

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Arizona Department of Transportation  
For the fiscal year ended June 30, 2014

# **Comprehensive Annual Financial Report**

For the fiscal year ended June 30, 2014

Prepared by Financial Management Services  
State of Arizona Department of Transportation  
206 S. 17<sup>th</sup> Avenue  
Phoenix, Arizona 85007  
**azdot.gov**

Arizona Department of Transportation  
 Comprehensive Annual Financial Report  
 for the fiscal year ended June 30, 2014

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# INTRODUCTORY SECTION

December 18, 2014

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) of the Department for the fiscal year ended June 30, 2014. The CAFR is presented in three sections: Introductory, Financial, and Statistical. The **Introductory Section** includes this Letter of Transmittal, a List of Principal Officials, and the Department's Organization Chart. The **Financial Section** includes the Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements, Notes to the Financial Statements, Required Supplementary Information, as well as Other Supplementary Information. The **Statistical Section** includes additional financial information and transportation data presented on a multi-year comparative basis.

Arizona Revised Statutes, §41-1279.03, require the State Auditor General to "conduct or cause to be conducted at least biennial financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the single audit act of 1984 (P.L. 98-502)." In fulfillment of this requirement, the Department prepared this CAFR, for the fiscal year ended June 30, 2014, and contracted with the independent auditing firm of CliftonLarsonAllen LLP. to audit the financial statements.

The objective of the independent audit is to provide a reasonable assurance that the financial statements are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Department's financial statements for the fiscal year ended June 30, 2014, 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 of the State of Arizona Department of Transportation (Transportation Board) appointed by the governor and confirmed by the state senate. The Transportation Board is responsible for the annual update of the Five-Year Transportation Facilities Construction Program and awards contracts each month for highway projects. The Transportation Board also has authority for the issuance of highway revenue and transportation excise tax bonds, grant anticipation notes (GARVEE bonds), and board funding obligations.

As of June 30, 2014, the Department was organized into five major operating divisions supported by several groups, such as Human Resources, Information Technology and Financial Management Services. The five major operating divisions include: 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.

Overall, the Department employs approximately 4,200 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 2014, Arizona saw modest economic improvements with sluggish growth in employment, personal income and population. The U.S. economy experienced negative GDP growth in the third quarter (first quarter on calendar basis) due mainly to the cold winter that swept across most of the United States that ultimately reduced the commercial truck activity in Arizona and around the nation. According to the July 17, 2014 Arizona Department of Administration's employment report, the Arizona unemployment rate decreased from 8.1 percent in June 2013 to 6.9 percent in June 2014. During this period, the private sector created 45,900 jobs while the government sector lost 3,100 jobs for a net gain of 42,800. The number of jobs gained in FY 2014 was lower than the 49,400 jobs gained in FY 2013.

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Regional Area Road Fund (RARF), also known as the Maricopa County Transportation Excise Tax, posted positive results in fiscal year 2014. In fiscal year 2014, the HURF revenue collections were \$1,241.3 million, 2.6 percent above fiscal year 2013 and 1.4 percent above the forecast. The Regional Area Road Fund revenues equaled \$365.6 million, an increase of 7.0 percent over fiscal year 2013 and 1.0 percent above the estimate. Despite strong year-over-year growth, HURF and RARF revenue sources remain at fiscal year 2005 and fiscal year 2006 revenue levels, respectively.

Arizona's economy is expected to grow over the next two years but at a slower rate than the historical growth prior to the economic boom in 2005 to 2007. On May 1, 2014, the Arizona Department of Administration estimated Arizona non-farm employment will grow by 2.1 and 2.4 percent in calendar years 2014 and 2015, respectively. According to the September 1, 2014 Western Blue Chip report, personal income in Arizona is expected to increase by 4.7 percent in calendar year 2014 and 5.3 percent in calendar year 2015. The population of Arizona is forecasted to grow by 1.5 percent in calendar year 2014 and 1.7 percent in calendar year 2015.

The Department's fiscal year 2015 HURF revenue estimate amounts to \$1,270.6 million, an increase of 2.4 percent over fiscal year 2014. The HURF average compound growth rate for fiscal years 2005 through 2014 was 0.0 percent. The distribution of HURF revenues in fiscal year 2015 is estimated to be as follows: State Highway Fund \$584.6 million; Arizona cities and towns \$366.7 million; Arizona counties \$228.4 million; Department of Public Safety \$89.3 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 \$7.7 million will be re-allocated from the State Highway Fund share of HURF vehicle license tax revenues with \$4.9 million going to the State General Fund and \$2.8 million going to the Department of Public Safety.

The Maricopa County Transportation Excise Tax revenue forecast for fiscal year 2015 totals \$378.4 million, an increase of 3.5 percent over fiscal year 2014. The Maricopa County Transportation Excise Tax average compound growth rate for fiscal years 2005 through 2014 was 1.6 percent. The distribution of the Maricopa County Transportation Excise Tax revenue in fiscal year 2015 is estimated to be as follows: Maricopa County Regional Area Road Fund \$212.7 million for highways, \$39.7 million for arterial streets, and \$126.0 million for the Public Transportation Fund.

**Long-term Financial Planning** The Department has developed a long-range forecasting model for revenues to be deposited in the Highway User Revenue Fund and the Maricopa County Regional Area Road Fund. This econometric modeling approach provides a framework that allows for the complex interaction of economic, demographic, and technological factors which influence revenue collections over the long term. Using this process, the Department updates and publishes its official forecast on an annual basis, after the close of the fiscal year, and uses this data in developing cash-flow projections for the statewide Highway Construction Program and the Regional Transportation Plan (RTP) Freeway Program, two components of the Five-Year Transportation Facilities Construction Program (the 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 2014, the Transportation Board approved a \$4.4 billion statewide Highway Construction Program as part of the Five-Year Transportation Facilities Construction Program for fiscal years 2015 through 2019. 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 \$2.7 billion for system improvements, \$.5 billion for system management, and \$1.2 billion for system preservation.

The Five-Year Transportation Facilities Construction Program includes approximately \$2.2 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 \$4.2 billion. The Department currently has 11 major RTP Freeway Program projects under design and 6 major projects under construction. The Department acquired 4,122 acres of land for the RTP Freeway Program.

As part of the Five-Year Transportation Facilities Construction Program, the Transportation Board also adopted a \$161.2 million (state share) Five-Year Airport Development Program that includes 709 projects at general aviation and air carrier airports located throughout the state.

#### **Other Information**

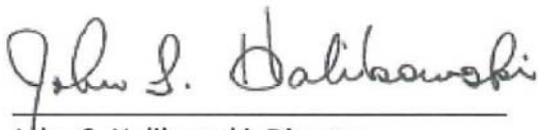
**Single Audit** The Department is required to undergo an annual Single Audit in accordance with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The Department's Single Audit information is included in the Single Audit of the State of Arizona for the fiscal year ended June 30, 2014.

**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, 2013. This accomplishment was the twenty-fourth 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.

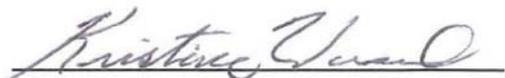
A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**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 2014 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



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Arizona Department  
of Transportation**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

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

**John S. Halikowski**

Director

**John H. Nichols**

Deputy Director  
for Business Operations

**Floyd P. Roehrich, Jr.**

Deputy Director for Policy

**Jennifer A. Toth**

Deputy Director  
for Transportation

**Stacey K. Stanton**

Assistant Director  
Motor Vehicle Division

**Terry W. Conner**

Assistant Director  
Enforcement and Compliance Division

**Scott Omer**

Assistant Director  
Multimodal Planning Division

**Sonya E. Herrera**

Assistant Director  
Administrative Services Division

**Kevin Biesty**

Assistant Director  
Government Relations and Policy Development Office

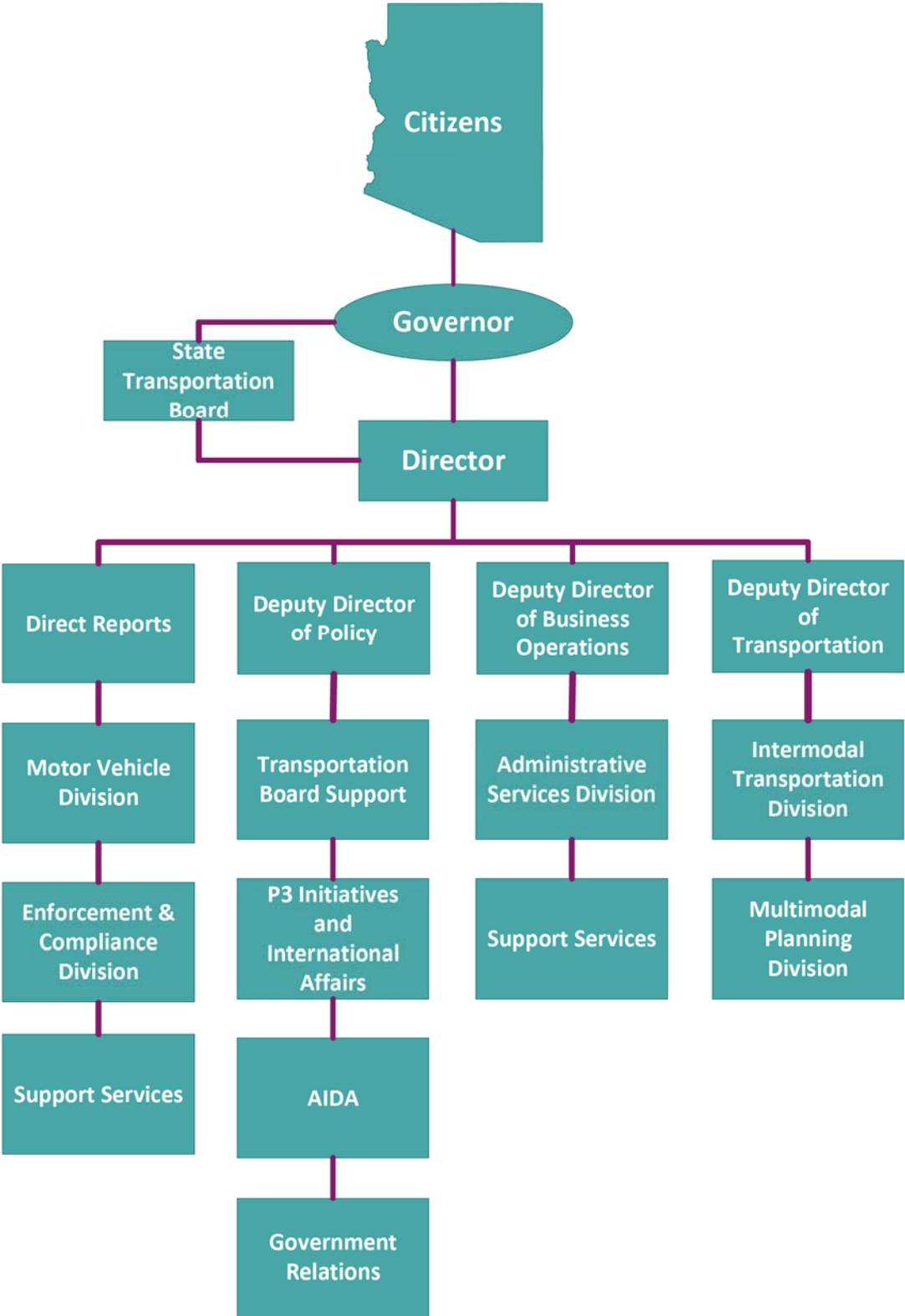
**Kristine Ward**

Assistant Director  
for Finance and Accounting

**Arizona State Transportation Board**

<b>Member</b>	<b>Counties</b>	<b>Term Expires</b>
Stephen W. Christy, Chairman	District 2 (Pima County)	2015
Kelly O. Anderson, Vice Chairman	District 4 (Gila, Graham, and Pinal Counties)	2016
Vacant	District 5 (Apache, Coconino, and Navajo Counties)	2017
Joseph E. La Rue	District 1 (Maricopa County)	2018
Deanna L. Beaver	District 6 (Yavapai, Yuma, Mohave, and LaPaz Counties)	2018
William R. Cuthbertson	District 3 (Cochise, Greenlee, and Santa Cruz Counties)	2019
Jack Sellers	District 1 (Maricopa County)	2020

# State of Arizona Department of Transportation Organization Chart



# FINANCIAL SECTION

## INDEPENDENT AUDITORS' REPORT

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

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation (Department), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, budgetary comparison information on pages 56 and 57, and information about infrastructure assets reported using the modified approach on page 58 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arizona Department of Transportation's basic financial statements. The accompanying supplementary information 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 basic financial statements.

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

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

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated December 18, 2014, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

Phoenix, Arizona  
December 18, 2014

Arizona Department of Transportation  
Management's Discussion and Analysis  
June 30, 2014

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, 2014. 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 position of the Department at the close of the fiscal year is 17.9 billion, compared to \$17.3 billion for fiscal year 2013, an increase of 3.5 percent. Of this amount, \$160.9 million represents the *unrestricted* component and may be used to meet the Department's ongoing obligations to citizens and creditors as compared to \$152.1 million at the end of 2013.
- The Department's capital assets are \$19.7 billion, compared to \$19.3 billion for fiscal year 2013, an increase of 2.1 percent. This increase is attributable to the results of highway construction activity. The Department's *net investment in capital assets* is \$16.8 billion, compared to \$16.3 billion for fiscal year 2013, an increase of 3.1 percent.
- The Department's non-current liabilities are \$3.3 billion, compared to \$3.5 billion in 2013. The Department had \$165.6 million less in bonds outstanding in 2014 than in 2013. During fiscal year 2014, there were no new bonds issued and \$165.6 million in bonds repaid.

### Fund Level:

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of approximately \$1.3 billion, as compared to approximately \$1.3 billion in 2013.
- The total restricted fund balance is \$1.1 billion; the majority of this amount is restricted for capital projects. Inventories of \$6.8 million represent the non-spendable portion of fund balance while \$178.9 million represents the committed fund balance portion.
- The proprietary funds reported net position at year-end of \$80.0 million, as compared to \$79.0 million in 2013.

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

Arizona Department of Transportation  
Management's Discussion and Analysis (continued)  
June 30, 2014

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

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

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

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

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

**Governmental Activities**

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

**Business-type Activities**

Activities for which the Department charges a fee to customers to pay for most or all of the costs of the services it provides are reported as business-type activities. The Department's *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), as amended, reporting:

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

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- 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 from the Department's General Fund (State Highway Fund). The Budgetary Comparison Schedule – General Fund (State Highway Fund) has been provided to demonstrate compliance with this budget and is presented as Required Supplementary Information.

The governmental funds financial statements can be found on pages 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.

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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 30-55 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 56-62 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 63-68 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Department's financial health. The following tables, graphs, and analyses address the net position and changes to net position for the Department as a whole as of and for the fiscal years ended June 30, 2014 and 2013.

The Department's combined net position increased by \$598.6 million over the course of this fiscal year's operations, an increase of 3.5 percent. The net position of the governmental activities increased by \$597.5 million, or 3.5 percent; business-type activities increased by \$1.0 million, an increase of 1.3 percent over the previous year. The overall increase in the Department's net position was due primarily to an increase in the Department's infrastructure.

The following table reflects the condensed Statement of Net Position as of June 30, 2014 and 2013:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current and other assets	\$ 1,553,134,014	\$ 1,651,917,165	\$ 82,297,617	\$ 81,327,320	\$ 1,635,431,631	\$ 1,733,244,485
Capital assets	19,732,480,170	19,263,771,231	23,704	30,227	19,732,503,874	19,263,801,458
Total assets	21,285,614,184	20,915,688,396	82,321,321	81,357,547	21,367,935,505	20,997,045,943
<b>Liabilities</b>						
Other liabilities	257,124,800	284,448,317	2,128,181	2,188,646	259,252,981	286,636,963
Non-current liabilities	3,250,661,052	3,450,945,741	153,055	161,024	3,250,814,107	3,451,106,765
Total liabilities	3,507,785,852	3,735,394,058	2,281,236	2,349,670	3,510,067,088	3,737,743,728
<b>Net position</b>						
Net investment in capital assets	16,812,808,367	16,290,604,770	23,704	30,227	16,812,832,071	16,290,634,997
Restricted	805,892,958	738,968,893	78,226,426	77,564,143	884,119,384	816,533,036
Unrestricted	159,127,007	150,720,675	1,789,955	1,413,507	160,916,962	152,134,182
Total net position	\$ 17,777,828,332	\$ 17,180,294,338	\$ 80,040,085	\$ 79,007,877	\$ 17,857,868,417	\$ 17,259,302,215

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The total assets of the Department were \$21.4 billion, while total liabilities were \$3.5 billion, resulting in a net position balance of \$17.9 billion. The majority of the Department's net position, \$16.8 billion (94.1 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 one new HURF bond in Fiscal Year 2013 and no new bonds were issued in Fiscal year 2014.

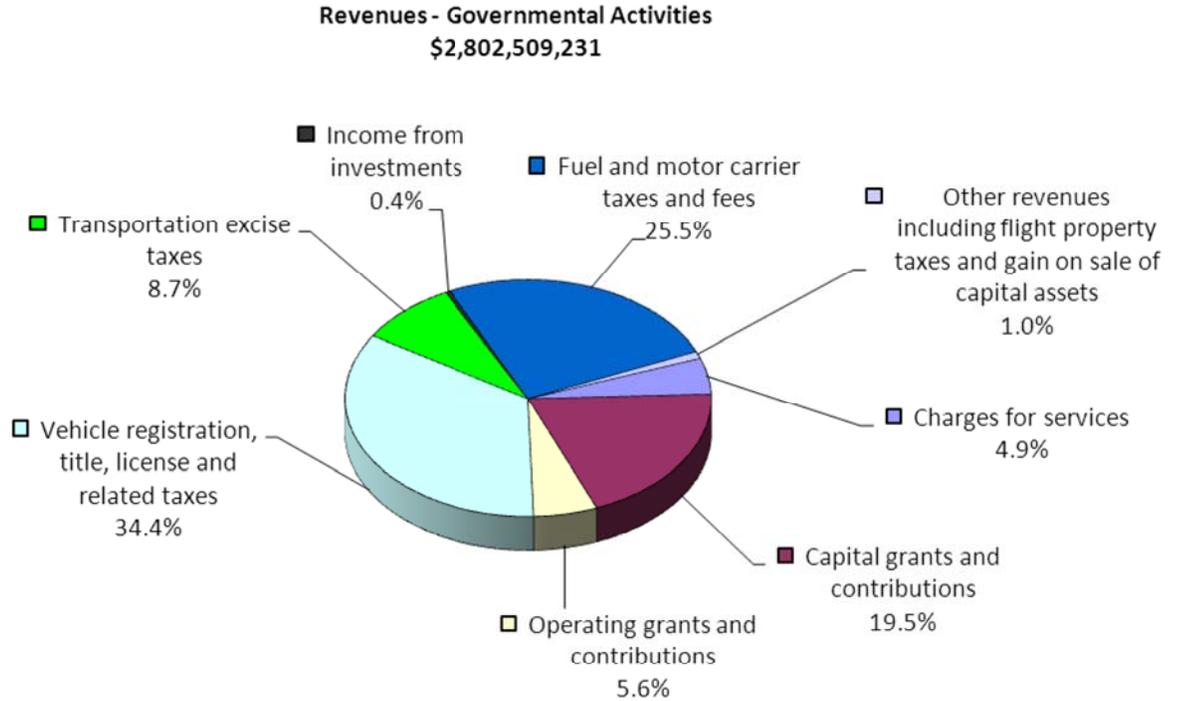
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net position changed during the year, compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 137,724,749	\$ 134,715,560	\$ 5,164,129	\$ 5,193,954	\$ 142,888,878	\$ 139,909,514
Operating grants and contributions	157,704,815	168,435,801	-	-	157,704,815	168,435,801
Capital grants and contributions	546,680,156	651,798,476	-	-	546,680,156	651,798,476
General revenues:						
Transportation excise taxes	243,786,442	227,800,355	-	-	243,786,442	227,800,355
Motor vehicle registration, title, and related taxes	963,221,368	913,326,182	-	-	963,221,368	913,326,182
Fuel and motor carrier taxes and fees	714,852,146	708,052,017	-	-	714,852,146	708,052,017
Flight property taxes	12,974,652	8,084,374	-	-	12,974,652	8,084,374
Income from investments	11,633,977	11,781,298	735,149	746,935	12,369,126	12,528,233
Gain <loss> on sale of capital assets	26,213	120,706	-	-	26,213	120,706
Other	13,904,713	13,290,109	-	-	13,904,713	13,290,109
<b>Total revenues</b>	<b>2,802,509,231</b>	<b>2,837,414,878</b>	<b>5,899,278</b>	<b>5,940,889</b>	<b>2,808,408,509</b>	<b>2,843,355,767</b>
<b>Expenses</b>						
Administration	106,199,775	101,369,817	-	-	106,199,775	101,369,817
Highway	51,073,648	46,076,242	-	-	51,073,648	46,076,242
Highway maintenance	122,977,082	139,761,650	-	-	122,977,082	139,761,650
Motor vehicle	111,397,196	107,654,532	-	-	111,397,196	107,654,532
Non-capital, including asset preservation	312,518,589	257,126,025	-	-	312,518,589	257,126,025
Distributions to other state agencies	216,674,664	213,394,662	-	-	216,674,664	213,394,662
Distributions to Arizona counties and cities	1,065,798,330	1,074,085,950	-	-	1,065,798,330	1,074,085,950
Local governmental assistance	90,375,747	102,332,256	-	-	90,375,747	102,332,256
Issuance costs on long term debt	13,553,975	-	-	-	13,553,975	-
Interest on long-term debt	114,406,231	187,315,278	-	-	114,406,231	187,315,278
Arizona Highways Magazine	-	-	4,821,234	4,637,319	4,821,234	4,637,319
Highway Expansion and Extension Loan Program	-	-	45,836	46,140	45,836	46,140
<b>Total expenses</b>	<b>2,204,975,237</b>	<b>2,229,116,412</b>	<b>4,867,070</b>	<b>4,683,459</b>	<b>2,209,842,307</b>	<b>2,233,799,871</b>
Changes in net position	597,533,994	608,298,466	1,032,208	1,257,430	598,566,202	609,555,896
Net position - July 1	17,180,294,338	16,571,995,872	79,007,877	77,750,447	17,259,302,215	16,649,746,319
<b>Net position - June 30</b>	<b>\$17,777,828,332</b>	<b>\$ 17,180,294,338</b>	<b>\$ 80,040,085</b>	<b>\$ 79,007,877</b>	<b>\$17,857,868,417</b>	<b>\$17,259,302,215</b>

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**Governmental Activities**

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2014:



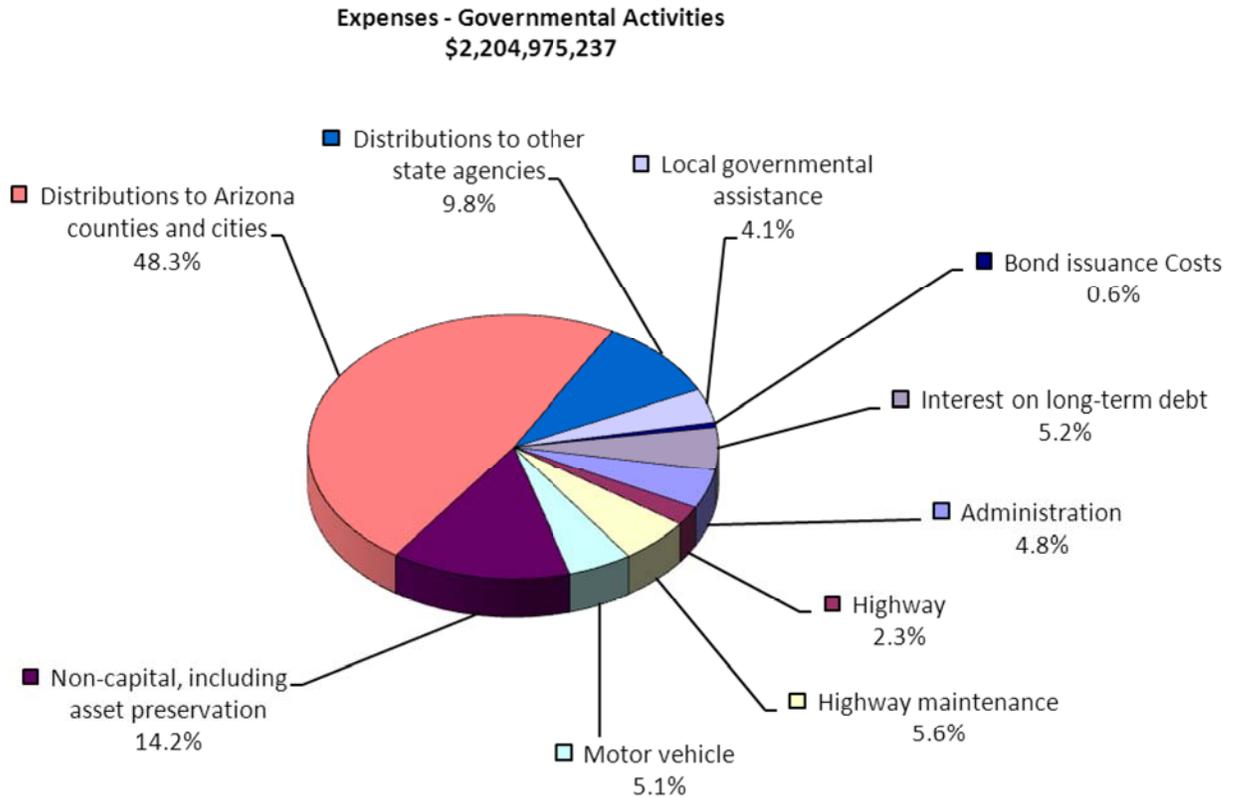
\$2.2 billion (or 79.3 percent) of the Department's revenues are from the following three revenue sources:

- Vehicle registration, title, license, and related taxes comprise the Department's largest revenue source of \$963 million (34.4 percent).
- Fuel and motor carrier taxes and fees represent the Department's second largest revenue source of \$714.9 million (25.5 percent).
- Capital grants and contributions represent the Department's third largest revenue source of \$546.7 million (19.5 percent).

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Regional Area Road Fund (RARF), also known as the Maricopa County Transportation Excise Tax, posted positive year-results in fiscal year 2014. HURF collections totaled approximately \$1,241.3 million, 2.6 percent above fiscal year 2013 and 1.4 percent above the forecast. Maricopa County Transportation Excise Tax collections totaled \$365.6 million, an increase of 7.0 percent over fiscal year 2013 and 1.0 percent above the Department's estimate. The Transportation Excise Tax distribution to the Department was \$243.8 million compared to \$227.8 million for fiscal year 2013.

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The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2014:



\$1.6 billion (or 72.3 percent) of the Department's expenses were for the following:

- Distributions to Arizona counties and cities comprise the Department's largest expense of \$1.1 billion (48.3 percent).
- Non-capital, including asset preservation, represents the Department's second largest expense of \$312.5 million (14.2 percent).
- Distributions to other state agencies represent the Department's third largest expense of \$216.7 million (9.8 percent).

Distributions to Arizona counties and cities increased in fiscal year 2014 as compared to fiscal year 2013 due to an increase in fuel tax and vehicle license tax collections. The distributions to other government entities equals 1.4 Billion (62.2 percent); making up more than half of the expenditures for fiscal year 2014.

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**Business-type Activities**

Net position for business-type activities increased by \$1.0 million in fiscal year 2014. Total revenues were \$5.9 million, with charges for services representing 87.5 percent and income from investments 12.5 percent. The total expenses for business-type activities were \$4.9 million.

The Highway Expansion and Extension Loan Program did not approve or disburse any loans in Fiscal Year 2014. Interest revenue increased this fiscal year due to the fund not issuing any new loans which increased average cash balances during the year.

The *Arizona Highways Magazine* had a decrease in operating revenues of \$24 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 63-66.

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$1.3 billion, a decrease of \$52.14 million over the previous fiscal year. The majority of this amount is restricted for capital projects.

The General Fund (State Highway Fund) is the primary operating fund of the Department. At the end of the current fiscal year, the non-spendable fund balance was \$6.8 million; the restricted fund balance was \$295.4 million; and the committed fund balance was \$129.1 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 2014 were \$386.1 million; Transportation Excise Tax revenue of \$243.8 million (or 63.1 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 \$137.0 million were transferred in from the General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund (\$103.3 million), and Grant Anticipation Notes Fund (\$62.8 million), and were used to pay the debt service.

The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities in the governmental funds. During the fiscal year, the Capital Projects Funds' expenditures were

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\$150.2 million. Capital outlay expenditures of \$134.9 million (89.8 percent) accounted for the majority of the expenditures in the Capital Projects Fund. This expenditure for the acquisition and construction of new highways was converted to capital assets on the government-wide statements.

### Budget Variances

The Department's appropriated operating budget from the General Fund (State Highway Fund) increased by about \$7.2 million from fiscal year 2013 to fiscal year 2014. The increase was primarily due to the increased cost to maintain and operate new lane miles. In fiscal year 2013, the Department spent 98.8% of its budget and in fiscal year 2014 the Department spent 99.0% of its budget. Ultimately, the Department spent about \$7.7 million more in fiscal year 2014 than in fiscal year 2013 from its appropriated operating budget from the General Fund (State Highway Fund). Reference the budgetary comparison schedule on page 56.

### 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, 2014, amounts to \$19.7 billion (net of accumulated depreciation), a \$468.7 million increase over the previous fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,906,121,499	\$ 2,828,031,298	\$ 7,900	\$ 7,900	\$ 2,906,129,399	\$ 2,828,039,198
Infrastructure	13,778,329,207	12,951,193,039	-	-	13,778,329,207	12,951,193,039
Construction in progress	2,843,910,023	3,285,416,977	-	-	2,843,910,023	3,285,416,977
Buildings and improvements	103,775,596	105,853,869	8,838	14,347	103,784,434	105,868,216
Improvements other than buildings	22,306,468	23,394,787	-	-	22,306,468	23,394,787
Machinery and equipment	12,204,261	12,200,738	6,966	7,980	12,211,227	12,208,718
Mobile fleet and aircraft	65,833,116	57,680,523	-	-	65,833,116	57,680,523
Total	<u>\$ 19,732,480,170</u>	<u>\$ 19,263,771,231</u>	<u>\$ 23,704</u>	<u>\$ 30,227</u>	<u>\$ 19,732,503,874</u>	<u>\$ 19,263,801,458</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 6,800 center line miles of roads (21,390 travel lane miles) and 4,787 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 2014.

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 2014, a CRI of 93.8 percent was achieved.

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In addition to many smaller projects, the following major highway construction contracts in excess of \$10 million were started during fiscal year 2014:

Description	Contract Start Date	Contract Amount	Fiscal Year 2014 Construction Expenditures
Capacity additions-major widening at US 93 at Antelope Wash	12/8/2013	\$ 19,395,413	\$ 4,562,333
Capacity additions-major widening on Interstate 10 at Perryville road traffic interchange	11/8/2013	18,797,950	13,001,656
System preservation-reconstruction at US 89 and state route 64, Little Colorado river	10/11/2013	36,669,325	7,103,304
System preservation-reconstruction at Deep Well Ranch road at south Chino Valley limits	2/14/2014	17,357,818	3,528,786
System preservation-restoration/rehab/resurface at Rattlesnake Wash at Junction 93	4/11/2014	11,249,398	1,112,855
Capacity additions-reconstruction on state route 101L at Maryland avenue HOV ramps	9/13/2013	11,725,000	11,696,980
Capacity additions (major bridge rehabilitation) on I-15 Virgin River bridge, structure #1619	1/17/2014	27,182,791	7,463,480

Furthermore, the following major highway construction projects had expenditures in excess of \$15 million in fiscal year 2014. These project expenditures include payments made to construction contractors (as shown below) as well as utility, design, right-of-way, and landscaping costs:

Location Description	Contract Start Date	2014 Project Expenditures
SR202L; Santan to Ellsworth Rd in Maricopa County	2/17/2012	\$ 65,400,261
Traffic Interchange between I-10 and State Route 303L in Maricopa County	9/16/2011	47,281,412
SR303L; Camelback Road to Glendale Avenue in Maricopa County	2/8/2013	30,916,717
Salt River to Baseline Road in Maricopa County	NA	23,527,845
Ruthrauff to Prince Road in Pima County	7/15/2011	22,577,680
I10; Sarival to SR101L in Maricopa County	12/24/2007	18,899,963
US89 to SR 98 in Coconino County	5/9/2013	18,370,855
I10; Perryville Road Traffic Interchange in Maricopa County	11/8/2013	15,384,130

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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, 2014, amount to \$3.3 billion, a decrease of \$200.3 million from the previous fiscal year.

<u>Governmental Activities</u>	2014	2013
Highway revenue bonds	\$ 1,674,800,000	\$ 1,733,285,000
Transportation excise tax revenue bonds	867,375,000	925,975,000
Grant anticipation notes (GARVEE bonds)	247,710,000	296,240,000
Amortized Premium on bonds	323,356,042	350,739,402
Capital leases	29,323,520	22,271,210
Compensated absences	18,231,307	16,618,748
Advances and notes payable	89,865,183	105,816,381
Total governmental activities	<u>3,250,661,052</u>	<u>3,450,945,741</u>
<u>Business-type Activities</u>		
Compensated absences	<u>153,055</u>	<u>161,024</u>
Total business-type activities	<u>153,055</u>	<u>161,024</u>
Total non-current liabilities	<u>\$ 3,250,814,107</u>	<u>\$ 3,451,106,765</u>

The Department has issued revenue bonds in 33 separate issues since 2000. All bonds outstanding as of June 30, 2014, are scheduled to mature on various dates, but none later than July 1, 2038. The bonds are obligations of the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and are not obligations of the State of Arizona.

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. 17<sup>th</sup> Avenue, Phoenix, Arizona, 85007, or by visiting our website at:

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

# BASIC FINANCIAL STATEMENTS

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

**Statement of Fiduciary Net Position** – includes the Statement of Net Position for assets being held for parties outside of the Department.

**Notes to the Financial Statements**

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Statement of Net Position  
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	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Unrestricted cash on deposit with the State Treasurer	\$ 88,926,759	\$ 3,292,491	\$ 92,219,250
Receivables:			
Subscriptions, net of allowance for doubtful accounts	-	80,475	80,475
Taxes and fees	62,116,543	-	62,116,543
Notes and loans	3,772,362	-	3,772,362
Other, net of allowance for doubtful accounts	16,070,809	75,883	16,146,692
Due from U.S. Government for reimbursable costs	80,235,918	-	80,235,918
Internal balances	<35,617>	35,617	-
Inventories	9,954,553	285,815	10,240,368
Other assets/prepaid items	-	300,910	300,910
Restricted cash on deposit with the State Treasurer	1,292,092,686	78,226,426	1,370,319,112
Capital assets not subject to depreciation (Note 5A)	19,528,360,729	7,900	19,528,368,629
Capital assets subject to depreciation, net of accumulated depreciation (Note 5A)	<u>204,119,441</u>	<u>15,804</u>	<u>204,135,245</u>
Total assets	<u>21,285,614,183</u>	<u>82,321,321</u>	<u>21,367,935,504</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	6,862,280	52,698	6,914,978
Accrued payroll and other accrued expenses	4,486,856	35,560	4,522,416
Contracts and retainage payable	113,142,657	-	113,142,657
Due to other state agencies	7,319,814	-	7,319,814
Due to Arizona counties and cities	125,313,192	-	125,313,192
Unearned revenues (Note 5C)	-	2,039,923	2,039,923
Non-current liabilities (Note 5F):			
Due within one year	220,506,329	28,861	220,535,190
Due in more than one year	<u>3,030,154,723</u>	<u>124,194</u>	<u>3,030,278,917</u>
Total liabilities	<u>3,507,785,851</u>	<u>2,281,236</u>	<u>3,510,067,087</u>
<b>Net position</b>			
Net investment in capital assets	16,812,808,367	23,704	16,812,832,071
Restricted:			
Loans and other financial assistance	-	78,226,426	78,226,426
Debt service	2,714	-	2,714
Capital projects	805,890,244	-	805,890,244
Unrestricted	<u>159,127,007</u>	<u>1,789,955</u>	<u>160,916,962</u>
Total net position	<u>\$ 17,777,828,332</u>	<u>\$ 80,040,085</u>	<u>\$ 17,857,868,417</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, 2014

Functions/Programs	Expenses	Program Revenues			Net <Expenses> Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities</b>					
Administration	\$ 106,199,775	\$ 12,400,103	\$ -	\$ 1,879,012	\$ <91,920,660>
Highway	51,073,648	863,980	63,918,720	544,801,144	558,510,196
Highway maintenance	122,977,082	2,418,242	-	-	<120,558,840>
Motor vehicle	111,397,196	122,042,424	-	-	10,645,228
Non-capital, including asset preservation	312,518,589	-	-	-	<312,518,589>
Distributions to other state agencies	216,674,664	-	-	-	<216,674,664>
Distributions to Arizona counties and cities	1,065,798,330	-	-	-	<1,065,798,330>
Local governmental assistance	90,375,747	-	93,786,095	-	3,410,348
Amortization of Issuance costs	13,553,975	-	-	-	<13,553,975>
Interest on long-term debt	114,406,231	-	-	-	<114,406,231>
Total governmental activities	<u>2,204,975,237</u>	<u>137,724,749</u>	<u>157,704,815</u>	<u>546,680,156</u>	<u>&lt;1,362,865,517&gt;</u>
<b>Business-type Activities</b>					
Arizona Highways Magazine	4,821,234	5,164,129	-	-	342,895
Highway Expansion and Extension Loan Program	45,836	-	-	-	<45,836>
Total business-type activities	<u>4,867,070</u>	<u>5,164,129</u>	<u>-</u>	<u>-</u>	<u>297,059</u>
Total	<u>\$ 2,209,842,307</u>	<u>\$ 142,888,878</u>	<u>\$ 157,704,815</u>	<u>\$ 546,680,156</u>	<u>\$ &lt;1,362,568,458&gt;</u>
			Governmental Activities	Business-type Activities	Total
Net <expenses> revenues			\$ <1,362,865,517>	\$ 297,059	\$ <1,362,568,458>
General revenues:					
Transportation excise taxes			243,786,442	-	243,786,442
Motor vehicle registration, title, and related taxes			963,221,368	-	963,221,368
Fuel and motor carrier taxes and fees			714,852,146	-	714,852,146
Flight property taxes			12,974,652	-	12,974,652
Income from investments			11,633,977	735,149	12,369,126
Gain on sale of capital assets			26,213	-	26,213
Other			13,904,713	-	13,904,713
Total general revenues			<u>1,960,399,511</u>	<u>735,149</u>	<u>1,961,134,660</u>
Changes in net position			597,533,994	1,032,208	598,566,202
Net position - July 1			<u>17,180,294,338</u>	<u>79,007,877</u>	<u>17,259,302,215</u>
<b>Net position - June 30</b>			<u><b>\$ 17,777,828,332</b></u>	<u><b>\$ 80,040,085</b></u>	<u><b>\$ 17,857,868,417</b></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, and maintenance of state highways, parts of highways forming state routes, and highways under cooperative agreements with the United States and day-to-day operating expenses.

### **Maricopa Regional Area Road Construction Fund**

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

### **Motor Vehicle Division Clearing Fund**

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

### **Highway User Revenue Fund**

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

### **Debt Service Fund**

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

### **Capital Projects Fund**

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

## 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, 2014

Exhibit 3

	<u>Special Revenue Funds</u>							
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund	Debt Service Funds	Capital Projects Funds	Total Non-Major Governmental Funds (See Exhibit 9)	Total Governmental Funds
<b>Assets</b>								
Unrestricted cash on deposit with the State Treasurer	\$ 44,534,423	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,392,336	\$ 88,926,759
Receivables:								
Interfund (Note 5D)	96,513,018	-	1,314,989	38,843,509	-	-	2,813,759	139,485,275
Taxes and fees	-	-	10,736,247	51,380,296	-	-	-	62,116,543
Notes and loans	1,062,796	-	-	-	-	-	2,709,566	3,772,362
Other (net)	9,729,524	295,115	-	-	-	-	6,046,170	16,070,809
Amounts due from U.S. Government	52,710,615	6,444,604	-	-	-	-	21,080,699	80,235,918
Inventories	6,832,503	-	-	-	-	-	-	6,832,503
Restricted cash on deposit with the State Treasurer	295,360,733	508,463,636	54,581,314	101,132,268	178,720	312,579,926	18,821,009	1,291,117,606
Total assets	<u>\$ 506,743,612</u>	<u>\$ 515,203,355</u>	<u>\$ 66,632,550</u>	<u>\$ 191,356,073</u>	<u>\$ 178,720</u>	<u>\$ 312,579,926</u>	<u>\$ 95,863,539</u>	<u>\$ 1,688,557,775</u>
<b>Liabilities and fund balances</b>								
Liabilities:								
Accounts payable	\$ 3,533,915	\$ -	\$ 1,669,966	\$ -	\$ -	\$ -	\$ 1,000,138	\$ 6,204,019
Accrued payroll and other accrued expenditures	4,024,571	58,235	-	-	-	-	2,800,773	6,883,579
Contracts and retainage payable	65,760,583	23,782,591	-	-	-	-	23,599,483	113,142,657
Interfund payables (Note 5D)	1,707,335	-	41,471,268	96,340,076	-	-	-	139,518,679
Amounts due to:								
Other state agencies	-	-	4,597,606	-	-	-	2,722,208	7,319,814
Arizona counties and cities	-	-	26,763,833	95,015,997	-	-	3,533,362	125,313,192
Surety and rental deposits	409,140	-	258,300	-	-	-	-	667,440
Total liabilities	<u>75,435,544</u>	<u>23,840,826</u>	<u>74,760,973</u>	<u>191,356,073</u>	<u>-</u>	<u>-</u>	<u>33,655,964</u>	<u>399,049,380</u>
Fund balances <deficits>: (Note 5G)								
Unassigned	-	-	<8,128,423>	-	-	-	-	<8,128,423>
Nonspendable	6,832,503	-	-	-	-	-	-	6,832,503
Restricted	295,360,733	484,662,529	-	-	178,720	312,579,926	19,169,696	1,111,951,604
Committed	129,114,832	6,700,000	-	-	-	-	43,037,879	178,852,711
Total fund balances <deficits>	<u>431,308,068</u>	<u>491,362,529</u>	<u>&lt;8,128,423&gt;</u>	<u>-</u>	<u>178,720</u>	<u>312,579,926</u>	<u>62,207,575</u>	<u>1,289,508,395</u>
Total liabilities and fund balances <deficits>	<u>\$ 506,743,612</u>	<u>\$ 515,203,355</u>	<u>\$ 66,632,550</u>	<u>\$ 191,356,073</u>	<u>\$ 178,720</u>	<u>\$ 312,579,926</u>	<u>\$ 95,863,539</u>	<u>\$ 1,688,557,775</u>

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

Arizona Department of Transportation  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Position  
 June 30, 2014

<b>Total fund balances - governmental funds (Exhibit 3)</b>	\$ 1,289,508,395
<p>Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:</p>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note 4 B1).	19,666,033,500
Internal service funds are used by management to charge the costs of equipment rentals to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position (Exhibit 5).	69,441,218
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>&lt;3,247,154,781&gt;</u>
<b>Net position of governmental activities (Exhibit 1)</b>	<u><u>\$ 17,777,828,332</u></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, 2014

	Special Revenue Funds						Total Non-Major Governmental Funds (See Exhibit 10)	Total Governmental Funds
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund		
<b>Revenues</b>								
Transportation excise taxes	\$ -	\$ 243,786,442	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 243,786,442
Vehicle registration, title, license, and related taxes and fees	287,045,595	-	461,584,090	325,908,620	-	-	10,627,979	1,085,166,284
Fuel and motor carrier taxes and fees	308,026,646	-	19,128,899	354,292,251	-	-	33,404,349	714,852,145
Flight property taxes	-	-	-	-	-	-	12,974,652	12,974,652
Reimbursement of construction expenditures - federal aid	337,944,137	134,735,136	-	-	-	-	63,513,077	536,192,350
Other federal grants and reimbursements	63,914,583	-	-	-	-	-	84,987,754	148,902,337
Reimbursements from Arizona counties and cities	8,761,605	601,654	-	-	-	-	9,950,513	19,313,772
Distributions from other state agencies	914,992	-	-	-	-	-	-	914,992
Interest on loans receivable	89,325	-	-	-	-	-	138,418	227,743
Income from investments	2,657,105	4,046,454	-	315,151	868,353	3,312,062	300,608	11,499,733
Grand Canyon National Park Airport	-	-	-	-	-	-	1,170,320	1,170,320
Rental income	4,642,060	1,383,197	-	-	-	-	-	6,025,257
Other	3,162,013	1,579,132	-	5,763,428	-	-	1,454,849	11,959,422
<b>Total revenues</b>	<u>1,017,158,061</u>	<u>386,132,015</u>	<u>480,712,989</u>	<u>686,279,450</u>	<u>868,353</u>	<u>3,312,062</u>	<u>218,522,519</u>	<u>2,792,985,449</u>
<b>Expenditures</b>								
<b>Current:</b>								
Administration	85,214,859	269,467	-	-	65,475	232,221	7,184,226	92,966,248
Highway	36,875,071	945,210	-	-	-	-	90,375,747	128,196,028
Highway maintenance	133,572,358	-	-	-	-	-	-	133,572,358
Motor vehicle	98,251,460	-	1,961,877	4,771,522	-	-	4,568,064	109,552,923
<b>Total current expenditures</b>	<u>353,913,748</u>	<u>1,214,677</u>	<u>1,961,877</u>	<u>4,771,522</u>	<u>65,475</u>	<u>232,221</u>	<u>102,128,037</u>	<u>464,287,557</u>

(continued)

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, 2014

	Special Revenue Funds						Total Non-Major Governmental Funds (See Exhibit 10)	Total Governmental Funds
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund	Debt Service Fund	Capital Projects Fund		
<b>Expenditures (continued)</b>								
Intergovernmental:								
Distributions to other state agencies	\$ 9,204,052	\$ -	\$ 47,840,553	\$ 128,538,896	\$ -	\$ -	\$ 30,898,863	\$ 216,482,364
Distributions to Arizona counties and cities	30,292,165	41,515,502	430,910,559	552,969,032	-	-	10,111,071	1,065,798,329
Debt service:								
Principal	6,183,510	45,080,751	-	-	165,615,000	-	-	216,879,261
Interest	519,850	-	-	-	139,739,218	-	-	140,259,068
Non-capital, including asset preservation	208,495,442	-	-	-	-	15,076,618	-	223,572,060
Capital outlay	254,996,394	173,548,634	-	-	-	134,883,005	-	563,428,033
<b>Total expenditures</b>	<u>863,605,161</u>	<u>261,359,564</u>	<u>480,712,989</u>	<u>686,279,450</u>	<u>305,419,693</u>	<u>150,191,844</u>	<u>143,137,971</u>	<u>2,890,706,672</u>
Excess <deficiency> of revenues over <under> expenditures	<u>153,552,900</u>	<u>124,772,451</u>	<u>-</u>	<u>-</u>	<u>&lt;304,551,340&gt;</u>	<u>&lt;146,879,782&gt;</u>	<u>75,384,548</u>	<u>&lt;97,721,223&gt;</u>
<b>Other financing sources &lt;uses&gt;</b>								
Transfers in	-	-	-	-	303,029,536	-	-	303,029,536
Transfers out for debt service	<136,991,290>	<103,252,009>	-	-	-	-	<62,786,237>	<303,029,536>
Sale of capital assets	900,071	-	-	-	-	-	-	900,071
Insurance recovery	2,327,699	-	-	-	-	-	-	2,327,699
Debt and capital lease issuances	13,235,820	29,130,257	-	-	-	-	-	42,366,077
<b>Total other financing sources &lt;uses&gt;</b>	<u>&lt;120,527,700&gt;</u>	<u>&lt;74,121,752&gt;</u>	<u>-</u>	<u>-</u>	<u>303,029,536</u>	<u>-</u>	<u>&lt;62,786,237&gt;</u>	<u>45,593,847</u>
Net changes in fund balances <deficits>	33,025,200	50,650,699	-	-	<1,521,804>	<146,879,782>	12,598,311	<52,127,374>
Fund balances <deficits> - July 1	398,282,867	440,711,830	<8,128,423>	-	1,700,524	459,459,708	49,609,263	1,341,635,769
<b>Fund balances &lt;deficits&gt; - June 30</b>	<u>\$ 431,308,067</u>	<u>\$ 491,362,529</u>	<u>\$ &lt;8,128,423&gt;</u>	<u>\$ -</u>	<u>\$ 178,720</u>	<u>\$ 312,579,926</u>	<u>\$ 62,207,574</u>	<u>\$ 1,289,508,395</u>

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

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, 2014

<b>Net changes in fund balances - total governmental funds (Exhibit 4)</b>	<b>\$ &lt;52,127,374&gt;</b>
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:	
Capital outlays are reported as expenditures in governmental funds (Note 4 C1).	460,604,641
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net position. Governmental funds report the effect of 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).	<29,130,257>
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position (Note 4 C2).	242,732,098
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).	7,953,298
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>&lt;32,498,412&gt;</u>
<b>Changes in net position of governmental activities (Exhibit 2)</b>	<b><u>\$ 597,533,994</u></b>

*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 Position  
Proprietary Funds  
June 30, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	
<b>Assets</b>				
Current assets:				
Unrestricted cash on deposit with the State Treasurer	\$ -	\$ 3,292,491	\$ 3,292,491	\$ -
Receivables:				
Interfund (Note 5D)	-	33,405	33,405	-
Subscriptions, net of allowance for doubtful account	-	80,475	80,475	-
Other, net allowance for doubtful accounts	-	75,883	75,883	-
Inventories	-	285,815	285,815	3,122,050
Prepaid items	-	300,910	300,910	-
Restricted cash on deposit with the State Treasurer	78,226,426	-	78,226,426	975,079
Total current assets	<u>78,226,426</u>	<u>4,068,979</u>	<u>82,295,405</u>	<u>4,097,129</u>
Non-current assets:				
Capital assets not subject to depreciation	-	7,900	7,900	-
Capital assets subject to depreciation, net of accumulated depreciation	-	15,804	15,804	66,446,670
Total non-current assets	<u>-</u>	<u>23,704</u>	<u>23,704</u>	<u>66,446,670</u>
Total assets	<u>78,226,426</u>	<u>4,092,683</u>	<u>82,319,109</u>	<u>70,543,799</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	-	52,698	52,698	<9,179>
Accrued payroll and other accrued expenses	-	35,560	35,560	312,843
Unearned revenues (Note 5C)	-	2,039,923	2,039,923	-
Compensated absences	-	153,055	153,055	559,276
Total current liabilities	<u>-</u>	<u>2,281,236</u>	<u>2,281,236</u>	<u>862,940</u>
Non-current liabilities:				
Compensated absences	-	-	-	239,641
Total non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>239,641</u>
Total liabilities	<u>-</u>	<u>2,281,236</u>	<u>2,281,236</u>	<u>1,102,581</u>
<b>Net position</b>				
Net investment in capital assets	-	23,704	23,704	66,446,670
Restricted for loans and other financial assistance	78,226,426	-	78,226,426	-
Unrestricted	-	1,787,743	1,787,743	2,994,548
Total net position	<u>\$ 78,226,426</u>	<u>\$ 1,811,447</u>	<u>80,037,873</u>	<u>\$ 69,441,218</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>2,212</u>	
			<u>\$ 80,040,085</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 Position  
Proprietary Funds  
for the fiscal year ended June 30, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	
<b>Operating revenues</b>				
Sales and charges for services (net of write off \$18,267)	\$ -	\$ 4,507,285	\$ 4,507,285	\$ 27,325,866
Other	-	656,844	656,844	54,447
Total operating revenues	<u>-</u>	<u>5,164,129</u>	<u>5,164,129</u>	<u>27,380,313</u>
<b>Operating expenses</b>				
Publication and promotional cost	-	1,811,037	1,811,037	-
Repair and maintenance	-	1,847	1,847	2,086,955
Fuel and lubricants	-	-	-	11,749,039
Salaries and related benefits	-	1,563,204	1,563,204	13,389,076
Shipping and postage	-	677,369	677,369	-
Supplies	-	9,891	9,891	112,532
Equipment purchase and rental	-	13,510	13,510	122,368
Professional and outside services	-	617,745	617,745	199,564
Travel	-	6,388	6,388	79,711
Depreciation	-	6,523	6,523	10,080,179
Other	-	77,551	77,551	658,314
Total operating expenses	<u>-</u>	<u>4,785,065</u>	<u>4,785,065</u>	<u>38,477,738</u>
Operating income <loss>	<u>-</u>	<u>379,064</u>	<u>379,064</u>	<u>&lt;11,097,425&gt;</u>
<b>Non-operating revenues &lt;expenses&gt;</b>				
Income from investments	708,119	27,030	735,149	6,118
Investment expense	<45,836>	<1,769>	<47,605>	<442>
Gain <loss> on sale/disposal of capital assets	-	-	-	26,213
Insurance recoveries	-	-	-	90,543
Distributions to other state agencies	-	<34,400>	<34,400>	<192,300>
Total non-operating revenues <expenses>	<u>662,283</u>	<u>&lt;9,139&gt;</u>	<u>653,144</u>	<u>&lt;69,868&gt;</u>
Capital contributions	-	-	-	19,120,591
Changes in net position	662,283	369,925	1,032,208	7,953,298
Total net position - July 1	77,564,143	1,441,522		61,487,920
<b>Total net position - June 30</b>	<u>\$ 78,226,426</u>	<u>\$ 1,811,447</u>		<u>\$ 69,441,218</u>
Changes in net position of business-type activities			<u>\$ 1,032,208</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, 2014

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Program Fund	Arizona Highways Magazine Fund	Total	
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ -	\$ 4,485,604	\$ 4,485,604	\$ 16,116,425
Receipts from other agencies, Arizona counties, and cities	-	-	-	11,229,783
Payments to suppliers	-	<3,133,565>	<3,133,565>	<14,365,738>
Payments to employees	-	<1,564,923>	<1,564,923>	<13,338,754>
Other receipts <payments>	-	656,844	656,844	54,447
Net cash provided <used> by operating activities	-	443,960	443,960	<303,837>
<b>Cash flows from non-capital financing activities:</b>				
Transfer from other funds	-	-	-	-
Distribution to other state agencies	-	<34,400>	<34,400>	<192,300>
Net cash provided <used> by capital and related financing activities	-	<34,400>	<34,400>	<192,300>
<b>Cash flows from capital and related financing activities</b>				
Proceeds from sale of capital assets	-	-	-	968,293
Acquisition of capital assets	-	-	-	<5,966>
Insurance recoveries	-	-	-	90,543
Net cash provided <used> by capital and related financing activities	-	-	-	1,052,870
<b>Cash flows from investing activities</b>				
Income from investments	708,119	27,030	735,149	6,118
Investment expense	<45,836>	<1,769>	<47,605>	<442>
Net cash provided <used> by investing activities	662,283	25,261	687,544	5,676
Net increase <decrease> in cash	662,283	434,821	1,097,104	562,409
Cash - July 1	77,564,143	2,857,670	80,421,813	412,670
<b>Cash - June 30</b>	<b>\$ 78,226,426</b>	<b>\$ 3,292,491</b>	<b>\$ 81,518,917</b>	<b>\$ 975,079</b>
<b>Reconciliation of operating &lt;loss&gt; income to net cash provided &lt;used&gt; by operating activities</b>				
Operating <loss> income	\$ -	\$ 379,064	\$ 379,064	\$ <11,097,425>
Adjustment to reconcile operating <loss> income to net cash provided by operating activities:				
Depreciation	-	6,523	6,523	10,080,179
Net changes in assets and liabilities:				
Receivables	-	21,589	21,589	20,342
Inventories	-	61,755	61,755	567,171
Prepaid items	-	43,463	43,463	-
Accounts payable	-	<23,445>	<23,445>	<4,137>
Accrued payroll and other accrued expenses	-	6,250	6,250	62,704
Unearned revenues	-	<43,270>	<43,270>	-
Compensated absences	-	<7,969>	<7,969>	67,329
Net cash provided <used> by operating activities	\$ -	\$ 443,960	\$ 443,960	\$ <303,837>
<b>Non-cash capital and financing activities</b>				
Certain vehicles were contributed to the Equipment Revolving Fund by the General Fund totaling				\$ 19,120,591

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

# FIDUCIARY FUNDS FINANCIAL STATEMENT

## **AGENCY FUNDS**

### **Highway Properties - Privilege Tax Fund**

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

### **Highway Properties - 24 Percent Fund**

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

Arizona Department of Transportation  
Statement of Net Position  
Agency Funds  
June 30, 2014

**ASSETS**

Restricted cash on deposit with the State Treasurer	\$ 464,306
Due from Department of Revenue	<u>12</u>
Total assets	<u>\$ 464,318</u>

**LIABILITIES**

Due to Department of Revenue	\$ 567
Due to Arizona counties	<u>463,751</u>
Total liabilities	<u>\$ 464,318</u>

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

# Notes to the Financial Statements

Arizona Department of Transportation  
Index – Notes to the Financial Statements  
June 30, 2014

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Notes to the Financial Statements (continued)  
June 30, 2014

**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 Position 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 Position** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

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

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

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

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

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.

For the year ended June 30, 2014, the Department implemented the provisions through GASB Statement No. 66, updating the June 30, 2011, *Codification of Governmental Accounting and Financial Reporting Standards*. See note 4A.

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

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

the construction of new freeways and other routes, improvements to existing freeways and other routes, and improvements to the arterial street system, which are included in the Maricopa County Regional Transportation Plan.

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

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

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

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

The Department reports the following major proprietary 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

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

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.

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

Deposits and Investments

The Department's cash includes petty cash and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements, obligations of the U.S. Government, or other permitted investments. All investments are carried at fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, classification because they are included in the state's investment pool.

The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with Arizona Revised Statutes, §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2014, 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 5.76 years while for investment pool 3 it was 4.46 years, and for investment pool 4 it was 6.61 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.

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

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 eight years old, and 17% of balances from one to seven years old. The subscriptions receivable allowance for doubtful accounts is the portion of any receivable greater than 90 days that has been recognized as revenue. The remainder of the subscriptions receivable that has not been recognized is still unearned.

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 for the same purpose as listed above. The debt service fund is used to report the resources set aside for payment of future debt service. Bond proceeds are deposited in the capital projects fund and are restricted for acquisitions of right-of-way and construction of federal, state, and local highways.

#### Capital Assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, 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.

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Outlays for capital assets are capitalized at the time of the purchase or, in the case of infrastructure, at the time of final acceptance by the Department from the contractor. Asset preservation costs are expensed as incurred.

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

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 Position. The Department's infrastructure assets consist of roads and bridges and are presented using the modified approach and, therefore, are not depreciated.

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

#### Unearned Revenues

In the government-wide statements and proprietary fund financial statements, unearned revenues are recorded when cash, receivables, or other assets are received prior to revenue being recognized. In the governmental funds, amounts are reported as unearned revenues until they are available to liquidate liabilities of the current period. 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 unearned 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

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

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.

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 Position.

#### Long-term Obligations

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

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

#### Net Position/Fund Balance

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

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

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

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

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

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

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

**Unassigned fund balance** - 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 Arizona State Legislature where the legislative appropriations are determined, identifying the uses of funds for specific purposes. The Arizona State Legislature also grants authority to other Boards and Commissions to authorize fund uses.

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

**E. Revenues and Expenditures/Expenses**

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

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

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

Revenues and expenses of proprietary funds are classified as operating and 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).

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

Interfund Balances

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

**G. Use of Estimates**

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

**2. FUNDS BY CLASSIFICATION**

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

**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

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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.

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

##### **A. New Accounting Pronouncements**

###### *Statement No. 65 Items Previously Reported as Assets and Liabilities*

The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures or inflows of resources (revenues)). The provisions of GASB 65 are required to be applied retroactively. Therefore, net assets as of June 30, 2013 would have been re-stated, however, the Department's adoption of GASB 65 was not material to the financial statements for the governmental activities.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Department has implemented this Statement as appropriate. As such \$13.5 million in previously amortized costs were expensed in the current year.

###### *Statement No. 66 Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*

The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Department has implemented this Statement as appropriate. There was no impact to the Department.

###### *Statement No. 68 Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY15) and will require the Department to record a new liability representing the "proportionate share" of the

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collective net pension liability. This is anticipated to have an impact to the financial statements of the Department in future years.

*Statement No. 70 Financial Reporting for Non-Exchange Financial Guarantees*

The objective of this Statement is to improve financial reporting for non-exchange financial guarantees issued to other governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 (fiscal year 2014). 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 Position**

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

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

Capital assets not subject to depreciation	\$ 19,528,360,729
Capital assets subject to depreciation	<u>204,119,441</u>
	19,732,480,170
Less Internal Service Fund (Equipment Revolving Fund) assets	<u>&lt;66,446,670&gt;</u>
	<u>\$ 19,666,033,500</u>

2. 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	\$ <3,113,241,042>
Capital leases	<29,323,520>
Compensated absences	<17,432,390>
Intergovernmental advances	<89,865,183>
Business activity share of Equipment Revolving Fund gain/<loss>	<u>2,707,354</u>
	<u>\$ &lt;3,247,154,781&gt;</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 position of governmental activities as reported on the government-wide Statement of Activities. The following explanations are necessary to clarify these differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

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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	\$ 563,428,033
Reduction from reclassification of non-capital and asset preservation	<71,981,634>
Increase in Infrastructure resulting from selected projects, previously Identified not to be Infrastructure, being classified as Infrastructure	6,352
Change in net capital assets – Internal Service Fund (Equipment Revolving)	<8,104,298>
Assets removed from service, net of accumulated depreciation	<5,045,408>
Other	645,892
Less depreciation expense – governmental funds	<8,264,117>
Less depreciation expense – Internal Service Fund (Equipment Revolving)	<u>&lt;10,080,179&gt;</u>
	<u>\$ 460,604,641</u>

2. The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Also, the government reports the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The details of this difference are as follows:

Debt issued or incurred:	
Advances and notes payable	<u>\$ &lt;29,129,553&gt;</u>
Principal repayments:	
Highway Revenue Bonds	\$ 58,485,000
Transportation Excise Tax Revenue Bonds	58,600,000
Grant Anticipation Notes (GARVEE bonds)	48,530,000
Amortization of premium and discount	27,383,360
Amortization of bond issuance costs	<1,530,523>
Repayment of advances and notes payable	45,080,751
Repayment of capital leases	<u>6,183,510</u>
	<u>\$ 242,732,098</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 position	<u>\$ 7,953,298</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:

Adjustment for Unearned Revenues	\$ <4,156,137>
Compensated Absences	<1,552,481>
Assumption of Lease from Equipment Services fund by Highway fund	<u>&lt;13,235,820&gt;</u>
	<18,944,438>
Implementation of GASB 65	<u>&lt;13,553,974&gt;</u>
	<u>\$ &lt;32,498,412&gt;</u>

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**5. DETAILED NOTES ON ALL FUNDS**

**A. Capital Assets**

Capital assets activity for the year ended June 30, 2014, was as follows:

Governmental Activities	July 1, 2013 Beginning Balance	Increases	Decreases Including Transfers	June 30, 2014 Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,828,031,298	\$ 81,390,426	\$ <3,300,225>	\$ 2,906,121,499
Infrastructure	12,951,193,039	827,734,586	<598,418>	13,778,329,207
Construction in progress	<u>3,285,416,977</u>	<u>461,509,447</u>	<u>&lt;903,016,401&gt;</u>	<u>2,843,910,023</u>
Total capital assets, not being depreciated	<u>19,064,641,314</u>	<u>1,370,634,459</u>	<u>&lt;906,915,044&gt;</u>	<u>19,528,360,729</u>
Capital assets, being depreciated:				
Buildings and improvements	193,716,284	2,046,649	-	195,762,933
Improvements other than buildings	33,875,531	33,470	-	33,909,001
Machinery and equipment	49,102,959	3,425,394	<2,614,123>	49,914,230
Mobile fleet and aircraft	<u>159,801,758</u>	<u>18,341,218</u>	<u>&lt;8,068,181&gt;</u>	<u>170,074,795</u>
Total capital assets, being depreciated	<u>436,496,532</u>	<u>23,846,731</u>	<u>&lt;10,682,304&gt;</u>	<u>449,660,959</u>
Less accumulated depreciation for:				
Buildings and improvements	<87,862,415>	<4,124,922>	-	<91,987,337>
Improvements other than buildings	<10,480,744>	<1,121,789>	-	<11,602,533>
Machinery and equipment	<36,902,221>	<3,740,460>	2,932,712	<37,709,969>
Mobile fleet and aircraft	<u>&lt;102,121,235&gt;</u>	<u>&lt;9,357,125&gt;</u>	<u>7,236,681</u>	<u>&lt;104,241,679&gt;</u>
Total accumulated depreciation	<u>&lt;237,366,615&gt;</u>	<u>&lt;18,344,296&gt;</u>	<u>10,169,393</u>	<u>&lt;245,541,518&gt;</u>
Total capital assets, being depreciated, net	<u>199,129,917</u>	<u>5,502,435</u>	<u>&lt;512,911&gt;</u>	<u>204,119,441</u>
Governmental activities capital assets, net	<u>\$ 19,263,771,231</u>	<u>\$ 1,376,136,894</u>	<u>\$ &lt;907,427,955&gt;</u>	<u>\$ 19,732,480,170</u>
Business-type Activities	July 1, 2013 Beginning Balance	Increases	Decreases	June 30, 2014 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>43,663</u>	<u>-</u>	<u>-</u>	<u>43,663</u>
Total capital assets, being depreciated	<u>1,024,820</u>	<u>-</u>	<u>-</u>	<u>1,024,820</u>
Less accumulated depreciation for:				
Buildings and improvements	<966,810>	<5,509>	-	<972,319>
Machinery and equipment	<u>&lt;35,683&gt;</u>	<u>&lt;1,014&gt;</u>	<u>-</u>	<u>&lt;36,697&gt;</u>
Total accumulated depreciation	<u>&lt;1,002,493&gt;</u>	<u>&lt;6,523&gt;</u>	<u>-</u>	<u>&lt;1,009,016&gt;</u>
Total capital assets, being depreciated, net	<u>22,327</u>	<u>&lt;6,523&gt;</u>	<u>-</u>	<u>15,804</u>
Business-type activities capital assets, net	<u>\$ 30,227</u>	<u>\$ &lt;6,523&gt;</u>	<u>\$ -</u>	<u>\$ 23,704</u>

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Notes to the Financial Statements (continued)  
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Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	\$ 2,734,108
Highway	2,080,292
Highway Maintenance	1,906,764
Motor Vehicle	<u>1,542,953</u>
	\$ 8,264,117
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets	
	<u>10,080,179</u>
Total depreciation expense – governmental activities	<u>\$ 18,344,296</u>
Business-type Activities:	
Arizona Highways Magazine Fund	<u>\$ 6,523</u>

**B. Construction Commitments**

The Department's outstanding commitments for contracts at June 30, 2014, were \$632,171,076.

	Expenditures To Date	Remaining Commitment
Construction Contracts:		
Rural roadways	\$ 366,707,381	\$ 167,821,409
Small urban roadways	72,543,050	20,655,949
Urban roadways	127,472,498	51,015,432
Large urban roadways	156,870,238	123,206,561
General roadways	<u>109,946,271</u>	<u>64,613,618</u>
	833,539,438	427,312,969
Design Contracts	346,305,147	89,679,445
Other Commitments	<u>347,786,928</u>	<u>115,178,662</u>
	<u>\$ 1,527,631,513</u>	<u>\$ 632,171,076</u>

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

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

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**C. Unearned Revenues**

The proprietary fund includes the amount for unearned subscriptions. The following schedule is a summary of the amounts outstanding as of June 30, 2014.

Proprietary funds:	
Arizona Highways Magazine Fund	<u>\$ 2,039,923</u>

**D. Interfund Receivables, Payables, Advances, and Transfers**

The balances of current interfund receivables and payables as of June 30, 2014, were:

Receivables	Payables	Amount
Governmental Activities:		
General Fund (State Highway Fund)	Highway User Revenue Fund	\$ 96,340,077
	Motor Vehicle Division Clearing Fund	172,941
Highway User Revenue Fund	Motor Vehicle Division Clearing Fund	38,451,163
	General Fund (State Highway Fund)	392,346
Motor Vehicle Division Clearing Fund	General Fund (State Highway Fund)	1,314,989
Non-Major Governmental Funds	Motor Vehicle Division Clearing Fund	<u>2,813,759</u>
		\$ 139,485,275
Business-type Activities:		
Arizona Highways Magazine	Motor Vehicle Division Clearing Fund	<u>33,405</u>
		<u>\$ 139,518,680</u>

The General Fund (State Highway Fund) receivable of \$96,340,077 is an accrual for fuel taxes imposed in fiscal year 2014 from the Highway User Revenue Fund that will be collected in fiscal year 2015.

The Highway User Revenue Fund receivable of \$38,451,163 is an accrual for vehicle license taxes due in fiscal year 2014 from the Motor Vehicle Division Clearing Fund that will be collected in fiscal year 2015.

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Interfund Transfers Out:	Interfund Transfers In:
General Fund (State Highway Fund)	\$ 136,991,290
Maricopa Regional Area Road Construction Fund	103,252,009
Non-Major Governmental Funds	<u>62,786,237</u>
Total Debt Service Fund	<u>\$ 303,029,536</u>

The General Fund (State Highway Fund) (\$136,991,290), the Maricopa Regional Area Road Construction Fund (\$103,252,009), and Non-Major Governmental Funds - Grant Anticipation Notes Fund (\$62,786,237) made transfers to the Debt Service Fund to pay bond debt service.

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**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, 2014, approximated \$3.5 million.

During fiscal year 2014 the Department entered into rental agreements for four facilities, on which Motor Vehicle Division offices are housed, as well as one for the Executive Hearing Office. Additionally, agreements initiated in prior years, for office space in East Phoenix and a lab in Gilbert, remain in force.

Future commitments on operating leases are as follows:

<u>Description</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Payson MVD	\$ 28,056	\$ 28,056	\$ 28,056	\$ 9,352	\$ -
North Tucson MVD	34,472	34,472	34,472	34,472	-
Show Low MVD	63,888	63,888	63,888	63,888	42,592
South Mesa MVD	17,616	17,616	17,616	17,616	15,532
Phoenix EHO	550,236	806,744	830,225	853,699	877,177
Phoenix, E. Washington Street	535,510	-	-	-	-
Gilbert Laboratory	126,000	126,000	126,000	94,500	-
	<u>\$ 1,355,778</u>	<u>\$ 1,076,776</u>	<u>\$ 1,100,257</u>	<u>\$ 1,073,527</u>	<u>\$ 935,301</u>

Capital Leases

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

	<u>Governmental Activities</u>
Machinery and equipment	\$ 40,606,812
Less accumulated depreciation	<u>&lt;7,018,860&gt;</u>
Total	<u>\$ 33,587,952</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

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<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2015	\$ 8,581,290
2016	8,530,651
2017	6,699,204
2018	4,845,375
2019	<u>1,877,927</u>
Total minimum lease payments	30,534,447
Less amount representing interest	<u>&lt;1,210,927&gt;</u>
Present value of minimum lease payments	<u>\$ 29,323,520</u>

Capital outlay on Exhibit 4 includes \$13.2 million of capital leases.

**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 balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1,733,285,000. During the year, no new Highway Revenue Bonds 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, and (iii) pay costs of issuing the bonds.

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

Highway Revenue Bonds currently outstanding are as follows:

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**OUTSTANDING HIGHWAY REVENUE BONDS**  
As of June 30, 2014

Maturity (7/1)	Series 2004B		Series 2005A		Series 2005B		Series 2006		Series 2008A	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2014	\$5,715,000	5.000%	10,415,000	5.000%	\$290,000	4.000%	\$3,000,000	4.125%		
2014					\$6,365,000	5.000%	\$8,500,000	5.000%		
2015			10,935,000	5.000%	740,000	4.000%	3,000,000	4.250%		
2015					6,245,000	5.000%	13,685,000	5.000%		
2016			11,490,000	5.000%	7,325,000	5.000%	940,000	4.250%		
2016							16,550,000	5.000%		
2017							18,350,000	5.000%		
2018										
2018										
2018										
2019										
2019										
2020										
2020										
2021										
2021										
2022										
2023									\$6,265,000	4.125%
2023									\$7,440,000	5.000%
2024									14,335,000	5.000%
2025									15,050,000	5.000%
2026									15,805,000	5.000%
2027									16,595,000	5.000%
2028									1,550,000	4.375%
2028									15,875,000	5.000%
2029									18,285,000	5.000%
2029										
2030									19,200,000	5.000%
2030										
2031									20,160,000	5.000%
2032									21,165,000	5.000%
2032										
2033									22,225,000	5.000%
2033										
2034										
2035										
2036										
2037										
2038										
<b>Totals</b>	<u>\$5,715,000</u>		<u>\$32,840,000</u>		<u>\$20,965,000</u>		<u>\$64,025,000</u>		<u>\$193,950,000</u>	

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**OUTSTANDING HIGHWAY REVENUE BONDS**  
As of June 30, 2014 (continued)

Maturity (7/1)	Series 2008B		Series 2011A		Series 2011B		Series 2013A		Series 2013B	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2014			\$2,000,000	3.000%	\$9,425,000	1.299%			\$435,000	0.499%
2014			\$12,340,000	5.000%						
2015			1,000,000	3.000%	9,545,000	1.647%			6,440,000	0.600%
2015			9,380,000	5.000%						
2016			145,000	3.000%	9,700,000	1.997%			13,480,000	0.944%
2016			10,740,000	5.000%						
2017			36,390,000	5.000%	9,895,000	2.492%			8,405,000	1.194%
2018			270,000	3.000%	10,140,000	2.842%			27,760,000	1.631%
2018			10,475,000	4.000%						
2018			27,480,000	5.000%						
2019			600,000	4.000%	10,435,000	3.024%			28,245,000	1.831%
2019			39,390,000	5.000%						
2020			200,000	4.000%			\$7,000,000	3.500%	27,940,000	2.179%
2020			33,315,000	5.000%			\$13,050,000	5.000%		
2021			200,000	4.000%			36,020,000	5.000%		
2021			48,465,000	5.000%						
2022			53,210,000	5.000%			35,710,000	5.000%		
2023	\$1,600,000	4.125%	13,475,000	5.000%			53,430,000	5.000%		
2023	\$11,155,000	5.000%								
2024	13,380,000	5.000%	30,170,000	5.000%			40,080,000	5.000%		
2025	14,050,000	5.000%	30,885,000	5.000%			32,880,000	5.000%		
2026	14,750,000	5.000%	7,000,000	5.250%			49,950,000	5.000%		
2027	15,490,000	5.000%	7,370,000	5.000%			44,840,000	5.000%		
2028	16,265,000	5.000%	7,740,000	5.000%			14,500,000	4.000%		
2028							32,580,000	5.000%		
2029	17,075,000	5.000%	8,125,000	5.250%			2,100,000	4.000%		
2029							47,200,000	5.000%		
2030	17,930,000	5.000%	8,550,000	5.250%			20,000,000	4.000%		
2030							31,740,000	5.000%		
2031	18,830,000	5.000%	9,000,000	5.250%			14,835,000	5.000%		
2032	19,770,000	5.000%	4,220,000	4.000%			15,580,000	5.000%		
2032			5,250,000	5.250%						
2033	400,000	4.500%	9,915,000	5.000%			16,360,000	5.000%		
2033	20,355,000	5.000%								
2034			10,415,000	5.000%			17,175,000	5.000%		
2035			10,935,000	5.000%			18,035,000	5.000%		
2036			11,480,000	5.000%			18,935,000	5.000%		
2037							19,885,000	5.000%		
2038							20,880,000	5.000%		
<b>Totals</b>	<b>\$181,050,000</b>		<b>\$460,130,000</b>		<b>\$59,140,000</b>		<b>\$602,765,000</b>		<b>\$112,705,000</b>	

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

Fiscal year ending June 30	Highway Revenue Bonds		
	Principal	Interest	Total
2015	\$ 60,970,000	\$ 78,008,080	\$ 138,978,080
2016	70,370,000	75,612,882	145,982,882
2017	73,040,000	72,942,372	145,982,372
2018	76,125,000	69,858,434	145,983,434
2019	78,670,000	67,316,390	145,986,390
2020-2024	446,440,000	283,542,410	729,982,410
2025-2029	445,960,000	171,219,313	617,179,313
2030-2034	323,075,000	66,608,402	389,683,402
2035-2038	100,150,000	11,648,750	111,798,750
	<u>\$ 1,674,800,000</u>	<u>\$ 896,757,033</u>	<u>\$ 2,571,557,033</u>

The Department has pledged future motor vehicle and related fuel fees and taxes to repay \$1,674,800 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 2038. The total principal and interest remaining to be paid on the bonds is \$2,572.0 million. Principal and interest paid for the current year and total pledged revenues were \$139.0 million and \$537.8 million, respectively. The annual principal and interest payments on the bonds required 25.8 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 balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$925,975,000.

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

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

**OUTSTANDING TRANSPORTATION EXCISE TAX REVENUE BONDS**

As of June 30, 2014

Maturity (7/1)	2007 Series		2009 Series		2010 Series		2011 Series	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2014	13,715,000	5.000%	\$4,315,000	3.000%	\$850,000	3.000%	\$8,920,000	5.000%
2014	3,670,000	4.000%	\$18,380,000	5.000%	\$8,750,000	5.000%		
2015	13,725,000	5.000%	\$2,405,000	2.500%	10,065,000	5.000%	9,370,000	5.000%
2015	4,495,000	4.000%	\$21,335,000	5.000%				
2016	17,060,000	5.000%	5,625,000	4.000%	450,000	4.000%	9,830,000	5.000%
2016	2,025,000	4.000%	\$19,245,000	5.000%	\$10,120,000	5.000%		
2017	17,770,000	5.000%	325,000	3.000%	1,685,000	2.000%	10,330,000	5.000%
2017	2,250,000	4.000%	\$25,730,000	5.000%	\$9,405,000	5.000%		
2018	20,485,000	5.000%	27,355,000	5.000%	1,505,000	3.000%	10,840,000	5.000%
2018	515,000	4.000%			\$10,090,000	5.000%		
2019	22,045,000	5.000%	6,700,000	4.250%	2,370,000	2.500%	11,385,000	5.000%
2019			\$22,020,000	5.000%	\$9,775,000	5.000%		
2020	23,145,000	5.000%	340,000	3.500%	5,250,000	4.000%	11,955,000	5.000%
2020			\$29,765,000	5.250%	\$7,445,000	5.000%		
2021	24,300,000	5.000%	\$31,680,000	5.250%	\$13,275,000	5.000%	\$12,555,000	5.000%
2022	25,515,000	5.000%	\$33,345,000	5.000%	\$13,940,000	5.000%	\$13,180,000	3.000%
2023	26,795,000	5.000%	\$35,010,000	5.000%	\$14,635,000	5.000%	\$13,575,000	4.000%
2024	28,135,000	5.000%	\$36,760,000	5.000%	\$15,370,000	5.000%	\$14,115,000	4.000%
2025	29,540,000	5.000%	\$830,000	4.000%	\$735,000	3.125%	\$14,685,000	3.000%
2025			\$37,770,000	5.000%	\$15,400,000	5.000%		
<b>Totals</b>	<u>\$275,185,000</u>		<u>\$358,935,000</u>		<u>\$151,115,000</u>		<u>\$140,740,000</u>	

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
2015	\$ 61,395,000	\$ 42,198,106	\$ 103,593,106
2016	64,355,000	39,233,431	103,588,431
2017	67,495,000	36,096,681	103,591,681
2018	70,790,000	32,801,481	103,591,481
2019	74,295,000	29,297,231	103,592,231
2020-2024	430,085,000	87,867,757	517,952,757
2025	<u>98,960,000</u>	<u>4,632,219</u>	<u>103,592,219</u>
	<u>\$867,375,000</u>	<u>\$272,126,906</u>	<u>\$1,139,501,906</u>

The Department has pledged future transportation excise taxes to repay \$867,375,000 in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$1,140.0 million. Principal and interest paid for the current year and total pledged revenues were \$103.6 million and \$243.8 million, respectively. The annual principal and interest payments on the bonds required 42.5 percent of the pledged revenues.

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

Arizona Transportation Board Grant Anticipation Notes (GARVEE)

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The balance of Grant Anticipation Notes ("GARVEE bonds") issued in prior years and outstanding at the start of the fiscal year was \$296,240,000.

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

**OUTSTANDING GRANT ANTICIPATION NOTES**  
As of June 30, 2014

Maturity (7/1)	Series 2003A		Series 2004B		Series 2008A		Series 2009A		Series 2011A		Series 2012	
	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon	Principal	Coupon
2014	\$2,000,000	3.750%	\$12,935,000	5.000%	\$18,000,000	5.000%					\$120,000	3.00%
2014	15,475,000	5.000%										
2015							\$1,685,000	3.000%			31,620,000	4.00%
2015							\$19,735,000	5.000%				
2016							310,000	3.000%	\$5,855,000	4.000%	12,085,000	4.00%
2016							2,215,000	4.000%	\$5,410,000	5.000%		
2016							21,475,000	5.000%				
2017									3,365,000	4.000%		
2017									8,405,000	5.000%		
2018									1,830,000	4.000%		
2018									10,495,000	5.000%		
2019									2,800,000	4.000%		
2019									10,125,000	5.000%		
2020									260,000	4.000%		
2020									13,285,000	5.000%		
2021									270,000	4.000%		
2021									13,945,000	5.000%		
2022									1,085,000	4.000%		
2022									13,840,000	5.000%		
2023									275,000	4.125%		
2023									15,385,000	5.000%		
2024									16,440,000	5.250%		
2025									600,000	4.500%		
2025									16,705,000	5.250%		
2026									18,210,000	5.250%		
<b>Totals</b>	<u>\$17,475,000</u>		<u>\$12,935,000</u>		<u>\$18,000,000</u>		<u>\$45,420,000</u>		<u>\$158,585,000</u>		<u>\$43,825,000</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
2015	\$ 53,040,000	\$ 11,854,732	\$ 64,894,732
2016	47,350,000	9,552,631	56,902,631
2017	11,770,000	7,392,881	19,162,881
2018	12,325,000	6,838,031	19,163,031
2019	12,925,000	6,240,081	19,165,081
2020-2024	74,785,000	21,035,012	95,820,012
2025-2026	35,515,000	2,816,063	38,331,063
	<u>\$ 247,710,000</u>	<u>\$ 65,729,431</u>	<u>\$ 313,439,431</u>

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

The Department has pledged federal revenues to repay \$247,710,000 in outstanding Grant Anticipation Notes ("GARVEE bonds") 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 \$313.4 million. Principal and interest paid for the current year and total pledged revenues were \$64.9 million and \$688.1 million, respectively. The annual principal and interest payments on the bonds required 9.1 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.

Monies deposited with escrow agents at June 30, 2014 fully provide for the following refunded bonds of the Department:

Type	Original Issue	Escrow Maturity Date	Balance
Highway Revenue Bonds	Series 2003A	July 1,2014	\$123,815,000
Highway Revenue Bonds	Series 2004B	July 1,2014	160,755,000
Highway Revenue Bonds	Series 2005A	July 1,2015	100,435,000
Highway Revenue Bonds	Series 2005B	January 1,2016	84,860,000
Highway Revenue Bonds	Series 2006	July 1,2016	239,475,000
Grant Anticipation Notes	Series 2004B	July 1,2014	25,665,000
		Total Refunded Bonds	<u>\$735,005,000</u>

Advances and Notes Payable

The Department's outstanding advances and notes payable as of June 30, 2014, were \$89,865,183 in governmental activities. The advances and notes payable represent amounts for other intergovernmental advances.

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

Fiscal year ending June 30	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 67,686,540	\$ 0
2020	151,430	0
2021	<u>22,027,213</u>	<u>0</u>
	<u>\$ 89,865,183</u>	<u>\$ 0</u>

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2014, was as follows:

	Beginning Balance July 1, 2013	Additions	Reductions	Ending Balance June 30, 2014	Due Within One Year
<b>Governmental Activities</b>					
Bonds and notes:					
Highway Revenue Bonds	\$1,733,285,000	\$ -	\$ <58,485,000>	\$ 1,674,800,000	\$ 60,970,000
Transportation Excise Tax					
Revenue Bonds	925,975,000	-	<58,600,000>	867,375,000	61,395,000
Grant Anticipation Notes	296,240,000	-	<48,530,000>	247,710,000	53,040,000
Amortized Premium on bonds	350,739,402	-	<27,383,360>	323,356,042	24,452,868
Total bonds and notes	<u>3,306,239,402</u>	-	<192,998,360>	3,113,241,042	199,857,868
Capital leases	22,271,210	13,235,820	<6,183,510>	29,323,520	8,038,748
Compensated absences	16,618,748	15,421,374	<13,808,815>	18,231,307	12,609,713
Advances and notes payable	105,816,381	291,430,257	<45,081,455>	352,165,183	-
Total governmental activities:	<u>3,450,945,741</u>	<u>320,087,451</u>	<u>&lt;258,072,140&gt;</u>	<u>3,512,961,052</u>	<u>220,506,329</u>
<b>Business-type Activities</b>					
Compensated absences	161,024	73,909	<81,878>	153,055	28,861
Total business-type activities	<u>161,024</u>	<u>73,909</u>	<u>&lt;81,878&gt;</u>	<u>153,055</u>	<u>28,861</u>
Total non-current liabilities	<u>\$3,451,106,765</u>	<u>\$ 320,161,360</u>	<u>\$ &lt;258,154,018&gt;</u>	<u>\$ 3,513,114,107</u>	<u>\$ 220,535,190</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, \$798,917 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.

**G. Fund Balances**

The Department's fund balance, as of June 30, 2014, is composed of the following:

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

	Unassigned	Nonspendable	Restricted	Committed	Total
Administration	\$ -	\$ -	\$ 210,838	\$ 168,264,357	\$ 168,475,195
Highway Operations	-	-	1,110,937,879	-	1,110,937,879
Highway Maintenance	-	-	-	5,581,287	5,581,287
Motor Vehicle	<8,128,423>	-	-	5,007,067	<3,121,356>
Inventories	-	6,832,503	-	-	6,832,503
Other	-	-	802,887	-	802,887
	<u>\$ &lt;8,128,423&gt;</u>	<u>\$ 6,832,503</u>	<u>\$ 1,111,951,604</u>	<u>\$ 178,852,711</u>	<u>\$ 1,289,508,395</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.

Arizona Department of Transportation  
Notes to the Financial Statements (continued)  
June 30, 2014

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.

**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, by calling (602) 240-2000 or (800) 621-3778 or visiting the website at [www.azasrs.gov/content/annual-reports](http://www.azasrs.gov/content/annual-reports).

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, 2014, active plan members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 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 11.54 percent (10.7 percent for retirement, 0.6 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
2014	\$ 19,604,754	\$ 1,123,095	\$ 475,418	\$ 21,203,267
2013	18,233,215	1,088,444	456,141	19,777,800
2012	17,230,639	1,441,900	451,367	19,123,906

The Department's total payroll for fiscal year 2014 was \$198.1 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 2014 was \$21.2 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 Schedule**

**Information About Infrastructure Assets Reported Using the Modified Approach**

Arizona Department of Transportation  
 Required Supplementary Information  
 June 30, 2014

Budgetary Comparison Schedule  
 General Fund (State Highway Fund) - Budgetary Basis  
 for the fiscal year ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive <Negative>
	Original	Final		
<b>Expenditures appropriated by State legislature in 2014 budget</b>				
Department of Transportation	\$ 337,323,200	\$ 337,323,200	\$ 333,926,816	\$ 3,396,384
Timing differences:				
Prior year appropriation expenditures expended in current budgetary year			9,677,440	
Basis differences:				
Net increase <decrease> from cash basis for budgeting purposes and modified accrual basis for financial reporting purposes			7,237,738	
Entity differences:				
Funds not appropriated, but included for financial reporting purposes			3,071,754	
Perspective differences:				
Expenditures on modified accrual basis and not recognized on budgetary basis:				
Capital outlay and asset preservation			463,491,836	
Distributions to Arizona counties and cities			30,292,165	
Distributions to other state agencies			9,204,052	
Interest expense			519,850	
Principal repayment of debt			6,183,510	
<b>Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (General Fund) - Exhibit 4</b>			<b>\$ 863,605,160</b>	

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

Arizona Department of Transportation  
Required Supplementary Information (continued)  
June 30, 2014

Note to Required Supplementary Information

**1. Budgets and budgetary accounting**

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

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

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

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

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

Arizona Department of Transportation  
Required Supplementary Information (continued)  
June 30, 2014

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), as amended, the Arizona Department of Transportation (Department) reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,800 center line miles (21,390 travel lane miles) of roads and 4,787 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 2014 and beyond was adopted by the Transportation Board on June 25, 2013.

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

Arizona Department of Transportation  
 Required Supplementary Information (continued)  
 June 30, 2014

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

public (as documented in 1961 after American Association of State Highway and Transportation Officials (AASHTO) Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement. Many

surveys since the original road test have shown that these measurements closely track the subjective opinion of the traveling public. Most commonly, this number is called Present Serviceability Rating and abbreviated as PSR. PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

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

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 2014, an overall rating of 3.69 was achieved, as shown in the following graph:

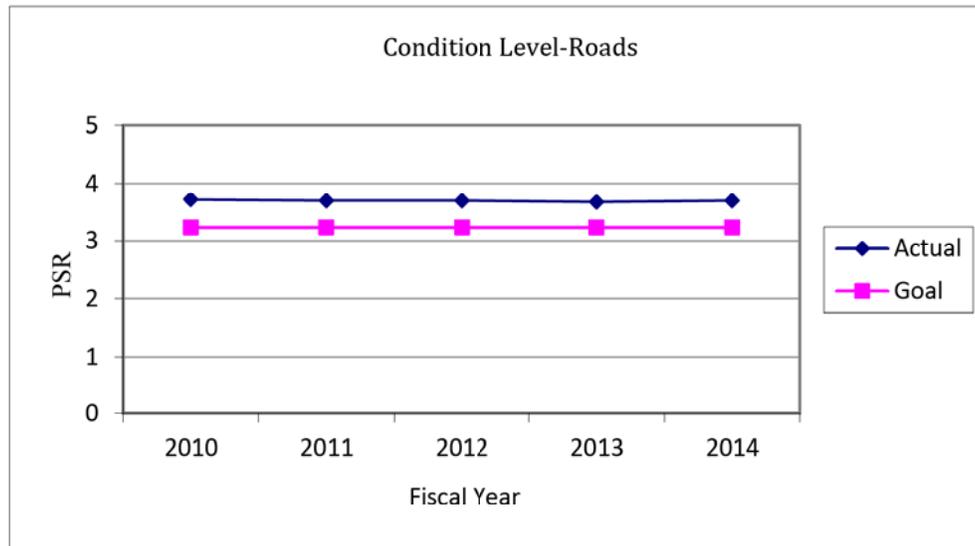


Figure 1

Arizona Department of Transportation  
 Required Supplementary Information (continued)  
 June 30, 2014

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

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 2010 through 2014 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2010	\$227.4	\$220.9
2011	265.7	373.4
2012	261.9	373.6
2013	276.3	291.3
2014	271.2	287.2

**Bridges**

The Department’s bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2014, the Department owned and maintained 4,787 bridges with an approximate total deck area of 49,066,801 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

Arizona Department of Transportation  
 Required Supplementary Information (continued)  
 June 30, 2014

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

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 2014, the CRI was computed at 93.8%.

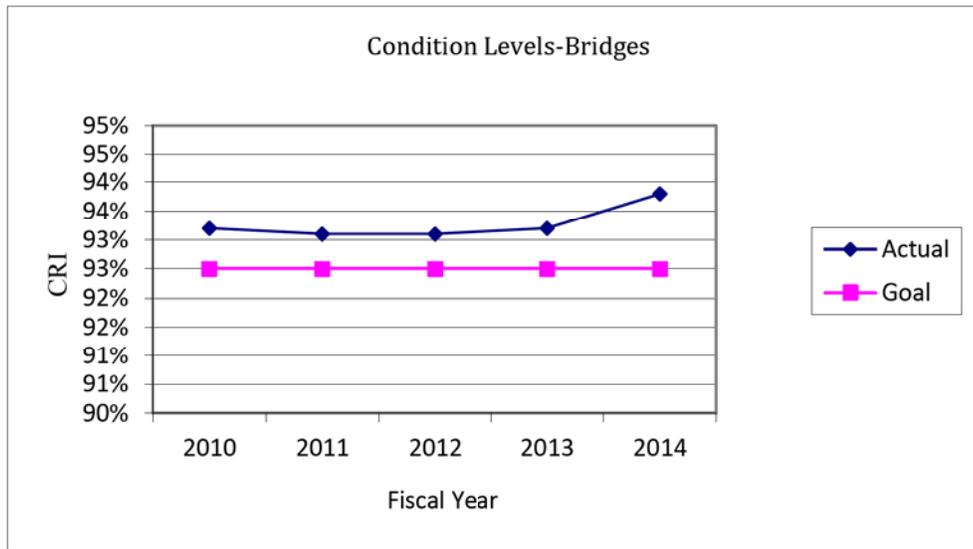


Figure 2

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 56% of the bridges in the state were constructed prior to the 1970s while only 14% have been constructed since 2000.

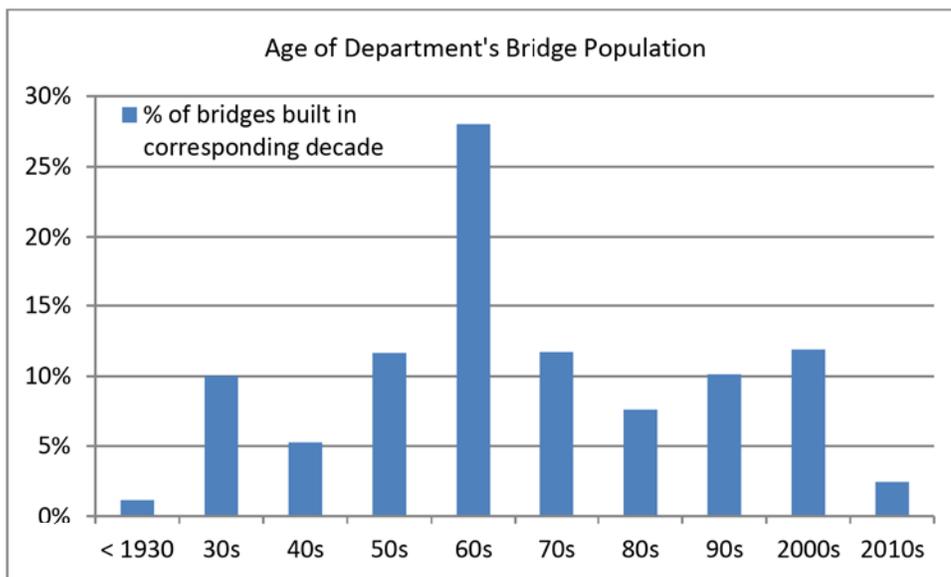


Figure 3

Arizona Department of Transportation  
Required Supplementary Information (continued)  
June 30, 2014

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 2010 through 2014 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2010	\$16.1	\$22.4
2011	11.8	26.0
2012	12.5	20.6
2013	14.7	10.7
2014	21.2	20.5

# NON-MAJOR GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

## SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

Arizona Department of Transportation  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2014

Exhibit 9

	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	Total Non-Major Governmental Funds
<b>Assets</b>										
Unrestricted cash on deposit with the State Treasurer	\$ 36,016,148	\$ 125,280	\$ 3,909,820	\$ 765,374	\$ 42,352	\$ -	\$ 3,533,362	\$ -	\$ -	\$ 44,392,336
Receivables:										
Interfund	45,322	46,050	48,123	26,300	-	2,647,964	-	-	-	2,813,759
Notes and loans	2,709,566	-	-	-	-	-	-	-	-	2,709,566
Other (net)	3,096,398	-	-	-	-	-	-	-	2,949,772	6,046,170
Amounts due from U.S. Government	-	-	-	-	-	-	-	-	21,080,699	21,080,699
Restricted cash on deposit with the State Treasurer	-	-	-	-	-	74,244	-	2,714	18,744,051	18,821,009
<b>Total assets</b>	<b>\$ 41,867,434</b>	<b>\$ 171,330</b>	<b>\$ 3,957,943</b>	<b>\$ 791,674</b>	<b>\$ 42,352</b>	<b>\$ 2,722,208</b>	<b>\$ 3,533,362</b>	<b>\$ 2,714</b>	<b>\$ 42,774,522</b>	<b>\$ 95,863,539</b>
<b>Liabilities and fund balances</b>										
Liabilities:										
Accounts payable	\$ 992,081	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,057	\$ 1,000,138
Accrued payroll and other accrued expenditures	2,729,607	25,911	22,954	22,301	-	-	-	-	-	2,800,773
Contracts and retainage payable	-	-	-	-	-	-	-	-	23,599,483	23,599,483
Interfund payables	-	-	-	-	-	-	-	-	-	-
Amounts due to:										
Other state agencies	-	-	-	-	-	2,722,208	-	-	-	2,722,208
Arizona counties and cities	-	-	-	-	-	-	3,533,362	-	-	3,533,362
<b>Total liabilities</b>	<b>3,721,688</b>	<b>25,911</b>	<b>22,954</b>	<b>22,301</b>	<b>-</b>	<b>2,722,208</b>	<b>3,533,362</b>	<b>-</b>	<b>23,607,540</b>	<b>33,655,964</b>
Fund balances:										
Restricted	-	-	-	-	-	-	-	2,714	19,166,982	19,169,696
Committed	38,145,746	145,419	3,934,989	769,373	42,352	-	-	-	-	43,037,879
<b>Total fund balances</b>	<b>38,145,746</b>	<b>145,419</b>	<b>3,934,989</b>	<b>769,373</b>	<b>42,352</b>	<b>-</b>	<b>-</b>	<b>2,714</b>	<b>19,166,982</b>	<b>62,207,575</b>
<b>Total liabilities and fund balances</b>	<b>\$ 41,867,434</b>	<b>\$ 171,330</b>	<b>\$ 3,957,943</b>	<b>\$ 791,674</b>	<b>\$ 42,352</b>	<b>\$ 2,722,208</b>	<b>\$ 3,533,362</b>	<b>\$ 2,714</b>	<b>\$ 42,774,522</b>	<b>\$ 95,863,539</b>

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, 2014

	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	Total Non-Major Governmental Funds
<b>Revenues</b>										
Vehicle registration, title, license, and related taxes and fees	\$ 6,575,452	\$ 2,571,544	\$ -	\$ 1,480,983	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,627,979
Fuel and motor carrier taxes and fees	314,556	-	3,009,865	-	-	29,079,928	1,000,000	-	-	33,404,349
Flight property taxes	12,974,652	-	-	-	-	-	-	-	-	12,974,652
Reimbursement of construction expenditures - federal aid	726,840	-	-	-	-	-	-	62,786,237	-	63,513,077
Other federal grants and reimbursements	-	-	-	-	-	-	-	-	84,987,754	84,987,754
Reimbursements from Arizona counties and cities	1,152,172	-	-	-	-	-	-	-	8,798,341	9,950,513
Interest on loans receivable	138,418	-	-	-	-	-	-	-	-	138,418
Income from investments	259,810	4,060	-	-	-	9,852	26,864	22	-	300,608
Grand Canyon National Park Airport	1,170,320	-	-	-	-	-	-	-	-	1,170,320
Other	1,411,539	34,810	-	-	8,500	-	-	-	-	1,454,849
<b>Total revenues</b>	<b>24,723,759</b>	<b>2,610,414</b>	<b>3,009,865</b>	<b>1,480,983</b>	<b>8,500</b>	<b>29,089,780</b>	<b>1,026,864</b>	<b>62,786,259</b>	<b>93,786,095</b>	<b>218,522,519</b>
<b>Expenditures</b>										
Current:										
Administration	7,184,226	-	-	-	-	-	-	-	-	7,184,226
Highway	-	-	-	-	-	-	-	-	90,375,747	90,375,747
Motor vehicle	-	1,886,625	1,087,688	1,461,868	-	130,117	1,766	-	-	4,568,064
<b>Total current expenditures</b>	<b>7,184,226</b>	<b>1,886,625</b>	<b>1,087,688</b>	<b>1,461,868</b>	<b>-</b>	<b>130,117</b>	<b>1,766</b>	<b>-</b>	<b>90,375,747</b>	<b>102,128,037</b>
Intergovernmental:										
Distributions to other state agencies	11,400	1,579,800	337,600	10,400	-	28,959,663	-	-	-	30,898,863
Distributions to Arizona counties and cities	9,085,973	-	-	-	-	-	1,025,098	-	-	10,111,071
Capital outlay	-	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>16,281,599</b>	<b>3,466,425</b>	<b>1,425,288</b>	<b>1,472,268</b>	<b>-</b>	<b>29,089,780</b>	<b>1,026,864</b>	<b>-</b>	<b>90,375,747</b>	<b>143,137,971</b>
Excess <deficiency> of revenues over <under> expenditures	8,442,160	<856,011>	1,584,577	8,715	8,500	-	-	62,786,259	3,410,348	75,384,548
<b>Other financing sources &lt;uses&gt;</b>										
Transfers out for debt service	-	-	-	-	-	-	-	<62,786,237>	-	<62,786,237>
<b>Total other financing sources &lt;uses&gt;</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>&lt;62,786,237&gt;</b>	<b>-</b>	<b>&lt;62,786,237&gt;</b>
Net change in fund balances	8,442,160	<856,011>	1,584,577	8,715	8,500	-	-	22	3,410,348	12,598,311
Fund balances - July 1	29,703,586	1,001,430	2,350,412	760,658	33,852	-	-	2,692	15,756,634	49,609,263
<b>Fund balances - June 30</b>	<b>\$ 38,145,746</b>	<b>\$ 145,419</b>	<b>\$ 3,934,989</b>	<b>\$ 769,373</b>	<b>\$ 42,352</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,714</b>	<b>\$ 19,166,982</b>	<b>\$ 62,207,574</b>

# FIDUCIARY FUNDS FINANCIAL STATEMENTS

**Combining Statement of Net Position**

**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 Position  
Agency Funds  
June 30, 2014

	Highway Properties - Privilege Tax Fund	Highway Properties - 24 % Lieu Tax Fund	Total
<b>ASSETS</b>			
Restricted cash on deposit with the State Treasurer	\$ 555	\$ 463,751	\$ 464,306
Due from Department of Revenue	12	-	12
Total assets	<u>\$ 567</u>	<u>\$ 463,751</u>	<u>\$ 464,318</u>
<b>LIABILITIES</b>			
Due to Department of Revenue	\$ 567	\$ -	\$ 567
Due to Arizona counties	-	463,751	463,751
Total liabilities	<u>\$ 567</u>	<u>\$ 463,751</u>	<u>\$ 464,318</u>

Arizona Department of Transportation  
Statement of Changes in Assets and Liabilities  
Agency Funds  
for the fiscal year ended June 30, 2014

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
<hr/> <b>Highway Properties - Privilege Tax Fund</b> <hr/>				
<b>Assets</b>				
Restricted cash on deposit with the State Treasurer	\$ <12>	\$ 8,072	\$ <7,505>	\$ 555
Due from Department of Revenue	<u>12</u>	<u>-</u>	<u>-</u>	<u>12</u>
Total assets	<u>\$ -</u>	<u>\$ 8,072</u>	<u>\$ &lt;7,505&gt;</u>	<u>\$ 567</u>
 <b>Liabilities</b>				
Due to Department of Revenue	\$ -	\$ 567	\$ -	\$ 567
Total liabilities	<u>\$ -</u>	<u>\$ 567</u>	<u>\$ -</u>	<u>\$ 567</u>
 <hr/> <b>Highway Properties - 24 Percent Fund</b> <hr/>				
<b>Assets</b>				
Restricted cash on deposit with the State Treasurer	\$ 376,534	\$ 463,798	\$ <376,581>	\$ 463,751
Total assets	<u>\$ 376,534</u>	<u>\$ 463,798</u>	<u>\$ &lt;376,581&gt;</u>	<u>\$ 463,751</u>
 <b>Liabilities</b>				
Due to Arizona counties	\$ 376,534	\$ 463,798	\$ <376,581>	\$ 463,751
Total liabilities	<u>\$ 376,534</u>	<u>\$ 463,798</u>	<u>\$ &lt;376,581&gt;</u>	<u>\$ 463,751</u>
 <hr/> <b>Total</b> <hr/>				
<b>Assets</b>				
Restricted cash on deposit with the State Treasurer	\$ 376,522	\$ 471,870	\$ <384,086>	\$ 464,306
Due from Department of Revenue	<u>12</u>	<u>-</u>	<u>-</u>	<u>12</u>
Total assets	<u>\$ 376,534</u>	<u>\$ 471,870</u>	<u>\$ &lt;384,086&gt;</u>	<u>\$ 464,318</u>
 <b>Liabilities</b>				
Due to Department of Revenue	\$ -	\$ 567	\$ -	\$ 567
Due to Arizona counties	<u>376,534</u>	<u>463,798</u>	<u>&lt;376,581&gt;</u>	<u>463,751</u>
Total liabilities	<u>\$ 376,534</u>	<u>\$ 464,365</u>	<u>\$ &lt;376,581&gt;</u>	<u>\$ 464,318</u>

# STATISTICAL SECTION

Arizona Department of Transportation  
Overview – Statistical Section  
for the fiscal year ended June 30, 2014

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

Arizona Department of Transportation  
 Index – Statistical Section  
 for the fiscal year ended June 30, 2014

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

Expenses	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Governmental Activities:</b>										
Administration	\$ 42,298	\$ 45,002	\$ 51,667	\$ 54,918	\$ 56,066	\$ 65,781	\$ 93,040	\$ 94,075	\$ 101,370	\$ 106,200
Aeronautics	9,804	10,705	5,418	4,373	10,993	-	-	-	-	-
Highway <sup>1</sup>	125,889	118,147	138,788	132,874	116,742	34,721	37,070	39,632	46,076	51,074
Highway maintenance	105,037	114,119	120,163	137,100	110,963	102,932	129,700	125,331	139,762	122,977
Motor vehicle	91,676	96,937	105,961	112,880	133,415	102,926	99,949	116,095	107,655	111,397
Other	6,871	9,394	-	-	-	-	-	-	-	-
Non-capital, including asset preservation <sup>1</sup>	156,678	<53,981>	113,569	187,004	216,198	122,747	345,590	351,116	257,126	312,519
Distributions to other state agencies	306,853	206,903	114,795	176,692	413,940	251,392	254,702	307,885	213,394	216,675
Distributions to Arizona counties and cities	1,086,955	1,095,671	1,219,208	1,238,383	1,091,893	1,057,720	1,024,756	1,005,114	1,074,086	1,065,798
Local governmental assistance	42,440	36,771	48,760	37,285	48,571	83,230	163,035	93,557	102,332	90,376
Issuance cost on long-term debt <sup>2</sup>	-	-	-	-	-	-	-	-	-	13,554
Interest on long-term debt	86,870	88,279	82,450	92,295	114,683	129,626	128,768	164,081	187,315	114,406
Total governmental activities expenses	<u>2,061,371</u>	<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>	<u>2,229,116</u>	<u>2,204,976</u>
<b>Business-type Activities:</b>										
Arizona Highways Magazine	10,270	8,175	8,072	7,712	7,410	6,288	5,664	4,979	4,637	4,821
Highway Expansion and Extension Loan Program	4,360	4,273	4,355	4,053	2,112	147	126	75	46	46
Total business-type activities expenses	<u>14,630</u>	<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>4,683</u>	<u>4,867</u>
Total primary government expenses	<u>\$ 2,076,001</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>	<u>\$ 2,233,799</u>	<u>\$ 2,209,843</u>
<b>Program Revenues</b>										
<b>Governmental Activities:</b>										
<b>Charges for services:</b>										
Administration	\$ -	\$ -	\$ 8,843	\$ 9,706	\$ 8,752	\$ 9,766	\$ 10,770	\$ 11,947	\$ 12,254	\$ 12,400
Aeronautics	919	1,214	1,133	940	936	-	-	-	-	-
Highway	-	-	2,953	1,451	1,765	1,266	2,798	1,681	842	864
Highway maintenance	1,518	537	577	1,765	887	1,858	2,667	2,290	1,887	2,418
Motor vehicle	113,506	121,179	132,274	127,900	117,267	111,412	117,427	111,429	119,733	122,042
Other	5,564	7,099	-	-	-	-	-	-	-	-
Local governmental assistance	4,760	4,040	12,239	8,263	9,789	5	-	-	-	-
Operating grants and contributions	58,948	67,241	72,679	79,747	90,619	146,936	220,759	161,992	168,436	157,705
Capital grants and contributions	484,276	387,614	354,024	523,728	552,488	575,448	743,718	775,976	651,798	546,680
Total governmental activities program revenues	<u>669,491</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>1,065,315</u>	<u>954,950</u>	<u>842,109</u>
<b>Business-type Activities:</b>										
<b>Charges for services:</b>										
Arizona Highways Magazine	8,443	8,012	8,060	7,624	6,291	5,975	5,619	5,581	5,188	5,164
Highway Expansion and Extension Loan Program	3,009	3,281	2,909	1,755	1,128	556	154	2	6	-
Total business-type activities program revenues	<u>11,452</u>	<u>11,293</u>	<u>10,969</u>	<u>9,379</u>	<u>7,419</u>	<u>6,531</u>	<u>5,773</u>	<u>5,583</u>	<u>5,194</u>	<u>5,164</u>
Total primary governmental program revenues	<u>\$ 680,943</u>	<u>\$ 600,217</u>	<u>\$ 595,691</u>	<u>\$ 762,879</u>	<u>\$ 789,922</u>	<u>\$ 853,222</u>	<u>\$ 1,103,912</u>	<u>\$ 1,070,898</u>	<u>\$ 960,144</u>	<u>\$ 847,273</u>
<b>Net &lt;expenses&gt;/revenues:</b>										
Governmental Activities	\$ <1,391,880>	\$ <1,179,023>	\$ <1,416,057>	\$ <1,420,304>	\$ <1,530,961>	\$ <1,104,384>	\$ <1,178,471>	\$ <1,231,571>	\$ <1,274,166>	\$ <1,362,867>
Business-type Activities	<3,178>	<1,155>	<1,458>	<2,386>	<2,103>	106	<17>	529	511	297
Total primary government net expense	<u>\$ &lt;1,395,058&gt;</u>	<u>\$ &lt;1,180,178&gt;</u>	<u>\$ &lt;1,417,515&gt;</u>	<u>\$ &lt;1,422,690&gt;</u>	<u>\$ &lt;1,533,064&gt;</u>	<u>\$ &lt;1,104,278&gt;</u>	<u>\$ &lt;1,178,488&gt;</u>	<u>\$ &lt;1,231,042&gt;</u>	<u>\$ &lt;1,273,655&gt;</u>	<u>\$ &lt;1,362,570&gt;</u>

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

<sup>2</sup> Notes to Financial Statement (A), New Accounting Pronouncements, Statement Number 65.

(continued)

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

<b>General Revenues and Other Changes in Net Position</b>	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Governmental Activities:</b>										
Transportation excise taxes	\$ 316,806	\$ 316,491	\$ 262,264	\$ 253,742	\$ 219,165	\$ 199,672	\$ 206,545	\$ 216,281	\$ 227,800	\$ 243,786
Motor vehicle registration, title, and related taxes	966,885	994,052	1,029,001	1,033,505	976,075	893,287	874,191	899,345	913,326	963,221
Fuel and motor carrier taxes and fees	759,633	770,596	790,909	766,394	667,200	690,503	704,727	700,620	708,062	714,852
Flight property taxes	13,180	13,686	15,303	13,822	11,975	9,527	9,798	10,735	8,084	12,975
Income from investments	19,245	28,538	55,760	59,528	33,588	16,347	9,415	11,388	11,781	11,634
Other	27,120	11,026	9,998	38,772	22,831	8,966	16,095	10,442	13,411	13,931
Transfers	-	-	-	-	<500>	-	<851>	-	-	-
Governmental activities before accounting change	2,102,869	2,134,389	2,163,235	2,165,763	1,930,334	1,818,302	1,819,920	1,848,811	1,882,464	1,960,399
<b>Special Item - State appropriation for Statewide Transportation</b>										
Acceleration Needs (STAN)	-	-	245,000	-	-	-	-	-	-	-
Total governmental activities	2,102,869	2,134,389	2,408,235	2,165,763	1,930,334	1,818,302	1,819,920	1,848,811	1,882,464	1,960,399
<b>Business-type Activities:</b>										
Income from investments	2,764	3,518	5,563	4,788	1,612	514	554	783	747	735
Other	380	-	<3>	<17>	<1>	-	-	-	-	-
Transfers	-	-	-	-	500	-	851	-	-	-
Total business-type activities	3,144	3,518	5,560	4,771	2,111	514	1,405	783	747	735
Total primary government	\$ 2,106,013	\$ 2,137,907	\$ 2,413,795	\$ 2,170,534	\$ 1,932,445	\$ 1,818,816	\$ 1,821,325	\$ 1,849,594	\$ 1,883,211	\$ 1,961,134
<b>Changes in Net Position</b>										
Governmental Activities	\$ 710,989	\$ 955,366	\$ 992,178	\$ 745,459	\$ 399,373	\$ 713,918	\$ 641,449	\$ 617,239	\$ 608,298	\$ 597,532
Business-type Activities	<34>	2,363	4,102	2,385	8	620	1,388	1,313	1,257	1,032
Total primary government	\$ 710,955	\$ 957,729	\$ 996,280	\$ 747,844	\$ 399,381	\$ 714,538	\$ 642,837	\$ 618,552	\$ 609,555	\$ 598,564

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

	2005	2006	2007
<b>Revenues</b>			
Transportation excise taxes	\$ 316,806	\$ 316,491	\$ 262,264
Vehicle registration, title, license, and related taxes and fees	1,080,391	1,207,265	1,159,379
Fuel and motor carrier taxes and fees	759,633	770,596	792,717
Flight property taxes	13,180	13,686	15,303
Reimbursement of construction expenditures - federal aid	503,646	407,891	334,376
Other federal grants and reimbursements	9,078	32,044	72,548
Reimbursements from Arizona counties and cities	32,186	13,566	34,971
Distributions from other state agencies	2,349	1,490	1,799
Interest on loans receivable	945	739	928
Income from investments	19,162	28,351	55,393
Grand Canyon National Park Airport	919	1,214	1,133
Rental income	1,596	1,702	1,434
Other	6,216	6,490	7,088
<b>Total revenues</b>	<u>2,746,107</u>	<u>2,801,525</u>	<u>2,739,333</u>
<b>Expenditures</b>			
Current:			
Transportation:			
Administration	40,599	43,372	44,875
Aeronautics	9,517	10,470	3,876
Highway	159,408	161,496	184,240
Highway maintenance	105,887	111,378	118,940
Motor vehicle	90,208	95,198	103,801
Other	1,802	2,309	-
<b>Total Transportation</b>	<u>407,421</u>	<u>424,223</u>	<u>455,732</u>
Transportation not appropriated by State legislature:	-	-	-
Intergovernmental:			
Distributions to other state agencies	306,852	206,903	114,795
Distributions to Arizona counties and cities	1,086,955	1,190,962	1,217,883
Debt service:			
Principal	302,202	173,745	100,395
Interest	94,344	83,017	90,836
Bond issuance costs	1,996	1,252	1,592
Non-capital, including asset preservation	156,678	250,736	63,273
Capital outlay	623,829	663,316	741,506
<b>Total expenditures</b>	<u>2,980,277</u>	<u>2,994,154</u>	<u>2,786,012</u>
Excess <deficiency> of revenues over <under> expenditures	\$ <234,170>	\$ <192,629>	\$ <46,679>

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

2008	2009	2010	2011	2012	2013	2014
\$ 253,742	\$ 219,165	\$ 199,672	\$ 206,545	\$ 216,281	\$ 227,800	\$ 243,786
1,159,474	1,064,147	1,002,312	991,335	1,010,548	1,021,441	1,085,166
768,046	696,075	692,632	704,727	700,620	613,607	714,852
13,822	11,975	9,527	9,799	10,735	-	12,975
494,584	531,981	544,498	736,803	770,900	597,762	536,192
79,747	94,521	146,936	219,743	157,437	66,217	148,902
38,609	27,498	31,503	10,078	9,645	<2,380>	19,314
463	876	936	845	1,842	989	915
697	427	596	436	351	93	228
59,197	33,221	15,853	9,083	11,130	11,282	11,500
940	936	866	798	821	-	1,170
1,367	1,788	1,800	2,554	3,096	5,244	6,025
6,206	21,579	6,370	9,913	8,177	7,779	11,959
<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>	<u>2,549,834</u>	<u>2,792,984</u>
44,322	46,056	52,971	81,477	80,627	80,612	92,966
4,089	10,471	-	-	-	-	-
171,134	163,570	115,061	200,216	135,908	42,996	128,196
135,629	111,346	94,014	120,716	118,230	125,199	133,572
110,982	131,665	101,142	98,115	114,327	100,993	109,553
-	-	-	-	-	-	-
<u>466,156</u>	<u>463,108</u>	<u>363,188</u>	<u>500,524</u>	<u>449,092</u>	<u>349,800</u>	<u>464,287</u>
-	-	-	-	-	-	-
173,405	404,569	244,836	254,210	305,218	132,685	216,482
1,241,110	1,100,959	1,046,576	1,022,512	1,004,768	1,053,543	1,065,798
192,663	199,687	144,232	201,219	196,338	160,415	216,879
102,583	126,932	143,133	144,748	137,213	142,524	140,259
3,447	3,967	121	2,099	3,043	2,455	-
158,991	142,604	217,338	313,179	286,217	242,039	223,572
<u>989,882</u>	<u>1,077,835</u>	<u>998,502</u>	<u>709,250</u>	<u>701,657</u>	<u>677,236</u>	<u>563,428</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>	<u>2,760,697</u>	<u>2,890,705</u>
\$ <451,343>	\$ <815,472>	\$ <504,425>	\$ <245,082>	\$ <181,963>	\$ <210,863>	\$ <97,721>

(continued)

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

	2005	2006	2007
<b>Other financing sources &lt;uses&gt;</b>			
Transfers in	\$ 388,046	\$ 262,216	\$ 225,499
Transfers out for debt service	<374,162>	<251,891>	<186,856>
Transfers out other	<13,885>	<10,325>	<38,643>
Capital leases	-	-	2,129
Sale of capital assets	18,392	11,118	10,162
Insurance recovery	1,518	537	577
Debt issuance	292,645	118,250	325,000
Debt issuance - refunding bond	-	147,400	-
Amortized premium from debt issuance	24,726	22,407	26,201
Payment to refunded bond escrow agent	-	<161,726>	-
Total other financing sources<uses>	<u>337,280</u>	<u>137,986</u>	<u>364,069</u>
Net change in fund balances before accounting change	103,110	<54,643>	317,390
Special item - State appropriation for Statewide Transportation Acceleration Needs (STAN)	-	-	245,000
Net change in fund balances	103,110	<54,643>	562,390
Fund balances - July 1	<u>433,952</u>	<u>537,062</u>	<u>482,419</u>
<b>Fund balances - June 30</b>	<u>\$ 537,062</u>	<u>\$ 482,419</u>	<u>\$ 1,044,809</u>
Debt service as a percentage of non-capital expenditures	16.9%	11.1%	9.4%
Debt service as a percentage of total revenues	14.5%	9.2%	7.0%

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

2008	2009	2010	2011	2012	2013	2014
\$ 303,513	\$ 239,447	\$ 271,408	\$ 331,547	\$ 330,856	\$ 283,066	\$ 303,030
<231,563>	<221,232>	<266,934>	<331,547>	<330,856>	<227,996>	<303,030>
<71,950>	<17,252>	<9,013>	<2,400>	-	-	-
-	-	-	-	-	-	-
28,233	2,127	3,088	3,712	1,815	1,636	900
1,765	887	1,765	2,529	1,818	1,679	2,328
711,479	796,819	32,628	349,698	269,001	767,020	42,366
-	-	-	-	499,725	92,477	-
31,862	58,123	-	38,876	90,753	36,385	-
-	-	-	-	<560,228>	<611,874>	-
<u>773,339</u>	<u>858,919</u>	<u>32,942</u>	<u>392,415</u>	<u>302,884</u>	<u>342,393</u>	<u>45,594</u>
321,996	43,447	<471,483>	147,333	120,921	131,530	<52,127>
-	-	-	-	-	-	-
321,996	43,447	<471,483>	147,333	120,921	131,530	<52,127>
1,044,809	1,366,805	1,410,252	938,769	1,086,102	1,169,853	1,341,636
<u>\$ 1,366,805</u>	<u>\$ 1,410,252</u>	<u>\$ 938,769</u>	<u>\$ 1,086,102</u>	<u>\$ 1,207,023</u>	<u>\$ 1,301,383</u>	<u>\$ 1,289,509</u>
12.8%	13.5%	13.3%	14.3%	14.1%	14.7%	15.3%
10.4%	12.2%	10.8%	12.0%	12.1%	12.0%	12.8%

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

	2005	2006	2007	2008
General Fund (State Highway Fund):				
Reserved	\$ 166,420	\$ 172,784	\$ 507,723	\$ 505,691
Unreserved	57,123	9,342	<10,032>	57,899
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
<b>Total General Fund</b>	<b><u>\$ 223,543</u></b>	<b><u>\$ 182,126</u></b>	<b><u>\$ 497,691</u></b>	<b><u>\$ 563,590</u></b>
All other governmental funds				
Reserved:				
Debt service	\$ 2,288	\$ 2,159	\$ 2,688	\$ 3,212
Capital projects	277,884	258,236	495,428	774,644
Unreserved, reported in:				
Non-major special revenue funds	33,348	39,898	49,002	25,359
Unassigned	-	-	-	-
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
<b>Total all other governmental funds</b>	<b><u>\$ 313,520</u></b>	<b><u>\$ 300,293</u></b>	<b><u>\$ 547,118</u></b>	<b><u>\$ 803,215</u></b>
<b>Total general and other governmental funds</b>	<b><u>\$ 537,063</u></b>	<b><u>\$ 482,419</u></b>	<b><u>\$ 1,044,809</u></b>	<b><u>\$ 1,366,805</u></b>

## NOTE:

<sup>1</sup> GASB 54 rules state that Fund Balances should be reported with the categories listed in the above table for years beginning in 2011. Years 2004 - 2010 will continue to be reported in the old format until 10 years of information is available.

<sup>2</sup> Estimated in 2012 CAFR and have been revised for 2012 actuals.

(continued)

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

2009	2010	2011 <sup>1</sup>	2012 <sup>2</sup>	2013	2014
\$ 230,885	\$ 270,550	\$ -	\$ -	\$ -	\$ -
94,686	80,251	-	-	-	-
-	-	9,765	8,235	7,207	6,833
-	-	229,559	240,444	267,414	295,361
-	-	102,350	25,229	123,662	129,115
<u>\$ 325,571</u>	<u>\$ 350,801</u>	<u>\$ 341,674</u>	<u>\$ 273,908</u>	<u>\$ 398,283</u>	<u>\$ 431,309</u>
\$ 2,692	\$ 1,894	\$ -	\$ -	\$ -	\$ -
1,078,478	576,331	-	-	-	-
3,574	9,743	-	-	-	-
-	-	-	<8,128>	<8,128>	<8,128>
-	-	-	-	-	-
-	-	719,966	789,547	910,931	816,591
-	-	24,462	37,352	40,550	49,738
<u>\$ 1,084,744</u>	<u>\$ 587,968</u>	<u>\$ 744,428</u>	<u>\$ 818,771</u>	<u>\$ 943,353</u>	<u>\$ 858,201</u>
<u>\$ 1,410,315</u>	<u>\$ 938,769</u>	<u>\$ 1,086,102</u>	<u>\$ 1,092,679</u>	<u>\$ 1,341,636</u>	<u>\$ 1,289,510</u>

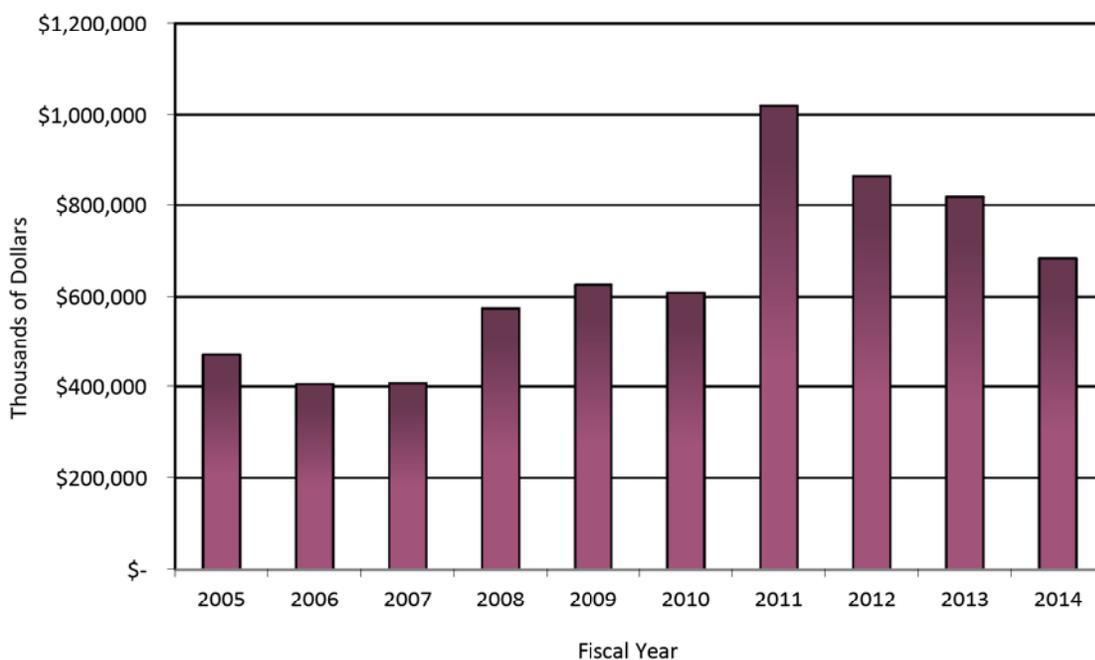
**Arizona Department of Transportation  
Expenditures of Federal Awards<sup>1</sup>  
for the fiscal year ended June 30  
(Thousands of Dollars)**

Fiscal Year	Federal Agencies <sup>1</sup>												Total Federal Expenditures
	BIA	BJA	BLM	FAA	FHWA	FMCSA	FRA	FTA	GSA	NHTSA	OST	USDA	
2014	\$ -	\$ -	\$ -	\$ 454	\$ 660,644	\$ 2,204	\$ 65	\$ 18,107	\$ 234	\$ 112	\$ 1,512	\$ -	\$ 683,332
2013	-	13	-	198	794,912	2,747	611	19,056	-	123	344	-	818,004
2012	-	-	-	488	840,649	1,518	-	19,261	541	-	-	80	862,537
2011	-	-	1,004	3,844	988,403	3,891	-	21,451	-	1,143	-	-	1,019,736
2010	-	-	124	7,938	574,068	4,148	-	22,769	-	120	-	-	609,167
2009	-	-	268	3,902	603,643	4,734	-	13,853	-	101	-	-	626,501
2008	-	-	57	715	555,282	2,642	-	15,530	-	106	-	-	574,332
2007	<21>	-	544	610	393,751	1,769	-	10,169	-	101	-	-	406,923
2006	-	-	162	4,338	389,575	2,231	-	8,837	-	69	-	-	405,212
2005	278	-	152	4,203	456,924	282	-	8,466	-	96	-	-	470,401

SOURCE: Single Audit Reports - fiscal years 2005 through 2014

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

Total Expenditures of Federal Awards



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

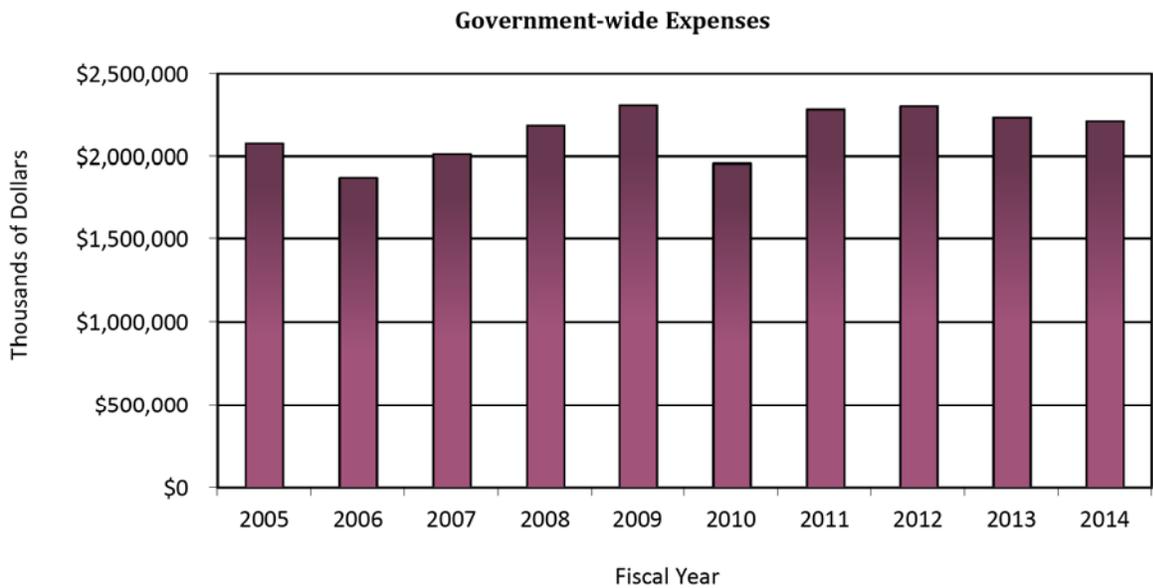
Fiscal Year	Admin.	Aeronautics	Highway	Highway		Motor Vehicle	Distributions to
				Maintenance <sup>1</sup>			Arizona Counties, Cities and Other State Agencies
2014	\$ 106,200	\$ -	\$ 51,074	\$ 122,977	\$ 111,397	\$ 1,282,473	
2013	101,370	-	46,076	139,762	107,655	1,287,481	
2012	94,075	-	39,632	476,447	116,095	1,312,999	
2011	93,040	-	37,070	475,290	99,949	1,279,459	
2010	65,781	-	34,721	225,679	102,926	1,309,112	
2009	56,282	10,993	116,697	311,605	133,243	1,505,835	
2008	54,918	4,373	132,874	324,104	112,880	1,415,075	
2007	51,667	5,418	138,788	233,732	105,961	1,334,003	
2006	45,002	10,705	118,147	60,138	96,937	1,394,609	
2005	42,298	9,804	125,889	261,714	91,676	1,393,808	

NOTE: <sup>1</sup> Includes Non-capital, including asset preservation.

(continued)

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

Local Governmental Assistance	Premium on Long-Term Debt	Interest on Long-Term Debt	Other	Arizona Highways Magazine	Highway Expansion and Extension Loan Program	Total
\$ 90,376	\$ -	\$ 114,406	\$ 326,073	\$ 4,821	\$ 46	\$ 2,209,843
102,332	-	187,315	257,126	4,637	46	2,233,800
93,557	1,419	162,662	-	4,978	75	2,301,939
163,035	-	128,768	-	5,664	126	2,282,401
83,230	-	129,626	-	6,288	147	1,957,510
48,571	-	114,683	-	7,410	2,110	2,307,429
37,285	-	92,295	-	7,712	4,053	2,185,569
48,760	-	82,450	-	8,072	4,355	2,013,206
36,771	-	88,278	9,394	8,175	4,273	1,872,429
42,440	-	86,870	6,871	10,270	4,360	2,076,000



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

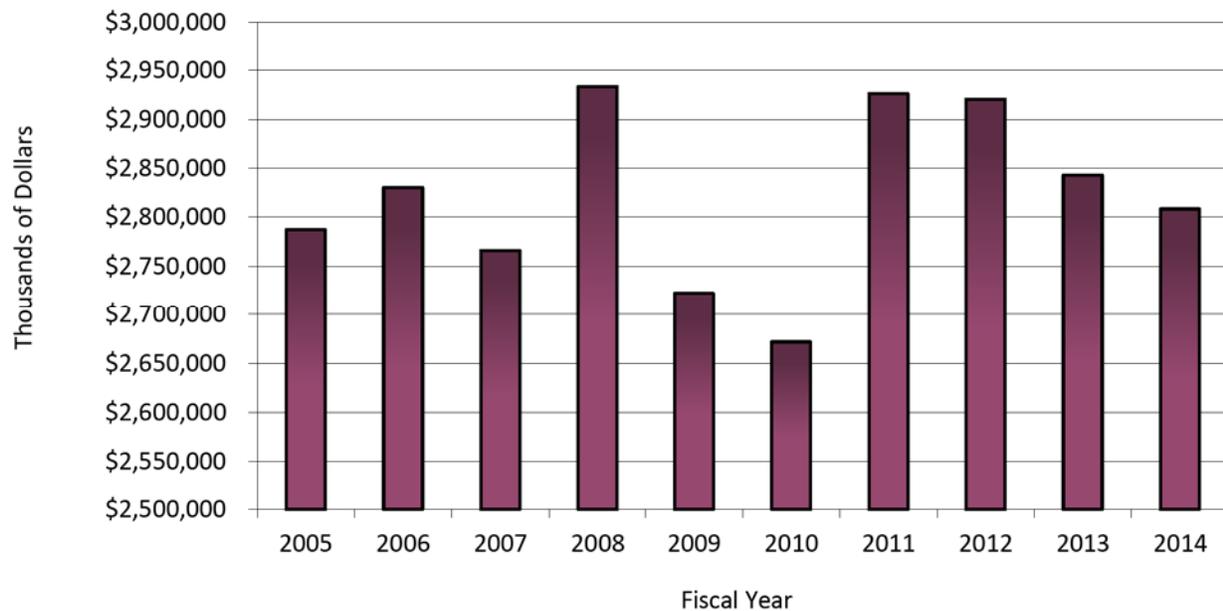
Fiscal Year	Program Revenues			
	Governmental			Business-Type
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Charges for Services
2014	\$ 137,725	\$ 157,705	\$ 546,680	\$ 5,164
2013	134,716	168,436	651,798	5,194
2012	127,347	161,992	776,814	5,583
2011	133,661	220,759	743,718	5,773
2010	124,307	146,936	575,448	6,541
2009	139,396	90,619	552,488	7,418
2008	150,024	79,747	523,728	9,379
2007	158,019	72,679	354,024	10,969
2006	134,068	67,241	387,614	11,293
2005	126,267	58,948	484,276	11,452

NOTE: <sup>1</sup> Includes transfers for multiple years.

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

General Revenues						Total
Governmental			Business-Type			Government-wide Revenues
Taxes	Other Revenues <sup>1</sup>	Income from Investments	Other Revenues <sup>1</sup>	Income from Investments		
\$ 1,934,835	\$ 13,905	\$ 11,634	\$ 26	\$ 735	\$ 2,808,409	
1,857,273	13,290	11,781	121	747	2,843,356	
1,826,980	9,604	11,388	-	783	2,920,491	
1,795,291	16,079	9,402	851	555	2,926,089	
1,792,989	8,965	16,347	-	514	2,672,047	
1,874,415	22,331	33,588	500	1,612	2,722,367	
2,067,464	38,772	59,528	(18)	4,788	2,933,412	
2,097,476	9,998	57,760	(3)	5,563	2,766,485	
2,186,859	11,026	28,538	-	3,518	2,830,157	
2,056,503	27,120	19,245	381	2,764	2,786,956	

**Government-wide Revenues**



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

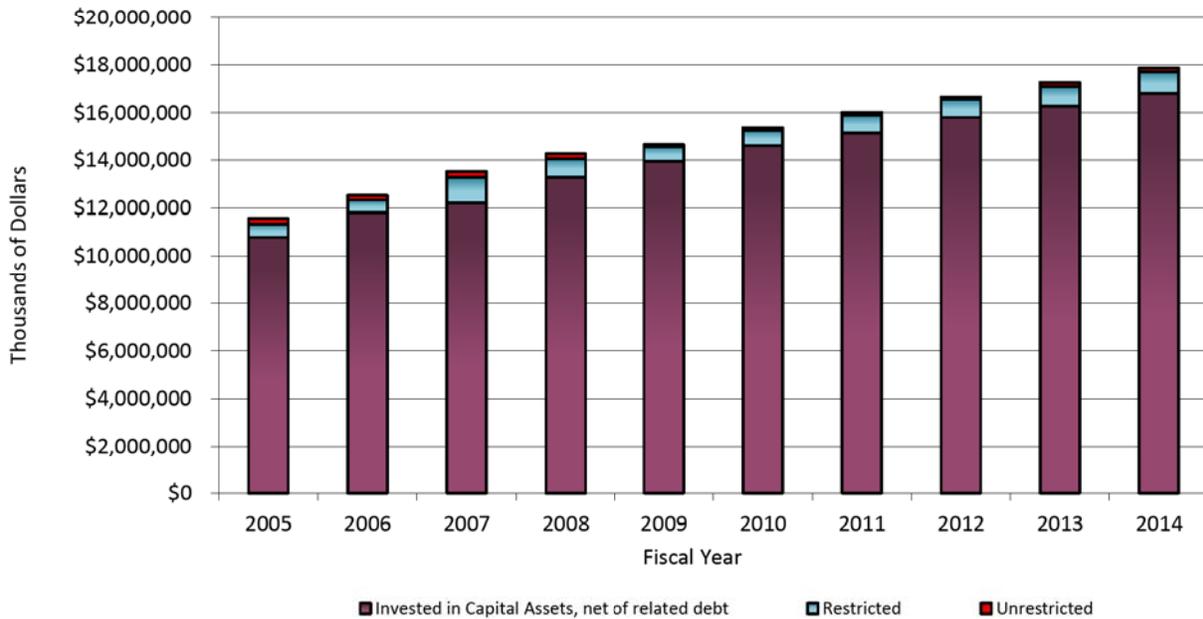
Fiscal Year	Governmental Activities				Business-type Activities
	Net Investment in Capital Assets	Restricted	Unrestricted	Total	Net Investment in Capital Assets
2014	\$ 16,812,808	\$ 805,893	\$ 159,127	\$ 17,777,828	\$ 24
2013	16,290,605	738,969	150,721	17,180,295	30
2012	15,818,053	666,828	106,932	16,591,813	43
2011	15,159,086	669,811	125,860	15,954,757	54
2010	14,620,099	566,794	126,415	15,313,308	92
2009	13,951,802	534,535	113,053	14,599,390	131
2008	13,285,438	704,929	209,650	14,200,017	173
2007	12,211,861	1,006,512	236,186	13,454,559	225
2006	11,806,376	466,337	189,669	12,462,382	249
2005	10,780,474	491,995	234,548	11,507,017	499

(continued)

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

Business-type Activities			Primary Government			
Restricted	Unrestricted	Total	Net Investment in Capital Assets	Restricted	Unrestricted	Total
\$ 78,226	\$ 1,790	\$ 80,040	\$ 16,812,832	\$ 884,119	\$ 160,917	\$ 17,857,868
77,564	1,414	79,008	16,290,635	816,533	152,135	17,259,303
76,882	825	77,750	15,818,096	743,710	107,757	16,669,563
76,192	192	76,438	15,159,140	746,003	126,052	16,031,195
75,619	(663)	75,048	14,620,191	642,413	125,752	15,388,356
74,703	(406)	74,428	13,951,933	609,238	112,647	14,673,818
74,115	132	74,420	13,285,611	779,044	209,782	14,274,437
71,708	102	72,035	12,212,086	1,078,220	236,288	13,526,594
67,713	(30)	67,932	11,806,625	534,050	189,639	12,530,314
65,273	(204)	65,568	10,780,973	557,268	234,344	11,572,585

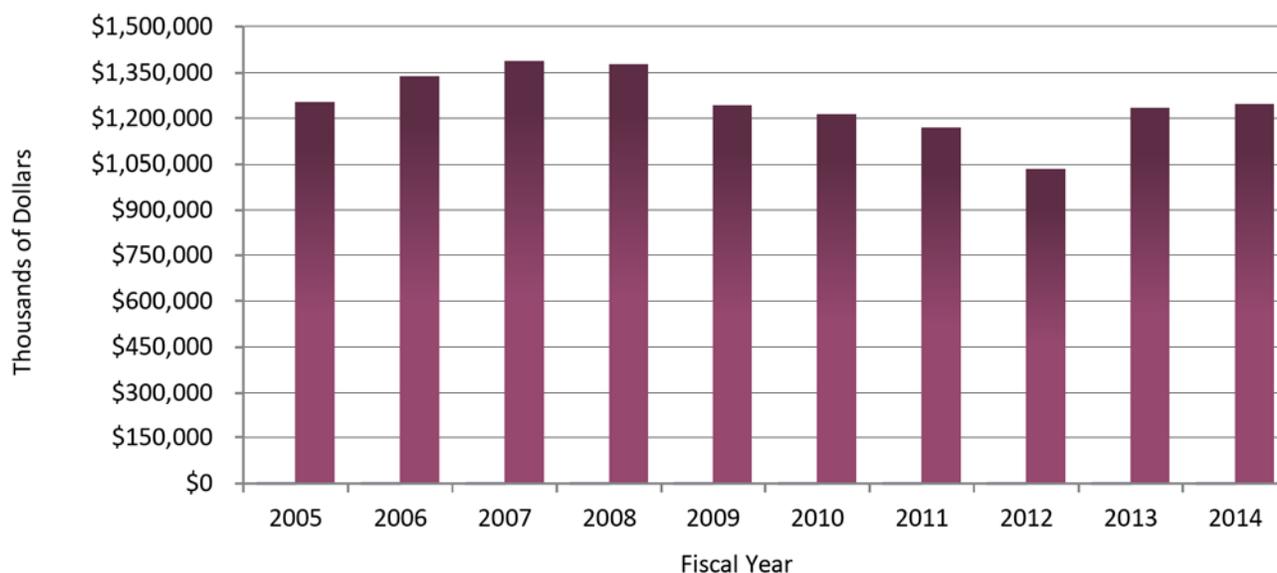
**Primary Government Net Assets By Component**



**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 HURF
2014	\$ 632,544	\$ 182,492	\$ 17,953	\$ 68,452	\$ 345,603	\$ 1,247,044
2013	647,858	180,115	17,103	67,373	321,864	1,234,313
2012	538,352	180,685	17,085	69,765	228,317	1,034,204
2011	636,507	175,179	17,466	64,361	275,132	1,168,645
2010	633,771	170,453	17,157	59,431	331,080	1,211,892
2009	637,054	178,953	18,930	58,500	349,399	1,242,836
2008	697,771	196,151	21,758	60,630	400,787	1,377,097
2007	725,787	194,308	22,473	57,085	389,503	1,389,156
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

**Highway User Revenue Fund Collections**



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

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

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

SOURCES: Basic Financial Statements - fiscal years 2005 through 2014

NOTE: <sup>1</sup>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)**

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Fiscal Year	Gasoline Tax	Use Fuel Tax <sup>1</sup>
2014	\$ 0.18	\$ 0.26
2013	0.18	0.26
2012	0.18	0.26
2011	0.18	0.26
2010	0.18	0.26
2009	0.18	0.26
2008	0.18	0.26
2007	0.18	0.26
2006	0.18	0.26
2005	0.18	0.26

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

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

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

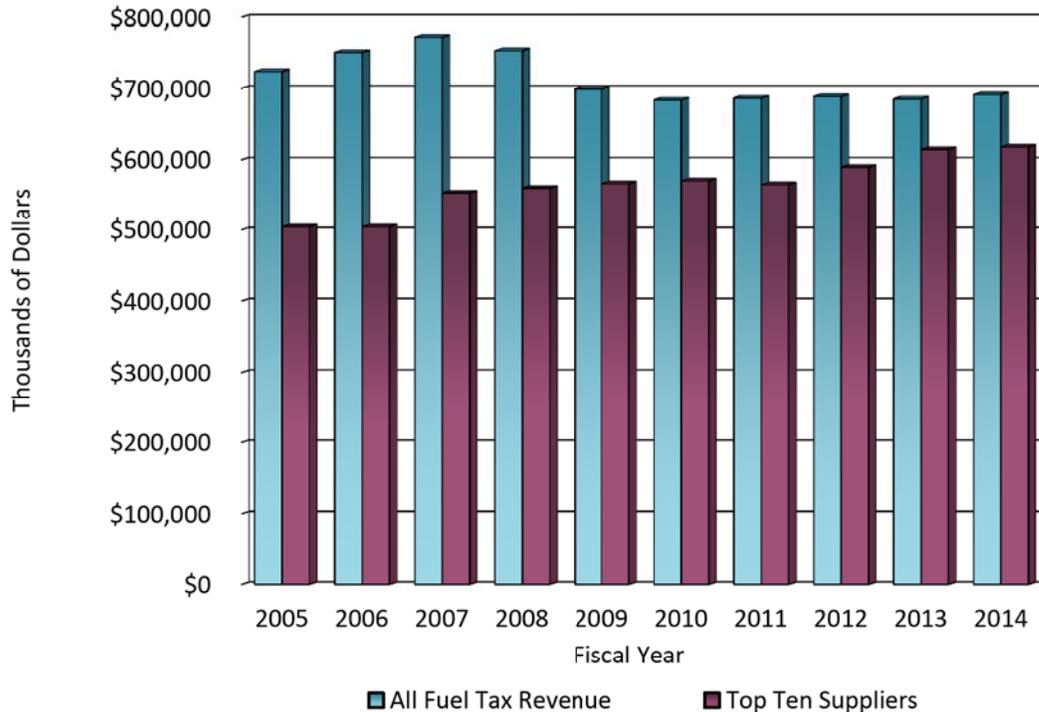
**Arizona Department of Transportation  
Motor Vehicle Fuel Tax - Top Ten Suppliers  
for fiscal year ended June 30  
(Thousands)**

Fiscal Year	Gallons from Top Ten Suppliers	Revenue from Top Ten Suppliers	All Motor Vehicle Fuel Tax Revenue	Revenue Percentage
				from Top Ten Suppliers
2014	3,138,450	\$ 617,134	\$ 691,250	89.3%
2013	3,110,955	613,799	685,320	89.6%
2012	3,025,722	589,607	688,642	85.6%
2011	2,898,241	564,353	686,591	82.2%
2010	2,905,890	569,974	683,880	83.3%
2009	2,871,995	565,889	698,959	81.0%
2008	2,839,622	559,609	753,036	74.3%
2007	2,807,989	552,997	772,100	71.6%
2006	2,588,981	504,052	750,574	67.2%
2005	2,545,685	504,128	723,425	69.7%

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 2005 - 2014.

**Motor Vehicle Fuel Tax Sources**



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

Range - in Millions of Gallons	2005		2006		2007		2008		2009	
	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold
< 25	3	1.5%	5	2.4%	6	2.0%	8	1.5%	7	3.3%
26 - 50	4	3.1%	2	2.4%	1	1.0%	6	4.2%	5	5.2%
51 - 100	6	13.0%	5	12.0%	5	11.1%	3	12.1%	2	3.2%
101 - 200	6	27.0%	6	21.8%	6	24.5%	5	11.1%	3	11.4%
201 - 300	3	19.0%	3	17.6%	3	18.2%	3	34.8%	3	17.9%
> 300	3	30.9%	4	38.5%	4	40.4%	-	32.7%	5	55.8%
	25	94.5%	25	94.7%	25	97.2%	25	96.4%	25	96.8%

Total Gallons of Gasoline (Thousands)	2,730,911	2,781,197	2,871,528	2,797,714	2,634,840
Gasoline % of Total	75.5%	74.3%	74.5%	74.5%	75.3%
Total Gallons of Use Fuel (Diesel) (Thousands)	887,406	963,551	981,647	959,406	864,455
Diesel % of Total	24.5%	25.7%	25.5%	25.5%	24.7%

Note: Above data reflects a change in gasoline and use fuel gallon reported by the Revenue & Fuel Tax Administration for 2005 - 2014.

(continued)

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

Range - in Millions of Gallons	2010		2011		2012		2013		2014	
	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold	Suppliers within Range	% of Total Gallons Sold
< 25	7	2.7%	7	3.2%	15	5.9%	14	5.9%	13	4.8%
26 - 50	8	9.2%	5	4.9%	1	1.3%	2	2.4%	2	2.0%
51 - 100	1	1.5%	3	4.6%	1	1.8%	1	2.0%	2	4.2%
101 - 200	2	9.8%	3	15.3%	3	16.1%	2	10.2%	3	15.0%
201 - 300	3	21.7%	3	19.0%	1	7.7%	2	12.7%	1	6.2%
> 300	4	51.6%	4	49.8%	4	65.3%	4	64.2%	4	65.0%
	25	96.5%	25	96.8%	25	98.1%	25	97.4%	25	97.2%

Total Gallons of Gasoline (Thousands)	2,607,660	2,616,186	2,616,570	2,612,577	2,644,667
Gasoline % of Total	76.0%	75.9%	75.8%	76.0%	76.0%
Total Gallons of Use Fuel (Diesel) (Thousands)	824,996	829,530	837,151	827,138	827,731
Diesel % of Total	24.0%	24.1%	24.2%	24.0%	24.0%

Note: Above data reflects a change in gasoline and use fuel gallon reported by the Revenue & Fuel Tax Administration for 2005 - 2014.

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

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Fiscal Year	Debt Limit <sup>1,2</sup>	Total Principal Applicable to Limit	Legal Debt Margin	Total Principal Applicable to the Limit as a Percentage of Debt Limit
2014	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A
2006	\$ 1,300,000	\$ 1,223,425	\$ 76,575	94.11%
2005	1,300,000	1,161,355	138,645	89.34%

NOTES: <sup>1</sup> 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.

<sup>2</sup> 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)**

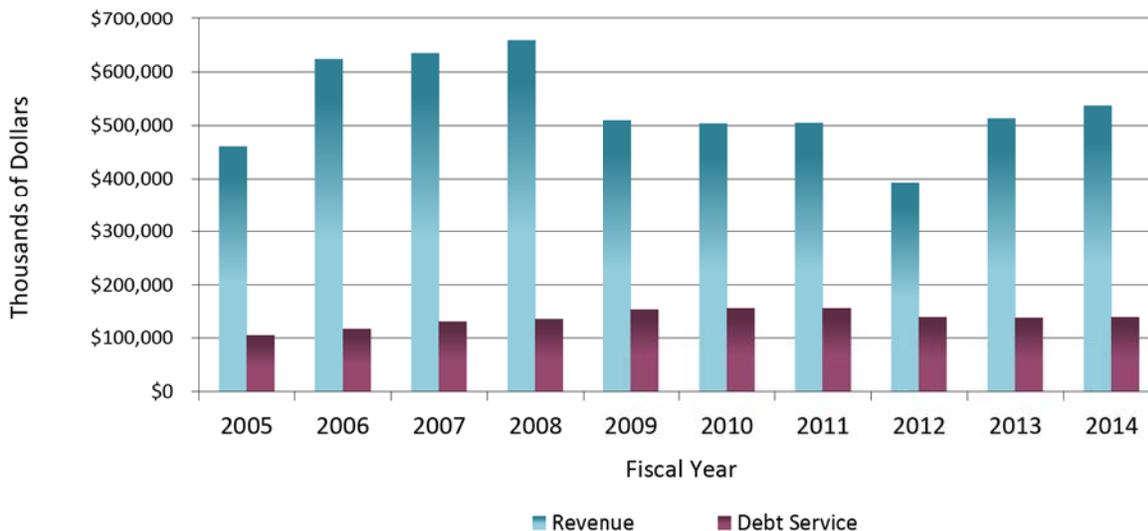
Fiscal Year	Principal	Interest	Total	Pledged Revenues <sup>1,2</sup>	Coverage
2014	\$ 58,485	\$ 80,495	\$ 138,980	\$537,768	3.7
2013	60,540	78,198	138,738	512,971	3.7
2012	67,885	71,113	138,998	392,648	2.8
2011	71,770	83,960	155,730	504,175	3.2
2010	68,140	87,661	155,801	502,874	3.2
2009	64,190	89,825	154,015	509,183	3.3
2008	60,645	75,538	136,183	658,616	4.8
2007	57,825	73,785	131,610	635,140	4.8
2006	54,830	62,222	117,052	624,408	5.3
2005	44,265	60,459	104,724	461,763	4.4

SOURCES: Highway User Revenue Fund Schedule fiscal years 2005 through 2014; Debt Service Funds fiscal years 2005 through 2014.

NOTES: <sup>1</sup> 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.

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

**Highway Revenue Bonds - Bond Coverage**



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

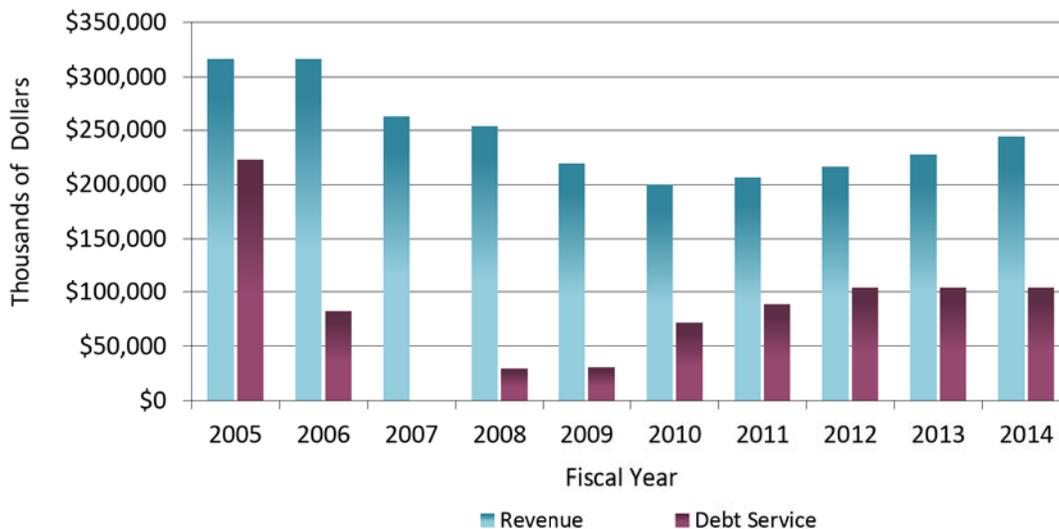
Fiscal Year	Principal	Interest	Total	Pledged Revenues <sup>1</sup>	Coverage
2014	\$ 58,600	\$ 44,988	\$ 103,588	\$ 243,786	2.4
2013	55,870	47,721	103,591	227,800	2.2
2012	55,460	48,129	103,589	216,281	2.1
2011	45,970	42,496	88,466	206,545	2.3
2010	33,315	38,225	71,540	199,672	2.8
2009	13,825	17,193	31,018	219,165	7.1
2008	19,045	10,673	29,718	253,742	8.5
2007	-	-	-	262,264	N/A
2006	80,375	1,566	81,941	316,491	3.9
2005	208,625	14,318	222,943	316,806	1.4

SOURCE: Maricopa County Regional Area Road Fund Report

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

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

**Transportation Excise Tax Revenue Bonds - Bond Coverage**

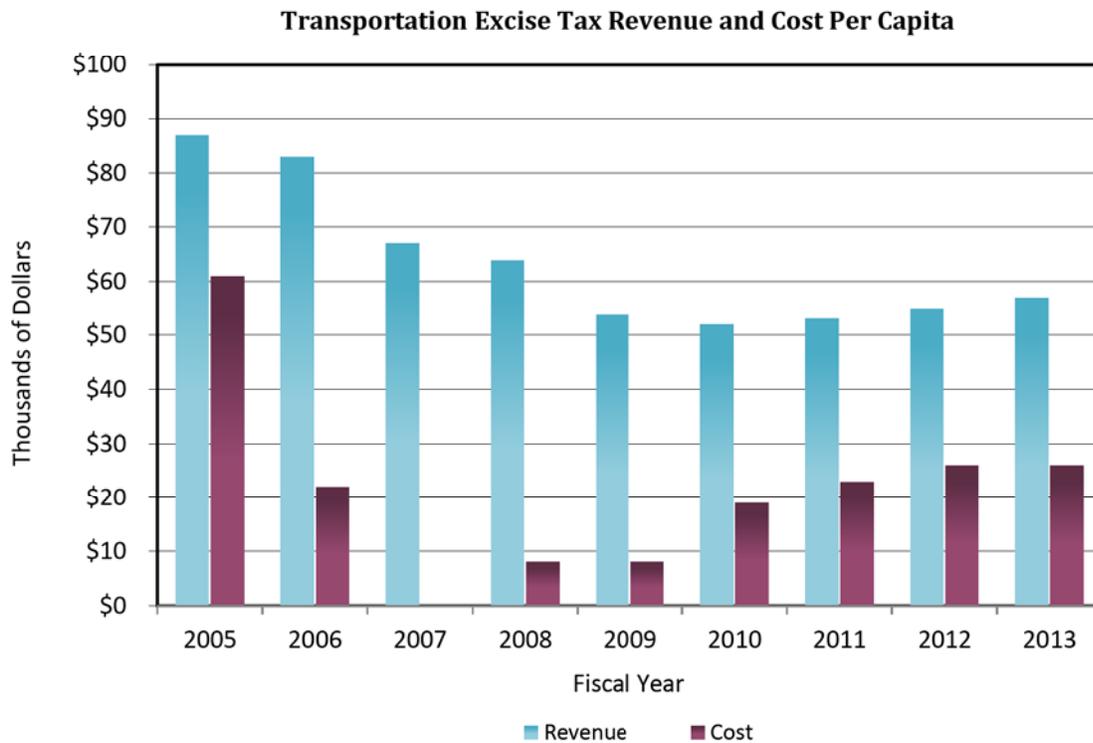


**Arizona Department of Transportation  
Transportation Excise Tax Revenue Bonds  
Debt Service Revenue and Cost Per Capita  
for the fiscal year ended June 30  
(Thousands)**

Fiscal Year	Principal	Interest	Total Cost	Revenue <sup>1</sup>	Maricopa County Population	Cost per capita	Revenue per capita
2013	\$ 55,870	\$ 47,721	\$ 103,591	\$ 227,800	4,009	\$ 26	\$ 57
2012	55,460	48,129	103,589	216,281	3,942	26	55
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

SOURCES: Maricopa County Regional Area Road Fund Report; population data from the U.S. Census Bureau available only through 2013.

NOTE: <sup>1</sup> 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Governmental Activities</b>				
Highway Revenue Bonds	\$ 1,017,360	\$ 1,161,355	\$ 1,223,425	\$ 1,490,600
Transportation Excise Tax Revenue Bonds	289,000	80,375	-	-
Grant Anticipation Notes (GARVEE)	308,585	363,970	325,430	282,860
Premium on bonds	60,481	76,721	90,852	108,034
Capital leases	1,121	5,910	11,130	10,601
Advances and notes payable	<u>165,305</u>	<u>169,473</u>	<u>195,018</u>	<u>168,287</u>
Total Governmental activities	<u>1,841,852</u>	<u>1,857,804</u>	<u>1,845,855</u>	<u>2,060,382</u>
<b>Business-Type Activities</b>				
Notes payable	<u>142,414</u>	<u>146,454</u>	<u>150,494</u>	<u>154,534</u>
Total Business-type Activities	<u>142,414</u>	<u>146,454</u>	<u>150,494</u>	<u>154,534</u>
<b>Total Primary Government</b>	<u>\$ 1,984,266</u>	<u>\$ 2,004,258</u>	<u>\$ 1,996,349</u>	<u>\$ 2,214,916</u>
Debt as a Percentage of Personal Income	1.17%	1.07%	0.96%	1.01%
Amount of Debt per Capita <sup>1</sup>	\$ 345	\$ 335	\$ 322	\$ 348

**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 2013

**NOTE:**

<sup>1</sup>The Arizona population data are midyear population estimates of the U.S. Bureau of the Census. Year 2003 through 2009 have been revised to reflect revisions made by the U.S. Bureau of the Census. Per capital personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Previous years have been revised to reflect revisions in personal income and population estimates.

(continued)

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$	1,623,905	\$ 1,740,765	\$ 1,672,625	\$ 1,600,855	\$ 1,619,965	\$ 1,733,285
	350,955	777,130	743,815	877,845	981,845	925,975
	298,280	329,650	304,480	392,495	335,230	296,240
	128,586	173,313	158,601	180,225	248,892	350,739
	7,535	4,326	1,304	4,910	10,729	22,271
	56,739	42,668	60,711	59,892	55,666	105,816
	<u>2,466,000</u>	<u>3,067,852</u>	<u>2,941,536</u>	<u>3,116,222</u>	<u>3,252,327</u>	<u>3,434,326</u>
	2,170	-	-	-	-	-
	<u>2,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$	<u>2,468,170</u>	<u>3,067,852</u>	<u>2,941,536</u>	<u>3,116,222</u>	<u>3,252,327</u>	<u>3,434,326</u>
	1.10%	1.40%	1.31%	1.37%	1.38%	1.40%
\$	380	\$ 465	\$ 441	\$ 481	\$ 496	\$ 518

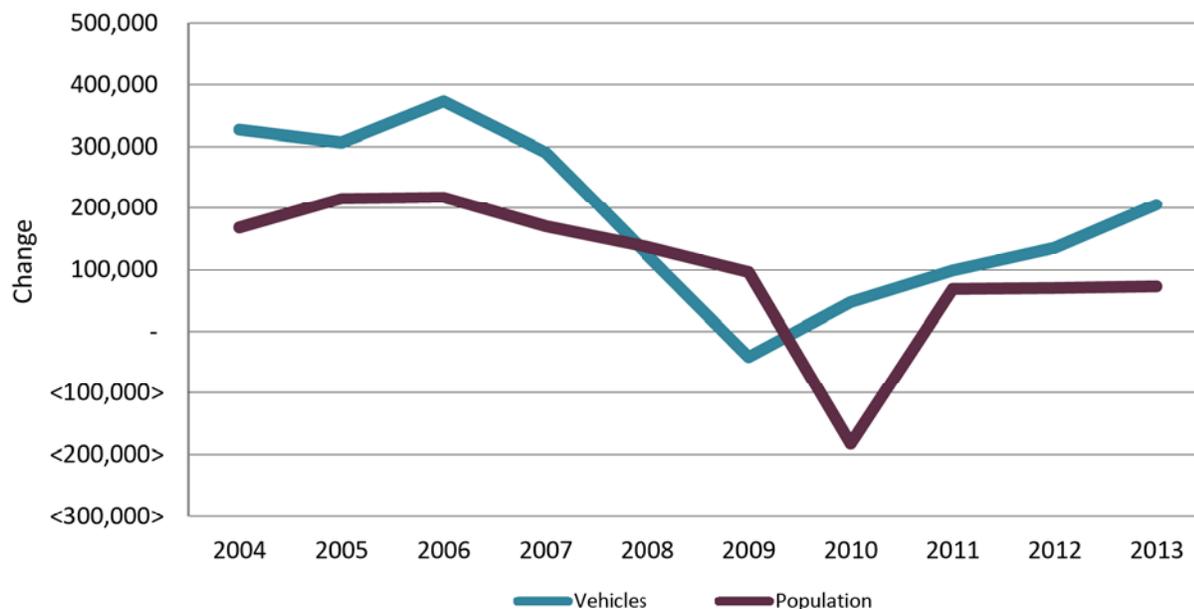
**Arizona Department of Transportation  
Number of Vehicle Registrations Per Year  
for fiscal year ended June 30  
(Thousands)**

Fiscal Year	Total Vehicles	Change in Number of Registered Vehicles	Arizona Population <sup>1</sup>	Change in Population	Vehicles Per Person
2013	7,181	205	6,627	73	1.084
2012	6,975	136	6,553	71	1.064
2011	6,840	99	6,483	69	1.055
2010	6,741	48	6,413	<183>	1.051
2009	6,693	<41>	6,596	96	1.015
2008	6,734	125	6,499	137	1.036
2007	6,609	290	6,362	170	1.039
2006	6,318	373	6,192	217	1.020
2005	5,945	306	5,975	215	0.995
2004	5,639	327	5,759	168	0.979

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

NOTES: <sup>1</sup> 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. Year 2012 Vehicles has been revised to reflect revisions made by MVD. Population data available only through fiscal year 2013.

**Change in Vehicles Registered Compared to Population Change**



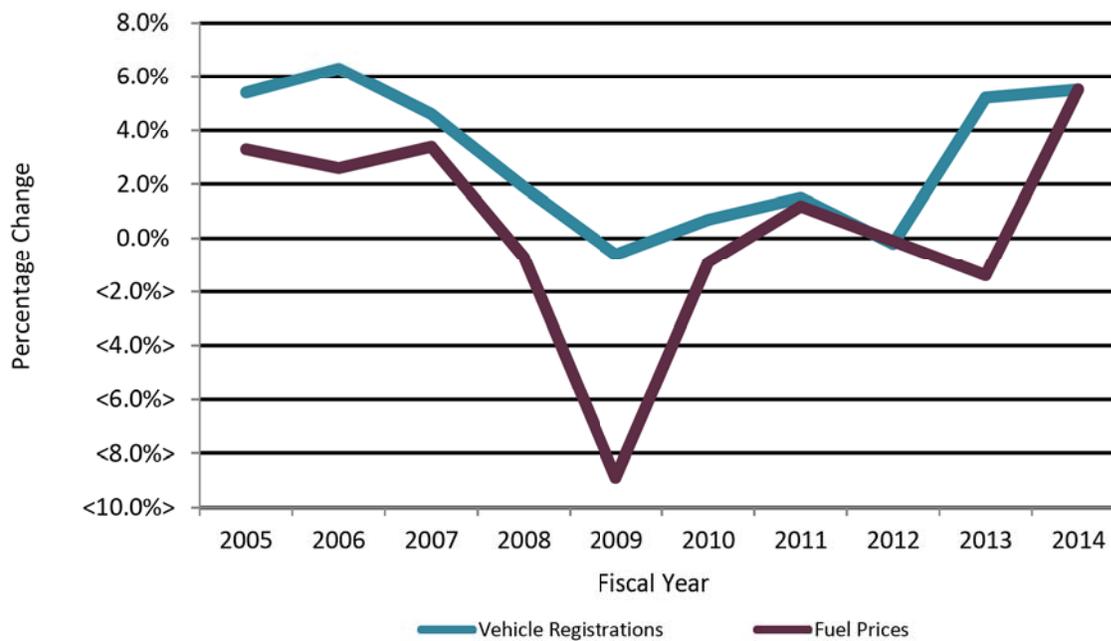
**Arizona Department of Transportation  
Vehicle Registrations Per Year Compared to Fuel Sales  
for fiscal year ended June 30  
(Thousands)**

Fiscal Year	Vehicle Registrations	Percentage Change	Fuel Sales <sup>1</sup>	Percentage Change
2014	7,453	5.5%	3,389,934	5.5%
2013	7,181	5.2%	3,360,587	<1.4%>
2012	6,824	<0.2%>	3,409,594	<0.1%>
2011	6,840	1.5%	3,411,652	1.2%
2010	6,741	0.7%	3,369,732	<0.9%>
2009	6,693	<0.6%>	3,398,866	<8.9%>
2008	6,734	1.9%	3,731,808	<0.7%>
2007	6,609	4.6%	3,759,465	3.4%
2006	6,318	6.3%	3,636,195	2.6%
2005	5,945	5.4%	3,542,631	3.3%

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

NOTES: <sup>1</sup> 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.

**Percentage Change in Vehicle Registrations and Fuel Sales**



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

Calendar Year Ended	Personal Income <sup>2</sup>	Per Capita Personal Income <sup>3</sup>	Unemployment Rate <sup>4</sup>	
December 31	Population <sup>1</sup> (in thousands)			
2013	6,626,624	\$ 245,070,457	\$ 36,983	7.9%
2012	6,553,255	235,780,739	35,979	8.3%
2011	6,482,505	227,286,519	35,062	9.4%
2010	6,676,627	223,716,314	33,507	10.4%
2009	6,587,653	219,026,704	33,248	9.8%
2008	6,499,207	223,961,131	34,460	6.0%
2007	6,360,238	218,587,551	34,368	3.7%
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%

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](http://www.workforce.az.gov) (for unemployment rates)

NOTES: <sup>1</sup>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.

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

<sup>3</sup>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.

<sup>4</sup>The unemployment rates were revised to reflect a revision made by the Arizona Department of Commerce website, [www.workforce.az.gov](http://www.workforce.az.gov).

**Arizona Department of Transportation  
Principal Employers  
Current and Ten Years Ago**

Employer	Calendar Year Ended December 31, 2013			Calendar Year Ended December 31, 2003		
	Full-Time Equivalent	Rank	Percentage of Total State Employment	Full-Time Equivalent	Rank	Percentage of Total State Employment
	Employees			Employees		
State of Arizona	49,278	1	1.63%	50,363	1	1.85%
Wal-Mart Stores Inc.	32,169	2	1.06%	18,677	2	0.68%
Banner Health	25,270	3	0.83%	13,756	3	0.50%
City of Phoenix	14,983	4	0.49%	13,095	5	0.48%
Wells Fargo	14,713	5	0.49%			0.00%
Maricopa County	12,698	6	0.42%	13,482	4	0.49%
Arizona State University	12,222	7	0.40%	10,005	9	0.37%
Intel Corp.	11,900	8	0.39%	9,500	10	0.35%
J P Morgan Chase & Co.	11,042	9	0.36%			0.00%
Bank of America	11,000	10	0.36%			0.00%
Honeywell International, Inc.			0.00%	12,000	6	0.44%
U.S. Postal Services			0.00%	11,406	7	0.42%
Albertson's-Osco			0.00%	9,500	10	0.35%
Raytheon co.			0.00%	10,200	8	0.37%
<b>Total</b>	<b>195,275</b>		<b>6.43%</b>	<b>171,984</b>		<b>6.30%</b>

SOURCES: Resources: Bizjournals.com for 2013 employers, Business Journal, Book of Lists 2003 for employers; Arizona Department of Commerce website, [www.workforce.az.gov](http://www.workforce.az.gov) (for annual State employment). The sources are those most current at the time of printing.

Note: Prior years reflect 9 year range only - beginning this year there will be a 10 year range.

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

Fiscal Year	Appropriated					Non-appropriated					Total All FTEs
	Admin.	Highways	Multimodal Planning Division	Motor Vehicle Division	Enforcement & Compliance Division <sup>1</sup>	Total Appropriated FTEs	Arizona Highways Magazine	HELP	Other	Total Non- Appropriated FTEs	
2014	792	2,235	78	1,060	383	4,548	20	1	44	65	4,613
2013	792	2,235	78	1,075	368	4,548	18	-	45	63	4,611
2012	756	2,262	87	1,075	368	4,548	23	1	44	68	4,616
2011	745	2,267	52	1,111	373	4,548	22	2	44	68	4,616
2010	692	2,153	46	1,657	-	4,548	23	2	43	68	4,616
2009	692	2,255	46	1,755	-	4,748	28	-	24	52	4,800
2008	692	2,255	46	1,751	-	4,744	28	-	24	52	4,796
2007	692	2,223	46	1,730	-	4,691	60	3	49	112	4,803
2006	692	2,223	46	1,688	-	4,649	72	3	38	113	4,762
2005	686	2,227	48	1,665	-	4,626	72	3	31	106	4,732

NOTES <sup>1</sup> ECD FTE total was included in the Motor Vehicle Division 2005-2010.

**Arizona Department of Transportation**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule by Function and Activity<sup>1</sup>**  
**June 30, 2014**  
**(Thousands of Dollars)**

Function and Activity	Land	Buildings and Improvements	Improvements other than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
Administration	\$ 879	\$ 49,314	\$ 18,607	\$ 12,368	\$ -	\$ -	\$ 81,168
Highway:							
Administrative and other services	936	37,855	1,798	3,279	-	-	43,868
Highway construction	2,885,892	10,567	384	4,470	13,778,329	2,843,910	19,523,552
Highway development	710	105	-	2,667	-	-	3,482
Materials engineering	-	4,908	7	4,301	-	-	9,216
Traffic engineering	-	357	22	1,218	-	-	1,597
Transportation planning and research	-	153	123	316	-	-	592
Highway maintenance	4,907	45,260	9,396	9,013	-	-	68,576
Motor vehicle	12,797	47,244	3,572	8,455	-	-	72,068
Total governmental funds capital assets	<u>\$ 2,906,121</u>	<u>\$ 195,763</u>	<u>\$ 33,909</u>	<u>\$ 46,087</u>	<u>\$ 13,778,329</u>	<u>\$ 2,843,910</u>	<u>\$ 19,804,119</u>

## Note:

<sup>1</sup> 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 Activity<sup>1</sup>**  
**for the fiscal year ended June 30, 2014**

Function and Activity	Governmental Funds Capital Assets July 1, 2013	Additions	Deductions	Governmental Funds Capital Assets June 30, 2014
Administration	\$ 80,115,547	\$ 3,305,221	\$ <2,252,910>	\$ 81,167,858
Highway:				
Administrative and other services	43,824,853	43,967	-	43,868,820
Highway construction	15,775,036,528	908,503,336	<3,899,394>	16,679,640,470
Highway development	3,482,394		-	3,482,394
Materials engineering	9,179,994	36,468	-	9,216,462
Traffic engineering	1,585,297	10,851	-	1,596,148
Transportation planning and research	591,681		-	591,681
Highway maintenance	68,411,355	165,323	-	68,576,678
Motor Vehicle	70,287,596	1,780,772	-	72,068,368
Functional sub-total	16,052,515,245	913,845,938	<6,152,304>	16,960,208,879
Construction in progress	3,285,416,977	461,509,447	<903,016,401>	2,843,910,023
Total governmental funds capital assets	<u>\$ 19,337,932,222</u>	<u>\$ 1,375,355,385</u>	<u>\$ &lt;909,168,705&gt;</u>	<u>\$ 19,804,118,902</u>

NOTE: <sup>1</sup> This schedule presents only the capital asset balances (not net of depreciation) related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net assets.

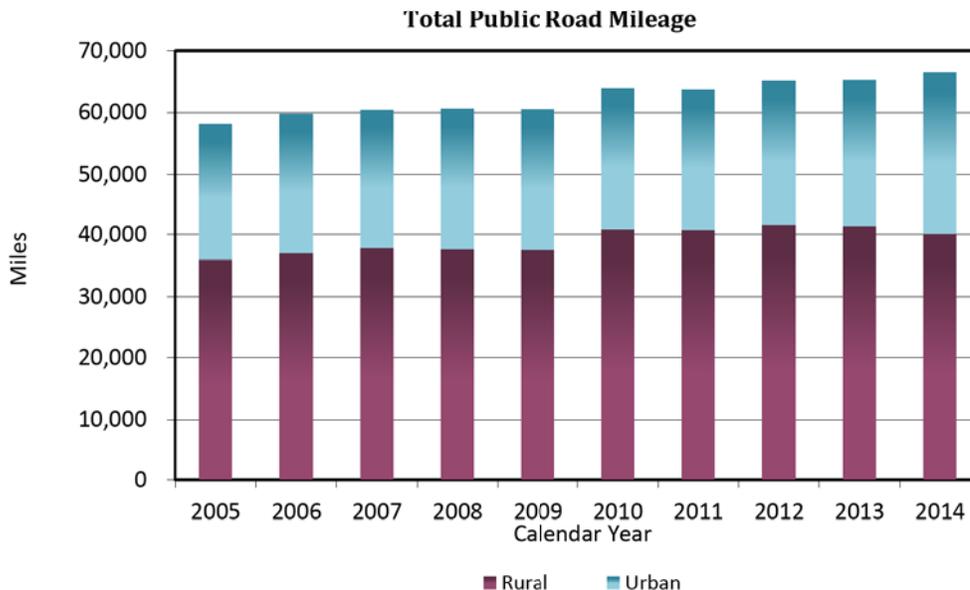
**Arizona Department of Transportation  
Total Public Road Mileage by Highway Class and Governmental Ownership  
for the calendar year ended December 31  
(In Center Line Miles)**

Functional Classification	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Rural:</b>										
Interstate Freeway	980	981	981	980	980	980	980	980	982	921
<sup>1</sup> Principal Arterial Freeways & Expressways	Additional categorization beginning 2011							25	43	18
Principal Arterial	1,187	1,167	1,168	1,167	1,167	1,167	1,259	1,267	-	1,174
Minor Arterial	1,343	1,363	1,359	1,357	1,358	1,378	1,276	1,328	1,267	1,173
Major Collector	4,301	4,332	4,303	4,301	4,302	4,342	4,338	4,413	1,308	4,179
Minor Collector	2,210	2,188	2,186	2,185	2,191	2,134	1,735	2,032	6,416	1,794
Local	26,016	27,015	27,819	27,685	27,525	30,845	31,157	31,548	31,370	30,870
<b>Total Rural</b>	<b>36,037</b>	<b>37,046</b>	<b>37,816</b>	<b>37,675</b>	<b>37,523</b>	<b>40,846</b>	<b>40,745</b>	<b>41,593</b>	<b>41,386</b>	<b>40,129</b>
<b>Urban:</b>										
Interstate freeway	188	188	188	188	188	188	188	188	187	248
<sup>2</sup> Principal Arterial Freeways & Expressways	150	156	168	171	176	176	175	178	181	208
Principal arterial	1,156	1,400	1,400	1,400	1,399	1,400	1,390	1,435	1,437	1,491
Minor arterial	1,279	1,790	1,791	1,792	1,807	1,808	1,752	1,788	1,786	1,957
Urban collector	2,161	1,645	1,632	1,632	1,632	1,649	1,631	1,653	1,642	2,100
Local	17,142	17,564	17,380	17,735	17,735	17,817	17,806	18,256	18,645	20,308
<b>Total urban</b>	<b>22,076</b>	<b>22,743</b>	<b>22,559</b>	<b>22,918</b>	<b>22,937</b>	<b>23,038</b>	<b>22,942</b>	<b>23,498</b>	<b>23,878</b>	<b>26,312</b>
<b>Statewide composite:</b>										
Freeways and expressways	1,318	1,325	1,337	1,339	1,344	1,344	1,343	1,346	1,350	1,377
Arterials	4,965	5,720	5,718	5,716	5,731	5,753	5,677	5,843	4,533	5,813
Collectors	8,672	8,165	8,121	8,118	8,125	8,125	7,704	8,098	9,366	8,073
Locals	43,158	44,579	45,199	45,420	45,260	48,662	48,963	49,804	50,015	51,178
<b>Total statewide composite</b>	<b>58,113</b>	<b>59,789</b>	<b>60,375</b>	<b>60,593</b>	<b>60,460</b>	<b>63,884</b>	<b>63,687</b>	<b>65,091</b>	<b>65,264</b>	<b>66,441</b>

SOURCE Arizona's Highway Performance Monitoring System (HPMS)

<sup>1</sup>Additional category created for 2011 reporting.

<sup>2</sup>Before 2012 this category was titled "Urban Expressway".



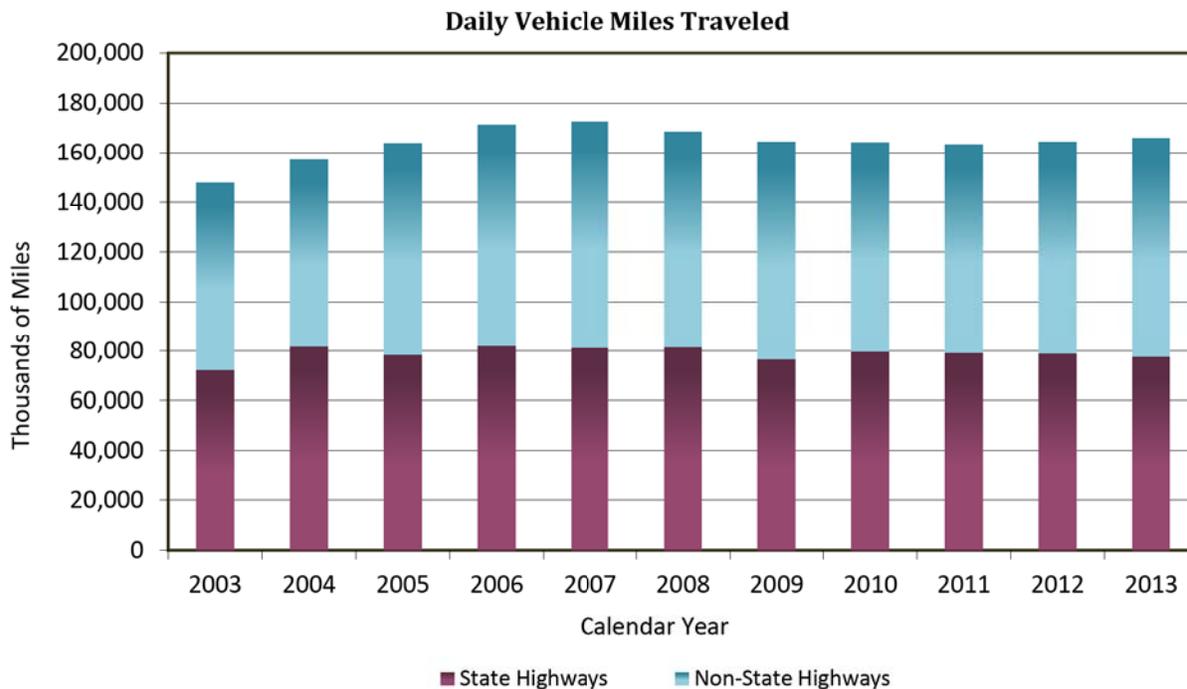
**Arizona Department of Transportation  
Daily Vehicle Miles Traveled with Population Data  
for calendar year ended December 31  
(Thousands)**

Calendar <sup>1</sup> Year Ended December 31	Non-State Highways	State Highways	All Public Highways	Arizona <sup>2</sup> Population	Daily Miles per capita
2013	88,153	77,837	165,990	6,627	25.0
2012	85,285	79,003	164,288	6,553	25.1
2011	83,955	79,312	163,267	6,467	25.2
2010	84,427	79,699	164,126	6,413	25.6
2009	87,608	76,714	164,322	6,588	24.9
2008	86,886	81,496	168,382	6,499	25.9
2007	91,042	81,456	172,498	6,360	27.1
2006	89,016	82,178	171,194	6,191	27.7
2005	85,352	78,473	163,825	5,974	27.4
2004	75,070	81,808	156,878	5,759	27.2

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: <sup>1</sup> Year 2013 is the latest population information available at the time of publication.

<sup>2</sup> Years 2002 through 2009 and 2011 population information has been revised to reflect revisions made by the U.S. Bureau of the Census.



## ACKNOWLEDGMENTS

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

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