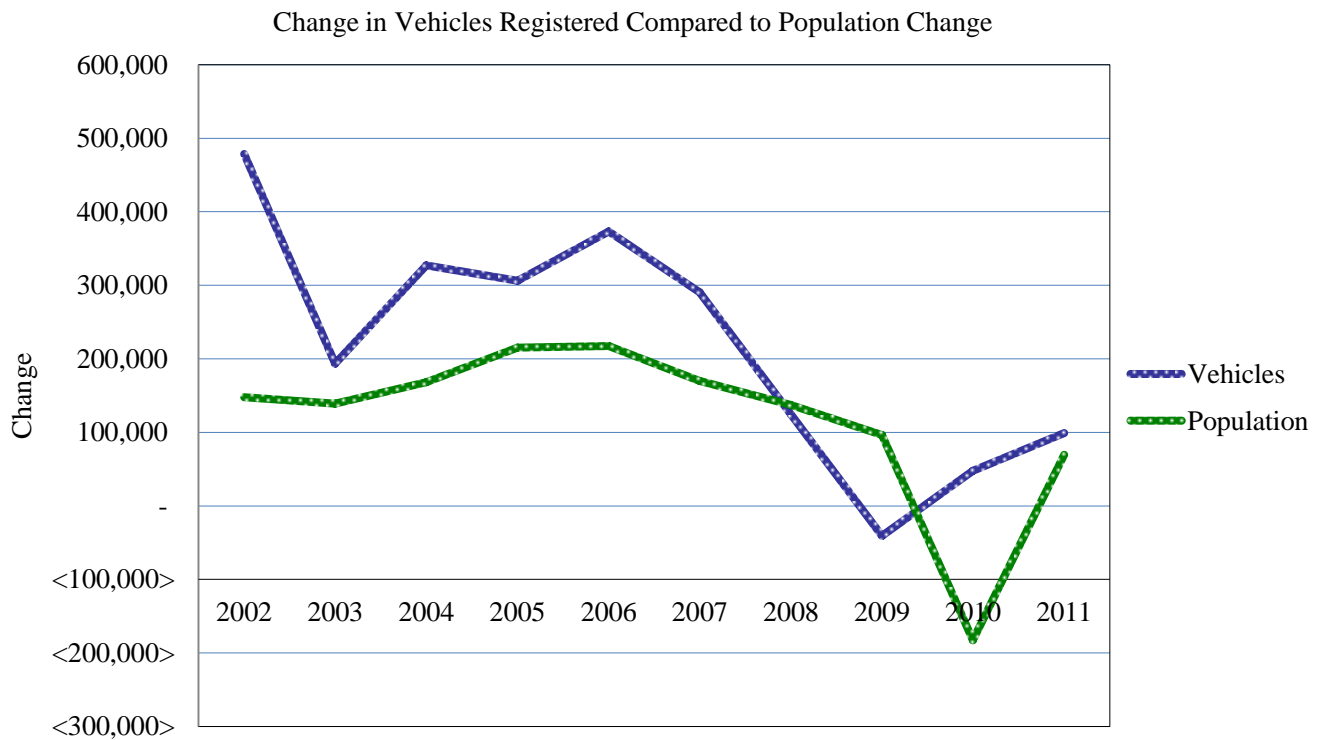
¹ The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Years 2002 through 2009 have been revised to reflect revisions made by the U.S. Bureau of the Census. Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions in personal income and population estimates.

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

Fiscal Year ²	Change in Number of Registered Vehicles		Arizona Population ¹	Change in Population	Vehicles Per Person
	Total Vehicles	Vehicles			
2011	6,840	99	6,483	69	1.055
2010	6,741	48	6,413	-183	1.051
2009	6,693	-41	6,596	96	1.015
2008	6,734	125	6,499	137	1.036
2007	6,609	290	6,362	170	1.039
2006	6,318	373	6,192	217	1.020
2005	5,945	306	5,975	215	0.995
2004	5,639	327	5,759	168	0.979
2003	5,312	193	5,591	139	0.950
2002	5,118	479	5,452	148	0.939

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

NOTES: ¹ The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Year 2010 has been revised to reflect revisions made by the U.S. Bureau of the Census. Population data available only through fiscal year 2011.

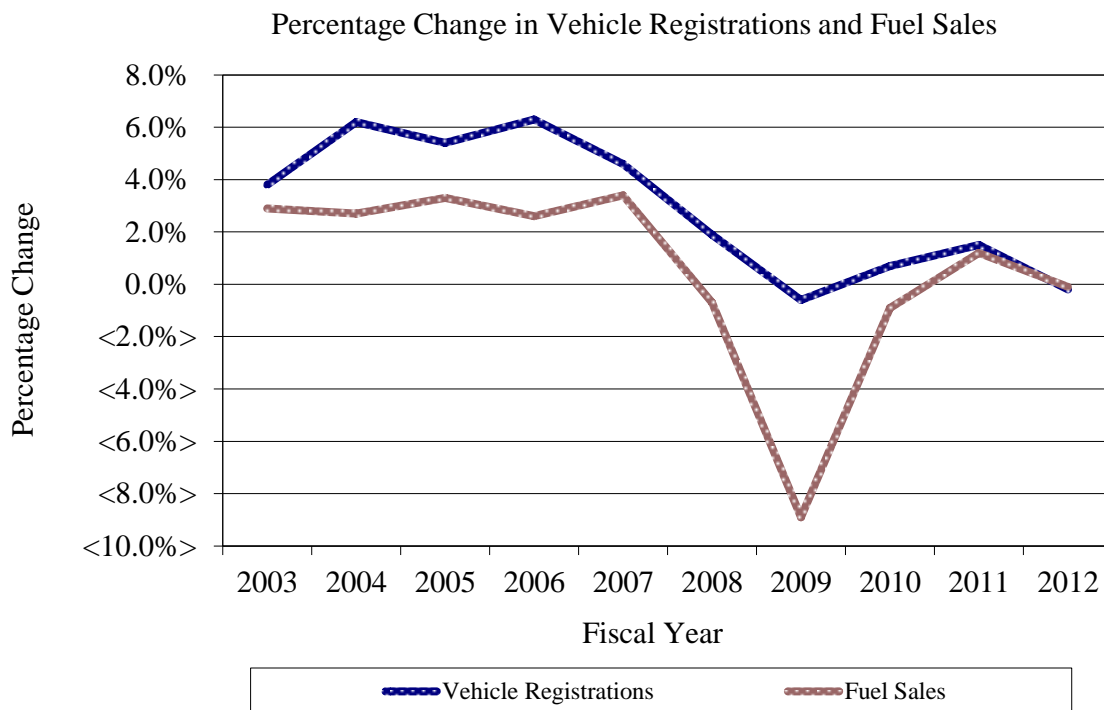


Arizona Department of Transportation
 Vehicle Registrations Per Year Compared to Fuel Sales
 for fiscal year ended June 30
 (Thousands)

Fiscal Year	Vehicle Registrations	Percentage Change	Fuel Sales ¹	Percentage Change
2012	6,824	-0.2%	3,409,594	-0.1%
2011	6,840	1.5%	3,411,652	1.2%
2010	6,741	0.7%	3,369,732	-0.9%
2009	6,693	-0.6%	3,398,866	-8.9%
2008	6,734	1.9%	3,731,808	-0.7%
2007	6,609	4.6%	3,759,465	3.4%
2006	6,318	6.3%	3,636,195	2.6%
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%

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

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



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

Calendar Year Ended	Personal Income ² (in thousands)	Per Capita Personal Income ³	Unemployment Rate ⁴	
December 31	Population ¹			
2011	6,482,505	227,286,519	\$ 35,062	9.5%
2010	6,676,627	223,716,314	33,507	10.0%
2009	6,587,653	219,026,704	33,248	9.7%
2008	6,499,207	223,961,131	34,460	5.9%
2007	6,360,238	218,587,551	34,368	3.8%
2006	6,190,987	206,958,398	33,429	4.1%
2005	5,973,970	188,152,439	31,495	4.7%
2004	5,758,692	170,026,128	29,525	5.0%
2003	5,590,820	155,607,258	27,833	5.7%
2002	5,451,472	148,174,872	27,181	6.0%

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

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

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

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

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

Arizona Department of Transportation
Principal Employers
Current and Nine Years Ago

<u>Employer</u>	Calendar Year Ended December 31, 2011			Calendar Year Ended December 31, 2002		
	Full-Time Equivalent <u>Employees</u>	Rank	Percentage of Total State <u>Employment</u>	Full-Time Equivalent <u>Employees</u>	Rank	Percentage of Total State <u>Employment</u>
	State of Arizona	49,800	1	1.64%	59,348	1
Wal-Mart Stores Inc.	30,634	2	1.01%	13,800	6	0.54%
Banner Health	24,825	3	0.82%	13,973	4	0.54%
City of Phoenix	15,100	4	0.50%	12,917	7	0.50%
Wells Fargo	13,308	5	0.44%			0.00%
Bank of America	13,300	6	0.44%			0.00%
Maricopa County	12,792	7	0.42%	13,860	5	0.54%
Raytheon Co.	11,500	8	0.38%	9,700	10	0.38%
Arizona State University	11,185	9	0.37%			0.00%
Apollo Group, Inc.	11,000	10	0.36%			0.00%
Honeywell, Inc.			0.00%	17,500	2	0.68%
Motorola			0.00%	15,500	3	0.60%
The Kroger Co.			0.00%	9,837	8	0.38%
U.S. Postal Service			0.00%	9,756	9	0.38%
Total	<u>193,444</u>		<u>6.38%</u>	<u>176,191</u>		<u>6.84%</u>

SOURCES: Business Journal, Book of Lists 2011 and 2002 for employers; Arizona Department of Commerce website, www.workforce.az.gov (for annual State employment)

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

Fiscal Year	Appropriated						Non-appropriated						Total All FTEs	
	Multimodal		Motor Vehicle		Enforcement & Compliance Division ¹		Total Appropriated FTEs		Arizona Highways Magazine		Other			Total Non-Appropriated FTEs
	Highways	Division	Highways	Division	Highways	Division	Highways	Division	Highways	Magazine	Other	Other		FTEs
2012	756.0	87.0	2,262.0	1,075.0	368.0	4,548.0	23.0	1.0	44.0	68.0	4,616.0	68.0	4,616.0	
2011	745.0	52.0	2,267.0	1,111.0	373.0	4,548.0	22.0	2.0	44.0	68.0	4,616.0	68.0	4,616.0	
2010	692.0	46.0	2,153.0	1,657.0		4,548.0	23.0	2.0	43.0	68.0	4,616.0	68.0	4,616.0	
2009	692.0	46.0	2,255.0	1,755.0		4,748.0	28.0	-	24.0	52.0	4,800.0	52.0	4,800.0	
2008	692.0	46.0	2,255.0	1,751.0		4,744.0	28.0	-	24.0	52.0	4,796.0	52.0	4,796.0	
2007	692.0	46.0	2,223.0	1,730.0		4,691.0	60.0	3.0	49.0	112.0	4,803.0	112.0	4,803.0	
2006	692.0	46.0	2,223.0	1,688.0		4,649.0	72.0	3.0	38.0	113.0	4,762.0	113.0	4,762.0	
2005	686.0	48.0	2,227.0	1,665.0		4,626.0	72.0	3.0	31.0	106.0	4,732.0	106.0	4,732.0	
2004	685.0	48.0	2,223.0	1,649.0		4,605.0	72.0	3.0	13.0	88.0	4,693.0	88.0	4,693.0	
2003	705.5	48.0	1,632.0	1,596.0		3,981.5	72.0	3.0	11.0	86.0	4,067.5	86.0	4,067.5	

NOTES ¹ ECD FTE total was included in the Motor Vehicle Division 2003-2010.

Arizona Department of Transportation
 Capital Assets Used in the Operation of Governmental Funds
 Schedule by Function and Activity¹
 June 30, 2012

Function and Activity	Land	Buildings and Improvements	Improvements other than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
Administration	\$ 879,017	\$ 46,059,297	\$ 18,542,694	\$ 14,101,374	\$ -	\$ -	\$ 79,582,382
Highway:							
Administrative and other services	935,955	37,855,484	1,798,104	3,197,531	-	-	43,787,074
Highway construction	2,728,234,208	10,567,194	384,415	3,934,123	12,207,437,415	3,459,047,385	18,409,604,740
Highway development	710,073	105,371	350	2,515,344	-	-	3,331,138
Materials engineering	-	4,908,005	7,077	4,172,948	-	-	9,088,030
Traffic engineering	-	356,896	21,667	1,206,734	-	-	1,585,297
Transportation planning and research	-	152,944	122,946	255,269	-	-	531,159
Highway maintenance	4,907,328	45,260,476	9,395,568	9,590,983	-	-	69,154,355
Motor Vehicle	11,641,168	47,244,102	3,571,783	7,618,666	-	-	70,075,719
Total governmental funds capital assets	\$ 2,747,307,749	\$ 192,509,769	\$ 33,844,604	\$ 46,592,972	\$ 12,207,437,415	\$ 3,459,047,385	\$ 18,686,739,894

NOTE: ¹ This schedule presents only the cost of the capital asset balances related to governmental funds. Accordingly, the cost of the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net 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, 2012

Function and Activity	Governmental Funds Capital Assets July 1, 2011	Additions	Deductions	Governmental Funds Capital Assets June 30, 2012
Administration	\$ 78,976,871	\$ 1,870,731	\$ <1,265,220>	\$ 79,582,382
Highway:				
Administrative and other services	44,296,071	306,899	<815,896>	43,787,074
Highway construction	14,219,171,383	749,738,757	<18,352,785>	14,950,557,355
Highway development	3,232,127	281,566	<182,555>	3,331,138
Materials engineering	8,627,227	497,505	<36,702>	9,088,030
Traffic engineering	1,634,389	31,584	<80,676>	1,585,297
Transportation planning and research	712,753	43,705	<225,299>	531,159
Highway maintenance	67,146,720	2,073,324	<65,689>	69,154,355
Motor Vehicle	69,816,479	1,469,214	<1,209,974>	70,075,719
Functional sub-total	14,493,614,020	756,313,285	<22,234,796>	15,227,692,509
Construction in progress	3,561,984,731	546,779,362	<649,716,708>	3,459,047,385
Total governmental funds capital assets	<u>\$ 18,055,598,751</u>	<u>\$ 1,303,092,647</u>	<u>\$ <671,951,504></u>	<u>\$ 18,686,739,894</u>

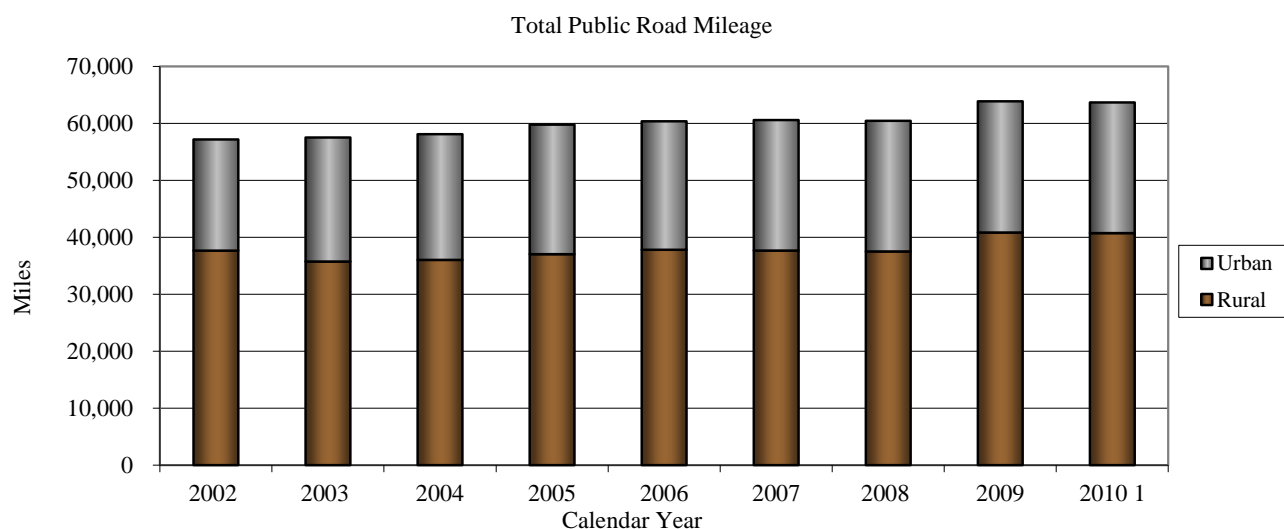
NOTE: ¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in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

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

<u>Functional Classification</u>	2002	2003	2004	2005	2006	2007	2008	2009	2010 ¹
Rural:									
Interstate freeway	996	980	980	981	981	980	980	980	980
Principal arterial	1,187	1,141	1,187	1,167	1,168	1,167	1,167	1,167	1,259
Minor arterial	1,274	1,276	1,343	1,363	1,359	1,357	1,358	1,378	1,276
Major collector	4,473	4,233	4,301	4,332	4,303	4,301	4,302	4,342	4,338
Minor collector	2,289	2,117	2,210	2,188	2,186	2,185	2,191	2,134	1,735
Local	<u>27,450</u>	<u>26,004</u>	<u>26,016</u>	<u>27,015</u>	<u>27,819</u>	<u>27,685</u>	<u>27,525</u>	<u>30,845</u>	<u>31,157</u>
Total rural	<u>37,669</u>	<u>35,751</u>	<u>36,037</u>	<u>37,046</u>	<u>37,816</u>	<u>37,675</u>	<u>37,523</u>	<u>40,846</u>	<u>40,745</u>
Urban:									
Interstate freeway	172	187	188	188	188	188	188	188	188
Urban expressway	153	145	150	156	168	171	176	176	175
Principal arterial	1,000	1,087	1,156	1,400	1,400	1,400	1,399	1,400	1,390
Minor arterial	1,274	1,189	1,279	1,790	1,791	1,792	1,807	1,808	1,752
Urban collector	1,732	2,200	2,161	1,645	1,632	1,632	1,632	1,649	1,631
Local	<u>15,188</u>	<u>16,969</u>	<u>17,142</u>	<u>17,564</u>	<u>17,380</u>	<u>17,735</u>	<u>17,735</u>	<u>17,817</u>	<u>17,806</u>
Total urban	<u>19,519</u>	<u>21,777</u>	<u>22,076</u>	<u>22,743</u>	<u>22,559</u>	<u>22,918</u>	<u>22,937</u>	<u>23,038</u>	<u>22,942</u>
Statewide composite:									
Freeways and expressways	1,321	1,312	1,318	1,325	1,337	1,339	1,344	1,344	1,343
Arterials	4,735	4,693	4,965	5,720	5,718	5,716	5,731	5,753	5,677
Collectors	8,494	8,550	8,672	8,165	8,121	8,118	8,125	8,125	7,704
Locals	<u>42,638</u>	<u>42,973</u>	<u>43,158</u>	<u>44,579</u>	<u>45,199</u>	<u>45,420</u>	<u>45,260</u>	<u>48,662</u>	<u>48,963</u>
Total statewide composite	<u>57,188</u>	<u>57,528</u>	<u>58,113</u>	<u>59,789</u>	<u>60,375</u>	<u>60,593</u>	<u>60,460</u>	<u>63,884</u>	<u>63,687</u>

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

NOTES: 1. 2011 information is not available.



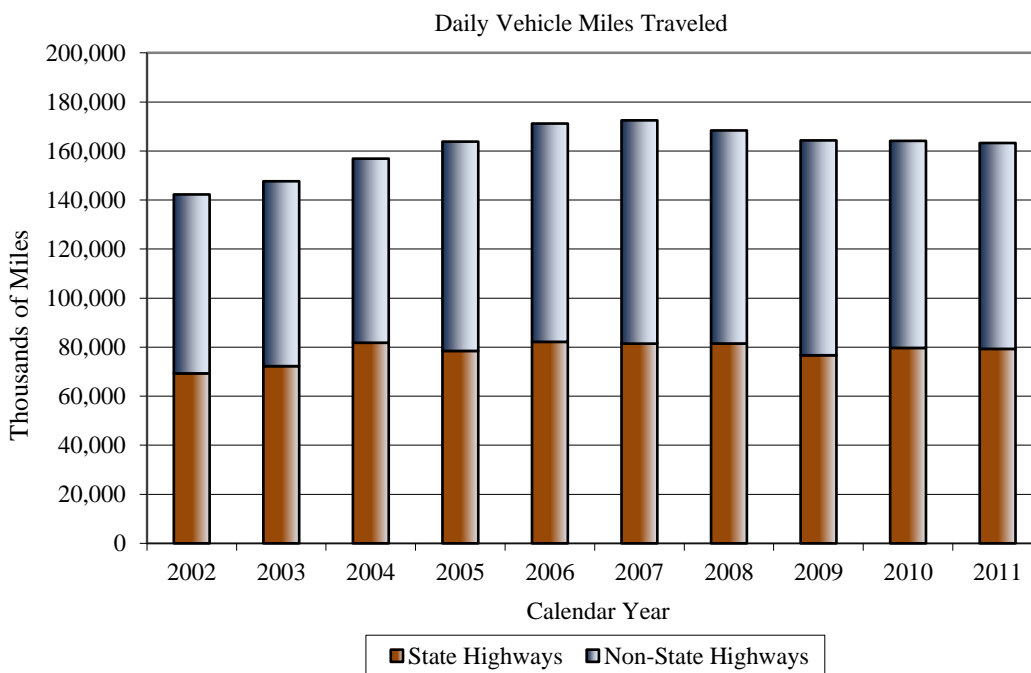
Arizona Department of Transportation
 Daily Vehicle Miles Traveled with Population Data
 for calendar year ended December 31
 (Thousands)

Calendar ¹ Year Ended December 31	Non-State Highways	State Highways	All Public Highways	Arizona ² Population	Daily Miles per capita
2011	83,955	79,312	163,267	6,483	25.2
2010	84,427	79,699	164,126	6,413	25.6
2009	87,608	76,714	164,322	6,588	24.9
2008	86,886	81,496	168,382	6,499	25.9
2007	91,042	81,456	172,498	6,360	27.1
2006	89,016	82,178	171,194	6,191	27.7
2005	85,352	78,473	163,825	5,974	27.4
2004	75,070	81,808	156,878	5,759	27.2
2003	75,396	72,258	147,654	5,591	26.4
2002	72,964	69,311	142,275	5,451	26.1

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

NOTES: ¹ Year 2011 is the latest population information available at the time of publication.

² Years 2002 through 2009 population information has been revised to reflect revisions made by the U.S. Bureau of the Census.



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