

2001 Comprehensive Annual Financial Report

For the fiscal year
Ended June 30, 2001

State of Arizona
Department of Transportation

CERTIFICATE OF ACHIEVEMENT
FOR EXCELLENCE IN
FINANCIAL REPORTING

PRESENTED TO
**ARIZONA DEPARTMENT
OF TRANSPORTATION**

FOR ITS COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

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

(signed) Anne Spray Kinney
President

(signed) Jeffrey L. Esser
Executive Director

STATE OF ARIZONA-DEPARTMENT OF TRANSPORTATION
COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001
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Arizona Department of Transportation

Office of the Director

206 South 17th Avenue Mail Drop 100A Phoenix, Arizona 85007-3213
Phone 602.712.7227 FAX 602.712.6941

Jane Dee Hull
Governor

December 3, 2001

John A. Bogert
Chief of Staff

Victor M. Mendez
Director

The Honorable Jane D. Hull,
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 of the Arizona Department of Transportation, for the fiscal year ended June 30, 2001. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Department. To the best of our knowledge and belief, the enclosed data is accurate 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 and account groups. All disclosures necessary to enable the reader to gain an understanding of the Department's financial activities have been included.

The Department was established by the State Legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the State Department of Aeronautics (originally established in 1962). The Department is not legally separate from the State of Arizona's primary government. The Department's mission is to provide a safe and efficient transportation system, together with the means of revenue collection and licensing for Arizona. It serves as the State's public agency to plan, develop, maintain and operate facilities for the efficient movement of people and goods by surface and air throughout the State. The Department has statutory responsibility for carrying out its programs under Arizona Revised Statutes, Titles 28, 35 and 41.

The Department receives guidance in capital planning and program development from a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) appointed by the Governor. 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, board funding obligations and approval of privatization agreements for toll facilities.

The Department is organized into three operating divisions plus a planning division: Intermodal Transportation Division, Motor Vehicle Division, Aeronautics Division and Transportation 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, processes motor vehicle registrations and drivers' license applications, issues certificates of title for motor vehicles and also operates 23 port-of-entry stations. The Aeronautics Division coordinates general aviation in the State and is responsible for registering and licensing all general aviation aircraft, conducting the Local Airports Grant Program and representing the State at air service hearings. The Transportation Planning Division is responsible for the planning of the statewide transportation system including highways and airports, and produces an annually updated Five-Year Transportation Facilities Construction Program for the Board, from which the Board establishes the priorities for highway and airport projects within the State.

In addition, the Department has a Transportation Services Group (TSG) that provides support to the Department's operating and planning divisions. TSG contains units for Financial Management Services, Information Technology, General Services, Human Resources, Community Relations, Civil Rights, Audit and Analysis, Safety, Training and Arizona Highways Magazine. Overall, the Department employs approximately 4,800 persons. The Department's key responsibilities to its customers include:

- ♦ Planning, designing, constructing, and maintaining a statewide transportation system.
- ♦ Providing title, registration, and licensing services.
- ♦ Providing revenue collection and distribution for both highway user and aviation-related taxes and fees.

To meet the needs of its customers, the Department's responsibilities are carried out at locations throughout the State. Most administrative activities are headquartered in or near the Capitol Complex in Phoenix. Field activities for the Motor Vehicle Division are carried out statewide including 23 Ports-of-Entry around the State's borders, and 67 Driver's License/Title and Registration Offices. The Intermodal Transportation Division services its customers through 10 District Offices located throughout the State. These District Offices are responsible for all construction and maintenance activities for the State highway system.

The comprehensive annual financial report 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 organizational chart. The **Financial Section** includes the independent auditors' report, general purpose financial statements, notes, the combining and individual fund and account group financial statements. The **Statistical Section** includes additional financial information and transportation data presented on a multi-year comparative basis.

The objectives of this comprehensive annual financial report are to provide data relative to the financial position of the Department in conformity with accounting principles generally accepted in the United States of America (GAAP) and to include the required financial audits of the State Highway Fund and the remaining funds.

This report includes all funds and account groups used to record the financial activity of the Department. The activities of the State Highway Fund (construction and debt service), the Maricopa Regional Area Road Fund, Bond Funds, and other funds that show the "pass-through" of State and Federal monies are reflected in this report.

ECONOMIC CONDITIONS AND OUTLOOK

For the Year Ended June 30, 2001

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax saw slower growth in fiscal year 2001 due mainly to the slowing economy and economic uncertainty.

The HURF collections in fiscal year 2001 totaled \$1.02 billion, an increase of 1.1 percent over fiscal year 2000, but 1.1 percent below the estimate. The Gas Tax and Vehicle License Tax (VLT) were the only revenue categories to post year-over-year growth.

The economic picture in Arizona has moderated over the past year with slower employment and personal income growth. However, Arizona has not felt the full impact of the slowdown in the national economy due to continued population growth and steady consumer spending, especially in the housing market. Even with the moderated growth, Arizona ranks among the top states in population, personal income and employment growth. The unemployment rate for Arizona alone has remained at or near the lowest levels in more than 30 years. The slower growth in HURF collections during fiscal year 2001 can be attributed to the slowdown in the national economy, which impacted commercial registration and weight fees. Additionally, the economic uncertainty contributed to slower consumer spending for new motor vehicles, which ultimately impacted VLT growth. Finally, the Use Fuel Tax rate was reduced from \$0.27 per gallon to \$0.26 per gallon effective July 1, 2000, leading to no growth in this revenue category.

Arizona's population has grown at an average annual rate of 3.3 percent since 1992, reaching an estimated 5.2 million by July 2001. Arizona continues to rank as one of the fastest growing states in the nation. Personal income in Arizona has grown at an annual average rate of 7.9 percent since 1992 compared to 5.6 percent for the United States. Arizona wage and

salary employment has grown by 4.4 percent creating an average of 80,000 jobs each year for the same time period.

The Maricopa County Transportation Excise Tax funds the Maricopa County Regional Freeway System. This tax, with receipts deposited into the Maricopa County Regional Area Road Fund (RARF), is applied to business activity in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other smaller activities.

Maricopa County Transportation Excise Tax collections totaled \$265 million during fiscal year 2001, an increase of 6.5 percent over fiscal year 2000 and 0.3 percent above the forecast. Since 1992, the Maricopa County Transportation Excise Tax collections have grown by an average annual growth rate of 9.2 percent. The 6.5 percent growth rate in fiscal year 2001 was the slowest growth rate in excise tax collections since fiscal year 1992.

The economic uncertainty, caused by the sharp decline in the stock market as well as job layoffs, impacted collections over the last six months of fiscal year 2001. On a positive note, consumer spending for housing continues at near record pace due in part to lower mortgage rates and second home buyers.

For the Future

The magnitude of the impact on the Department's future revenues and operating budget due to the tragic events that occurred on September 11, 2001, is unknown at this time. However, consumer spending was softening prior to the September 11th events and has decreased sharply since then. It is anticipated that revenues will be negatively impacted. However, the negative impact is expected to be short term.

The Department estimates HURF collections will reach \$1.066 billion in fiscal year 2002, an increase of 3.4 percent above fiscal year 2001. Although the slowdown is expected to continue into the first half of fiscal year 2002, the second half is expected to show modest growth across the board. The HURF average annual compound growth rate for fiscal years 1992 through 2001 has been 4.8 percent.

The distribution of HURF collections in fiscal year 2002 is estimated to be as follows: State Highway Fund \$524 million; Arizona cities and towns \$317

million; Arizona counties \$197 million; Department of Public Safety \$27 million; and Economic Strength Project Fund \$1 million.

Laws 1999, Chapter 5 eliminated the State Highway Fund share of non-HURF VLT effective December 1, 2000. This legislation also specified that replacement funding in the form of a State General Fund appropriation be made to hold the State Highway Fund revenue neutral. However, Laws 2001, Chapter 238 (HB 2636) contained no appropriation to the State Highway Fund from the State General Fund for fiscal years 2002 and 2003. To hold the State Highway Fund revenue neutral, Laws 2001, Chapter 238 provided additional funding, which is detailed in the Debt Administration section of this transmittal letter.

The fiscal year 2002 Transportation Excise Tax collections are projected to be \$280 million, an increase of 5.6 percent over fiscal year 2001. The first half of fiscal year 2002 may experience below average growth due to economic uncertainty that may impact consumer spending habits. However, the second half should provide near average growth rates assuming the national economy does not slip into a recession. The Transportation Excise Tax average annual compound growth rate for fiscal years 1992 through 2001 has been 9.5 percent.

Landmark Federal transportation legislation was enacted into law on June 9, 1998, providing Arizona funding through fiscal year 2003 under a multi-year authorization bill. This measure, the Transportation Equity Act for the 21st Century (TEA-21), provides a record level of investment for transportation infrastructure. Under TEA-21, Arizona is expected to receive \$2.7 billion in appropriations over the fiscal year 1998-2003 period. On an annual basis, the Department expects to receive an average of \$348 million per year in Federal highway apportionments with an additional \$108 million allocated to local governments. The TEA-21 funding level for Arizona is estimated to be approximately 80 percent higher than the average Arizona received under the previous Federal Transportation Act (ISTEA).

In developing the State's transportation plans and budgets, the goal is to produce a balanced program that maximizes the investment of transportation dollars, while meeting priority needs, both in the construction and operations areas. The Department has developed and implemented a strategic approach to transportation financial planning which is linked to

the budget to ensure that the resources necessary to implement the plan are allocated in accordance with priorities reflected in the plan.

The framework for strategic financial planning encompasses the use of enhanced tools, models and techniques, including cash flow models, statistical and econometric models, and bond optimization modeling. Life cycle management and risk analysis are enhancements that have significantly strengthened the planning process, further ensuring that programs remain in fiscal balance.

Through strategic planning, the Department integrates the needs of projected budgets for operations, the Five-Year Transportation Facilities Construction Program, and Land, Building and Improvements (Facilities) into a composite plan for operating within the constraints of a dedicated, but limited, revenue stream. This planning process involves the evaluation of alternatives to ensure the efficient and effective use of limited resources. The product of this process is a deliverable plan of transportation improvements that is fiscally conservative.

MAJOR INITIATIVES

For the Year Ended June 30, 2001

During fiscal year 2001, the Department continued to make significant progress in delivering quality products and services to Arizona residents and visitors. Highlighted below are the Department's most notable achievements.

The Department's emphasis on providing quality services and products to the citizens of Arizona resulted in the Department being named as a recipient of the Arizona's Governor's Award for Quality. The Department becomes only the fifth organization to receive the highest level of the Arizona State Quality Awards since the awards were created in 1993, joining AVNET, Honeywell Satellite Systems, Raytheon Missile Systems, and the 56th Medical Group of the 56th Fighter Wing as award recipients.

During fiscal year 2001, a total of \$1.155 billion was obligated for highway construction. This total included \$414 million for Maricopa County Regional Freeway System projects, \$255 million for other projects in Maricopa County, and \$485 million for work statewide. At the end of fiscal year 2001, the

Department had \$1.097 billion in highway construction work underway.

The Regional Freeway Program in Maricopa County that was redefined in 1995 to complete 107 miles of freeways by 2006 has been advanced and expanded to include 37 additional miles on the Santan and Red Mountain freeways, previously shown in the Long Range Plan. Under the "2007 Acceleration Plan," 147 miles of new freeways are planned to be opened by the end of 2007. Currently 84 miles have been opened to traffic and 15 more miles are under construction. The acceleration is being accomplished through the use of two new financing techniques, Grant Anticipation Notes and Board Funding Obligations.

The Department's Freeway Management System (FMS) added seven miles of traffic monitoring technology to the Phoenix area freeway system during fiscal year 2001. ADOT's FMS network includes traffic sensors, electronic message signs, computers, communications equipment, cameras and operators. The system allows real-time monitoring of traffic conditions and the timely notification of emergency response crews when crashes or other incidents occur along the freeways. The technology now covers 57 miles of Valley freeways, with construction of an additional 40 miles scheduled over the next two years. Local radio traffic reporting services now depend on the system to advise listeners about traffic conditions. A traffic monitoring system along 11 miles of Interstates 10 and 19 in Tucson is under construction. When the Tucson system comes online in 2002, it will be linked to the State FMS in Phoenix. The use of Intelligent Transportation Systems (ITS) technology also is expanding to rural areas with the design and installation of 17 overhead message signs along rural highways, including Interstate 17 between Phoenix and Flagstaff, now underway. This growing network of signs is used to warn drivers of changing road conditions and incidents that could affect their travel.

In June 2001, the Transportation Board approved a \$3.984 billion Highway Construction Program as part of the Five-Year Transportation Facilities Construction Program for fiscal years 2002 through 2006, which provides funding for highway facilities on both the National Highway System and the statewide system. The Five-Year Program includes approximately: \$1.201 billion for freeway and expressway construction in Maricopa County funded

in large part from the Maricopa County Regional Area Road Fund; \$1.796 billion for system improvements, which includes \$130 million for freeway and expressway construction in Maricopa County; \$697 million for system preservation; and \$290 million for system management.

As part of the Five-Year Transportation Facilities Construction Program, the Transportation Board also adopted a \$392 million Five-Year Airport Development Program that includes 622 projects at general aviation and air carrier airports located throughout the State.

For the fiscal year 2001, State-owned Grand Canyon National Park Airport remained the third busiest air carrier airport in the State with 136,226 takeoffs and landings and with 1,052,386 passengers enplaning and deplaning. The airport has been owned by the State since its construction in 1965. Grand Canyon National Park Airport revenue for fiscal year 2001 amounted to \$1.8 million. Governor Hull signed legislation that returned the operation of the Grand Canyon National Park Airport to the Department, which assumed operational control on July 18, 2000.

The Department's web site is accessed over 700,000 times a week by customers and business partners seeking current transportation information. In addition to the online services offered by MVD, meeting agendas of the Governor's Transportation Vision 21 Task Force and the Transportation Board are available. Visitors will also find Geographic Information System (GIS) maps, news releases and legislative summaries. Cameras showing freeway conditions have proven to be a viewing favorite. ADOTNet, the Department's Intranet site, has enabled employees to improve and expand their internal exchange of information for almost two years. By providing an online policies and procedures system, virus alerts, training schedules, forms, documents and information regarding current events, individuals within our organization are better informed and are enjoying a more collaborative work environment.

The Motor Vehicle Division's Third Party Program continues to expand in line with the strategic direction to focus on customer service and promote competitive government by partnering with public and private sector contractors to provide certain MVD services. By the end of fiscal year 2001, there were 63 third party companies providing title and registration services at a rate of approximately

125,000 transactions per month. Other third parties are performing inspections on out-of-state vehicles transferring titles to Arizona, administering driver license exams, processing driver license applications and providing motor vehicle records.

In addition, nearly 45,000 vehicle owners per month are renewing their vehicle registration on the Internet or by interactive voice response (IVR) on the telephone with the Division's electronic service delivery system, ServiceArizona. A major new service added to ServiceArizona during fiscal year 2001 was personalized license plates. This Internet service allows a customer to select from several license plate styles, enter a personalized message, view the plate and place the order online. More than 1,000 personalized plates have been ordered each month since this service was introduced. Other services available on ServiceArizona are special license plate orders, duplicate driver license orders, address changes and filing sold notices. This system has won industry awards and national recognition for its innovative use of technology to improve customer service. MVD is working to encourage even more customers to renew by mail, Internet, and IVR thereby avoiding a trip to a MVD office.

Mary Peters had served as Director of the Department since March, 1998. On July 11, 2001, President George W. Bush announced the nomination of Ms. Peters to the position of Administrator of the Federal Highway Administration, subject to the confirmation by the United States Senate. Ms. Peters' appointment was confirmed by the United States Senate on September 26, 2001, and Ms. Peters resigned as Director on October 2, 2001. Victor Mendez was fulfilling the Director's responsibilities during this time. He was appointed Director by the Governor Hull on October 23, 2001.

For the Future

Looking ahead, it is anticipated that increasing demands will be placed on the State's transportation infrastructure and support services, in response to an expanding population base. The Department will be challenged to maintain existing facilities, meet the demand for new or upgraded roadways, and provide needed services for its citizens. Given increasing requirements in an environment of constrained revenues, one of the Department's key strategies will focus on optimizing resources through process

improvements, encouraging more competitive business practices, and leveraging existing revenues. Innovative financing and public-private partnerships will continue to play a key role in maximizing resources to better meet transportation needs. Another key strategy will be workforce development to ensure that the Department retains a high performing workforce with the skill sets to meet the changing needs of the Department.

Innovative Financing

Investment in transportation infrastructure will continue to play an important role in the strengthening of the Arizona economy in the 21st Century. In order to optimize dollars for construction, the Department has implemented several innovative financing mechanisms. These mechanisms include additional funding of the Highway Expansion and Extension Loan Program (HELP) and Grant Anticipation Notes. HELP is Arizona's state infrastructure bank, which is a loan fund that is capitalized with Federal and State dollars as well as Board Funding Obligations issued by the Department to the State Treasurer. Grant Anticipation Notes are a financing mechanism that leverages future receipt of Federal highway aid.

Maricopa County Regional Freeway System

Transportation serves a vital strategic role in regional development. A safe and efficient transportation system can further economic growth, enhance competitiveness in the global marketplace, and provide a better quality of life for the citizens of the region. Improved or new transportation facilities often serve as a catalyst in business location decisions. Over the sixteen-year period from fiscal year 1986 through 2001, the Department has spent \$4.2 billion on new regional freeway projects in the Phoenix area, financed largely with the 1985 voter approved transportation excise tax. This investment has been a powerful engine for economic growth in the region.

Between fiscal year 2002 and 2007, the Department will spend an additional \$1.3 billion to build new freeways in the Phoenix area. Planned construction is highlighted below:

Pima Freeway (Loop 101)

Construction on the Pima Freeway is complete and open to traffic from Interstate 17 to

Scottsdale Road and from Pima Road to Loop 202. The final segment linking Scottsdale Road to Pima Road is under construction and is expected to open to traffic in the summer of 2002.

Price Freeway (Loop 101)

This north-south route is the City of Chandler's first freeway, giving this growing community direct access to the Regional Freeway System. The final two projects between Guadalupe and Frye Roads are now complete and open to traffic. The Price Freeway interchange with the Santan Freeway (Loop 202) is expected to be completed by the end of 2004.

Red Mountain Freeway (Loop 202)

The Red Mountain Freeway continues to reach farther into the East Valley. Also known as the Loop 202, this freeway is a popular alternative to the Superstition Freeway (US 60). In August 1998, the Red Mountain Freeway opened to Country Club Drive (SR 87), making it easier for motorists to reach the State's rim country. Over the next six years, the Department will obligate more than \$270 million to complete the Red Mountain Freeway to the Superstition Freeway (US 60), which will serve the rapidly growing communities of the East Valley. Two segments between Country Club Road and Higley Road are currently under construction. The segment between Country Club Road and Gilbert Road is targeted for completion near the end of 2001 and the segment between Gilbert Road and Higley Road is projected to open in mid 2003.

Squaw Peak Freeway (SR 51)

The Squaw Peak Freeway has been opened to Bell Road, bringing the total number of open miles on this facility to eight. The remaining two miles, which connect the Squaw Peak Freeway with the Pima Freeway (Loop 101), are under construction and expected to open by the summer of 2003.

Agua Fria Freeway (Loop 101)

The Northwest Valley has seen major strides toward the completion of the Agua Fria Freeway. The full freeway corridor between

Interstate 10 and Interstate 17 is now open to traffic. The final segments between Interstate 10 and Northern Avenue were opened in October 2000. The residents of the growing West Valley suburbs now have direct access to downtown Phoenix.

Santan Freeway (Loop 202)

Construction of the Santan Freeway is underway with initial projects at the Interstate 10 / Santan system interchange now under construction. An estimated \$670 million will be obligated over the next six years to complete the freeway.

Completion of the Santan Freeway from Interstate 10 to the Price Freeway (Loop 101) is targeted for 2004 and the completion of the remaining Santan Freeway is targeted for 2007. The Santan Freeway will provide improved mobility to the rapidly growing Southeast Valley.

South Mountain Freeway (Loop 202)

The acceleration of the Regional Freeway System includes an early connection of the Interstate 10 / Santan / South Mountain interchange to the west that will connect to existing Pecos Road at 40th Street. ADOT continues developing the South Mountain corridor by initiating an Environmental Impact Statement and Design Concept Study. The proposed interim South Mountain Freeway connection between Pecos Road at 19th Avenue to Baseline Road near 59th Avenue, which will provide access to the Ahwatukee community, to and from the west will be evaluated as part of the study.

Technology

ADOT is considered a nationwide leader in the use of technology to improve traffic flow and keep drivers informed of freeway and highway conditions. Computerized technology is a key component of the Department's efforts to keep up with the increase in traffic volumes, especially in the major metropolitan areas. As the Phoenix area freeway system grows, so does ADOT's network of overhead message boards and traffic flow detectors. This application of Intelligent Transportation Systems (ITS) allows operators in the Department's Traffic Operations

Center in Phoenix to monitor traffic conditions and alert drivers to problems ahead. Drivers are able to use a toll-free telephone number (1-888-411-ROAD) or log on at www.azfms.com to check on traffic restrictions.

ADOT has been part of the public-private initiative known as AZTech, working with Maricopa County, Valley cities and private companies to install ITS related technologies. The project is now focusing on integrating existing systems with newer ones to provide a seamless flow of traffic information. In addition to ADOT's Freeway Management System, local cities also are installing cameras and message signs on key surface streets to monitor their own traffic conditions. The synchronization of traffic signals between cities and ADOT's freeway system is designed to improve traffic flow across the Valley. Meanwhile, private traveler information companies continue to develop and provide services via the Internet, pagers, in-car devices and e-mails to provide subscribers with up-to-the-minute traffic information.

FINANCIAL INFORMATION

Department management is responsible for establishing and maintaining internal control designed to help ensure that the assets of the Department are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by Department management.

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.

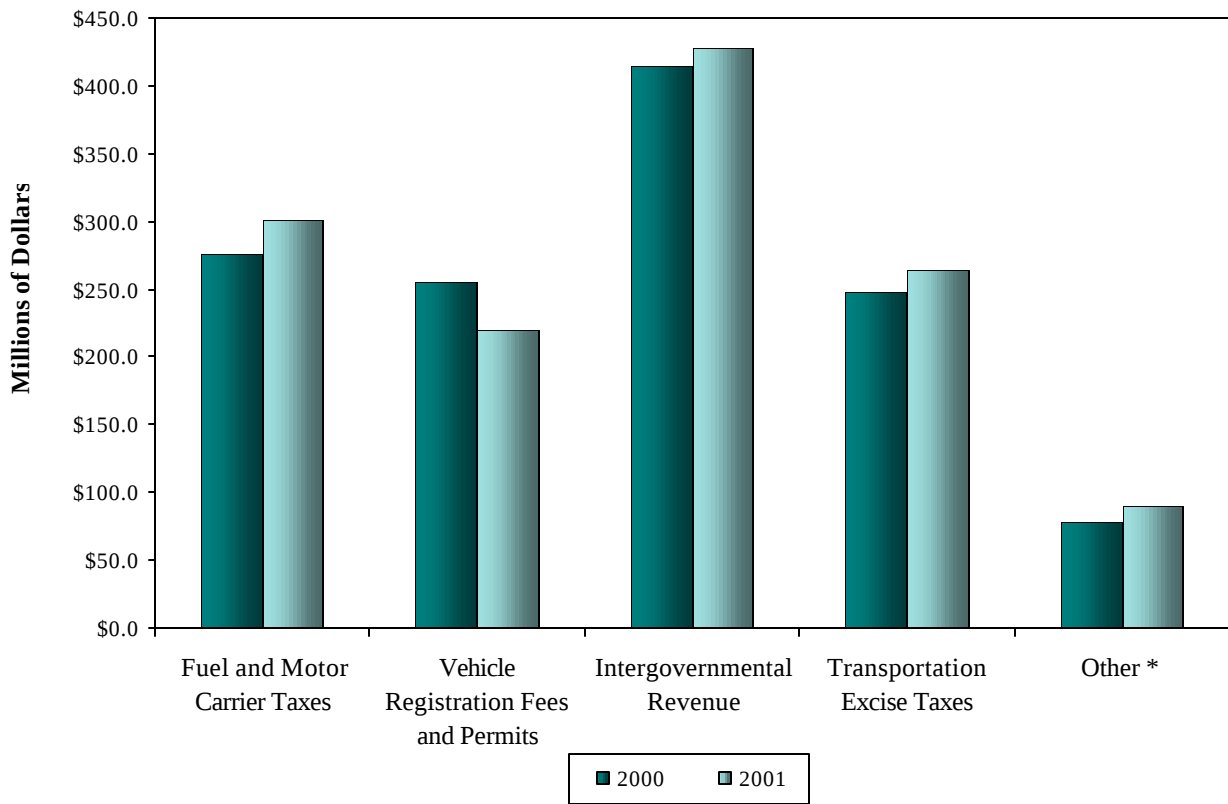
General Government Functions The following two schedules present a summary of All Governmental Fund Types, which includes the Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, revenues and expenditures, respectively, for fiscal year 2001, and the amount and percent of increases or decreases in relation to the prior year's amounts.

Operating revenues from all governmental funds totaled \$1,303.0 million during the fiscal year 2001, an increase of 2.4 percent from the preceding year. The increase in revenues can be attributed to increase in the following major sources: fuel and motor carrier taxes, intergovernmental revenue (primarily Federal) and transportation excise taxes. The following is a summary of the Department's governmental fund revenues.

Schedule 1
Summary Statement of Revenues
All Governmental Fund Types
Fiscal years ended June 30, 2001 and 2000
(Expressed in Millions)

Revenues	2001 Amount	Percent of Total	2000 Amount	Percent of Total	Increase <Decrease> from Prior Year	Percent Increase <Decrease> from Prior Year
Fuel and Motor Carrier Taxes	\$ 300.8	23.1%	\$ 276.2	21.7%	\$ 24.6	8.9%
Vehicle Registration, Title, License and Related Fees	219.7	16.9%	255.1	20.0%	<35.4>	<13.9%>
Intergovernmental Revenue	428.3	32.9%	414.0	32.5%	14.3	3.5%
Transportation Excise Taxes	264.7	20.3%	248.6	19.5%	16.1	6.5%
Interest*	44.6	3.4%	41.5	3.3%	3.1	7.5%
Other*	27.7	2.1%	18.0	1.4%	9.7	53.9%
Transfers from Other State Funds*	17.2	1.3%	19.2	1.5%	<2.0>	<10.4%>
Total Revenues	\$ 1,303.0	100.0%	\$ 1,272.6	100.0%	\$ 30.4	2.4%

Summary Statement of Revenues

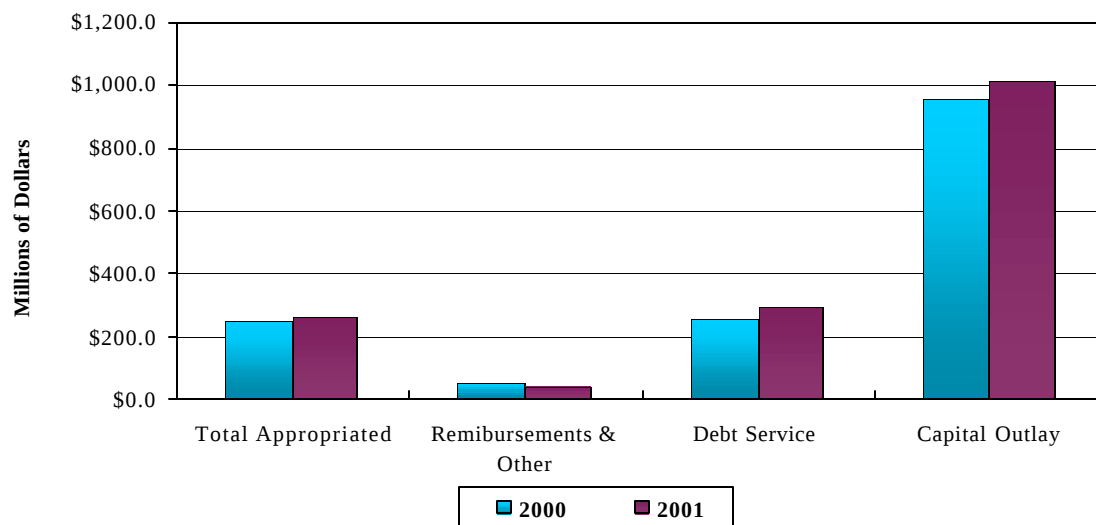


Governmental expenditures totaled \$1,612.1 million during fiscal year 2001, a \$102.8 million increase from the previous year. The largest increase in expenditures was \$9.5 million for capital outlay. This increase is attributable to the Department's acceleration of the completion of the Maricopa

County Regional Freeway System by the year 2007. The total fund balance for governmental funds increased by \$146.2 million or 26.5 percent to \$696.6 million. The following is a summary of governmental fund expenditures.

Schedule 2 Summary Statement of Expenditures All Governmental Fund Types Fiscal years ended June 30, 2001 and 2000 (Expressed in Millions)						
Expenditures	2001 Amount	Percent of Total	2000 Amount	Percent of Total	Increase <Decrease> from Prior Year	Percent Increase <Decrease> from Prior Year
Appropriated by Legislature (Operating)						
Administration	\$ 48.2	3.0%	\$ 47.8	3.9%	\$ 0.4	0.8%
Highway	43.1	2.7%	42.3	3.7%	0.8	1.9%
Highway Maintenance	89.4	5.5%	83.4	6.8%	6.0	7.2%
Motor Vehicle Division	77.3	4.8%	74.5	5.6%	2.8	3.8%
Aeronautics Division	1.7	0.1%	1.8	0.9%	<0.1>	<5.6%>
Other	1.0	0.1%	0.7	0.1%	0.3	42.9%
Total Appropriated	260.7	16.2%	250.5	21.0%	10.2	
Reimbursements & Other	37.0	2.3%	42.8	5.4%	<5.8>	<13.6%>
Debt Service	292.9	18.2%	253.8	17.8%	39.1	15.4%
Capital Outlay	1,014.9	63.0%	955.4	54.8%	59.5	6.2%
Not Appropriated by Legislature	6.6	0.4%	6.8	1.0%	<0.2>	<2.9%>
Total Expenditures	\$ 1,612.1	100.1%	\$ 1,509.3	100.0%	\$ 102.8	6.8%

Summary Statement of Expenditures



Budgetary Controls The Department employs a significant number of tools and techniques in its budgetary control process. Arizona Revised Statutes, §35-113, outlines the Department's basic budgetary responsibilities. During the 1998 legislative session, the Legislature changed the budget process to require a biennial submittal every even-numbered year. The most recent two-year budget was submitted in 2000 for fiscal years 2002 and 2003. During the 2000 session, the Legislature appropriated and the Governor approved \$325 million for the Department's Operating Budget for fiscal year 2002 and \$327 million for fiscal year 2003. The annual capital improvement plan, which contains proposals for State spending on land acquisition, capital projects, energy systems, energy management systems and building renewal for the building system, was also changed to a two-year budget submitted each even-numbered year.

When the Legislature convenes in "non-budget" years, the Governor may, nonetheless, submit to the Legislature any proposed revisions to the enacted operating budgets for the current and ensuing fiscal years. The revisions must include an estimate of all available monies and revenues and an explanation for any proposed changes.

The Director of the Department is also responsible for developing a Strategic Plan for the Department and for developing a Master List of programs within the Department. The Plan shall extend to the current fiscal year and the two ensuing fiscal years and shall contain a mission statement, goals, objectives and performance measures for the Department as a whole. Each program included on the Master List shall similarly include its mission statement, goals, performance measures that emphasize results and budgetary data for the current and prior fiscal years. The budgetary data shall include funding amounts, regardless of source. As noted above, a Strategic Plan (as well as a Master List) complying with these requirements was completed September 1, 2001.

Budgets are submitted to the Governor in accordance with State law. The appropriations are legally enacted after approval by the Governor and the Legislature. After passage by the Legislature, the appropriation bills are sent to the Governor for approval and signature. Upon receipt of the operating budget appropriations bill, allocations are made to organizational levels within each division, including changes such as for pay adjustments. The result is a

detailed operating budget which guides the divisions and programs in their financial operation.

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 building project is often identified for control 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 and highway maintenance, 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, monthly or quarterly allotment controls, appropriation allocation and control capabilities to the expense budget and organization unit level, and management control reports from the expense budget/organizational unit level, with summary reporting capabilities by program, division or appropriation.

A legal limitation is adopted for capital outlay including land, building and improvements for the State Highway Fund, Aviation Fund, and Safety Enforcement and Transportation Infrastructure Fund. Any balances and collections in these three funds in excess of the specific amounts appropriated in the General Appropriations Act are appropriated to the Department. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board. A legal limitation is not adopted for the other special revenue funds, the debt service funds, capital projects funds, proprietary funds and fiduciary funds.

In addition, the Department's Office of Strategic Planning and Budgeting staff performs expenditure projection analyses of all appropriated and non-

appropriated funds on a monthly basis. These analyses utilize financial and management reports from both AFIS and ADVANTAGE to project total year-end expenditures by organizational unit and highlight potential problem areas. The Office also reviews progress in meeting the Department's key objectives and performance measurements monthly and makes recommendations for remedial changes as necessary.

Proprietary Operations Proprietary funds are used to account for the Department's on-going organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the Department's business and quasi-business activities - where net income and capital maintenance are measured - are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. The proprietary funds type include an enterprise fund and an internal service fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises — where the intent of the Department is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed from sales or other revenues. The only enterprise fund of the Department is the Arizona Highways Magazine Fund.

An internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies, or to other governments, on a cost-reimbursement basis. The internal service fund of the Department is the Equipment Fund.

Fiduciary Funds Fiduciary funds are used to account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The fiduciary funds type includes agency funds.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds of the Department include the Privilege Tax, Motor Vehicle Division Clearing, Highway User Revenue, Underground Storage Tank, Highway Properties, and Economic Strength Project.

Retirement Plan The Arizona State Retirement System Board administers the Arizona State Retirement Plan (Plan), a cost sharing multi-employer public employee retirement system, for the benefit of Arizona employees and employees of certain other governmental entities. Plan provisions, including death, disability, and retirement benefits, are established by State statute. Substantially all employees of the Department are covered by the Plan. The Department's total payroll for fiscal year 2001 was \$153 million. The Plan is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits are obligations of the Plan and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the fiscal year ended June 30, 2001, was actuarially computed to be 2.66 percent of covered payroll by an actuarial valuation performed at June 30, 1999. The contribution requirement for fiscal year 2001 was \$4.0 million by both the employees and the Department.

Debt Administration As of June 30, 2001, the Department had \$1.57 billion in outstanding bonds payable. This total includes \$394 million in Highway Revenue Bonds "HURF bonds" secured by a first-lien pledge against the Department's share of highway user revenues and \$306 million in subordinated bonds. In addition, the Department has \$351 million in Transportation Excise Tax Bonds "RARF bonds" outstanding, which are secured by a first-lien pledge against the sales tax revenues flowing into the Maricopa Regional Area Road Fund, and \$339 million in subordinate Transportation Excise Tax Bonds secured by a second-lien pledge against those revenues flowing into the Maricopa Regional Area Road Fund. During fiscal year 2001, the Department issued Grant Anticipation Notes (GANs) for the first time and had \$182 million secured by a first-lien pledge against the Department's share of Federal aid revenues. The bonds have been sold in 22 separate issues between 1986 and 2001. All bonds issued as of June 30, 2001, are scheduled to mature not later than July 1, 2020. The bonds are obligations of the Transportation Board and are not obligations of the State of Arizona.

Of the \$3.76 billion total in bonds issued between 1986 and 2001, \$1.12 billion, or approximately 30 percent, have been refunding issues to lower debt service costs. These efforts have resulted in cumulative savings of \$57 million in current dollars and \$39 million on a present value basis.

The senior lien HURF bonds have been rated AAA/Aa1 by Standard & Poor's Rating Services Group (S&P) and Moody's Investors Service, respectively. The Department's subordinate lien HURF bonds are rated AA/Aa2. The RARF senior lien bonds are rated AA/Aa2, while the RARF subordinate bonds are rated A/Aa3. The GANs senior lien bonds are rated AA-/Aa3/AA with the additional rating provided by Fitch, Inc.

Laws 1999, Chapter 189 (SB 1201) authorized the Transportation Board to issue nonnegotiable Board Funding Obligations (BFOs) for purchase by the Arizona State Treasurer. The new law restricts the Transportation Board to issuing \$100 million in fiscal years 2000, 2001 and 2004 and that no more than \$100 million be outstanding at any one time. The BFOs are used to capitalize Arizona's State Infrastructure Bank, which allows the Department and political subdivisions to apply for loans from the new Highway Expansion and Extension Loan Program (HELP) established by this legislation. As of June 30, 2001, the Department had \$100 million in outstanding BFOs.

Laws 2001, Chapter 238 (HB 2636) increased the HURF bonding cap to \$1 billion from \$800 million. Additionally, the legislation authorized the Transportation Board to issue \$100 million in BFOs in fiscal year 2002 and increased the BFO authority in fiscal year 2004 to \$200 million from \$100 million. The distribution of this additional BFO authority is \$60 million to the State Highway Fund, \$40 million to the HELP fund in fiscal years 2002 and 2004.

Cash Management During fiscal year 2001, the Department earned over \$44 million in interest from its investment program. The interest was earned from investing, on average, 99.8 percent of the Department's \$748 million average cash balance during the year. An average yield of 5.9 percent was received on the Department's investments during fiscal year 2001.

The Cash Management Unit has responsibility for the Department's investment program in cooperation with the State Treasurer's Office. The Cash Management Unit processes investment transactions through the State Treasurer's Office by informing the Treasurer of the amount available to invest and the desired maturity date. The State Treasurer is responsible for purchasing and selling investment securities in the market and administering the

collateral for the Department's investments. The Department prepares cash flow forecasts, develops cash strategies, forecasts interest rates and market conditions, and conducts cash management studies to improve collection, deposit, disbursement, and fund transfer procedures.

It is the policy of the Department, in cooperation with the State Treasurer's Office, to invest public funds for maximum return, while maintaining the safety of investment principal and adequate liquidity to meet cash flow requirements in conformity with State statutes governing investment of the Department's funds. This investment policy applies to all financial assets administered by the Department under statutory authority.

The Investment Program has grown from a total of six funds in 1980 to 31 funds currently invested. The system has been computerized and several daily and monthly monitoring reports have been developed. An annual Investment Planning and Monitoring Report has been developed, including annual objectives and strategies for key performance areas. The emphasis of the Investment Program has focused on maintaining 99.5 percent of cash invested and maximizing the investment yield.

Risk Management The Department continues to place emphasis in the area of risk management in order to control exposure and losses. The Office of Risk Management is responsible for the coordination of all activities necessary within the Department, and, in conjunction with the State's Risk Management Division and Attorney General's Office, to investigate and defend the Department from all losses arising from tort liability claims.

The State has a self-insured retention workers' compensation program. The Department's Safety Office has increased its emphasis on training, accident investigation, and the handling of hazardous materials to minimize exposure and injury to employees.

The Department has first dollar replacement value on real property coverage for all losses exceeding \$100.

OTHER INFORMATION

Independent Audit Arizona Revised Statutes, §41-1279.03, requires the State Auditor General to “conduct or cause to be conducted at least biennial financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the Single Audit Act Amendments of 1996 (P.L. 104-156). The audits shall be conducted in accordance with generally accepted accounting principles and *Government Auditing Standards* and, accordingly, shall include tests of the accounting records and other auditing procedures as may be considered necessary in the circumstances. The audits shall include the issuance of suitable reports required by the Single Audit Act Amendments of 1996 (P.L. 98-502).”

In fulfillment of this requirement, the Department contracts with an independent public accounting firm to perform an annual audit of the Department and submit a “comprehensive financial report of all funds for the preceding year including a report by the independent public accounting firm attesting that the financial statements present fairly the financial position of the Department in conformity with generally accepted accounting principles.” Independent audits have been conducted on an annual basis since the Department’s formation in 1974.

For fiscal year 2001, the accounting firm of Deloitte & Touche LLP conducted the Department’s financial audit and Single Audit procedures related to the Federal awards of the Department as required by the Arizona Revised Statutes.

Deloitte & Touche LLP considered internal control in order to determine auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on internal control. The consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, Deloitte & Touche LLP noted no matters involving internal control and its operation that they consider to be material weaknesses.

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 for the fiscal year ended June 30, 2001.

A requirement of the Single Audit is to ensure that adequate internal control is in place and that the Department is in compliance with applicable Federal laws and regulations. The internal control has been reviewed by the United States Department of Transportation’s (U.S. DOT) Inspector General on several occasions in the past. The U.S. DOT auditors typically rely on the Department’s internal audit staff in determining the scope of their review. These reviews are in addition to the comprehensive review of the Department’s internal control previously mentioned.

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, 2000. This was the eleventh 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 wish 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 and Resource Administration whose commitment, professionalism, and dedicated efforts contributed to the timely preparation of the fiscal year 2001 comprehensive annual financial report.

Sincerely,

(signed by)

Victor M. Mendez, Director
Arizona Department of Transportation

(signed by)

John E. McGee, Chief Financial Officer
Financial Management Services

Arizona Department of Transportation List of Principal Officials

Victor M. Mendez
Director

Vacant
Deputy Director

John A. Bogert
Chief of Staff

Edward D. Wright
State Engineer
Intermodal Transportation Division

Stacey K. Stanton
Assistant Director
Motor Vehicle Division

Mary Lynn Tischer, PhD
Assistant Director
Transportation Planning Division

Gary Adams
Assistant Director
Aeronautics Division

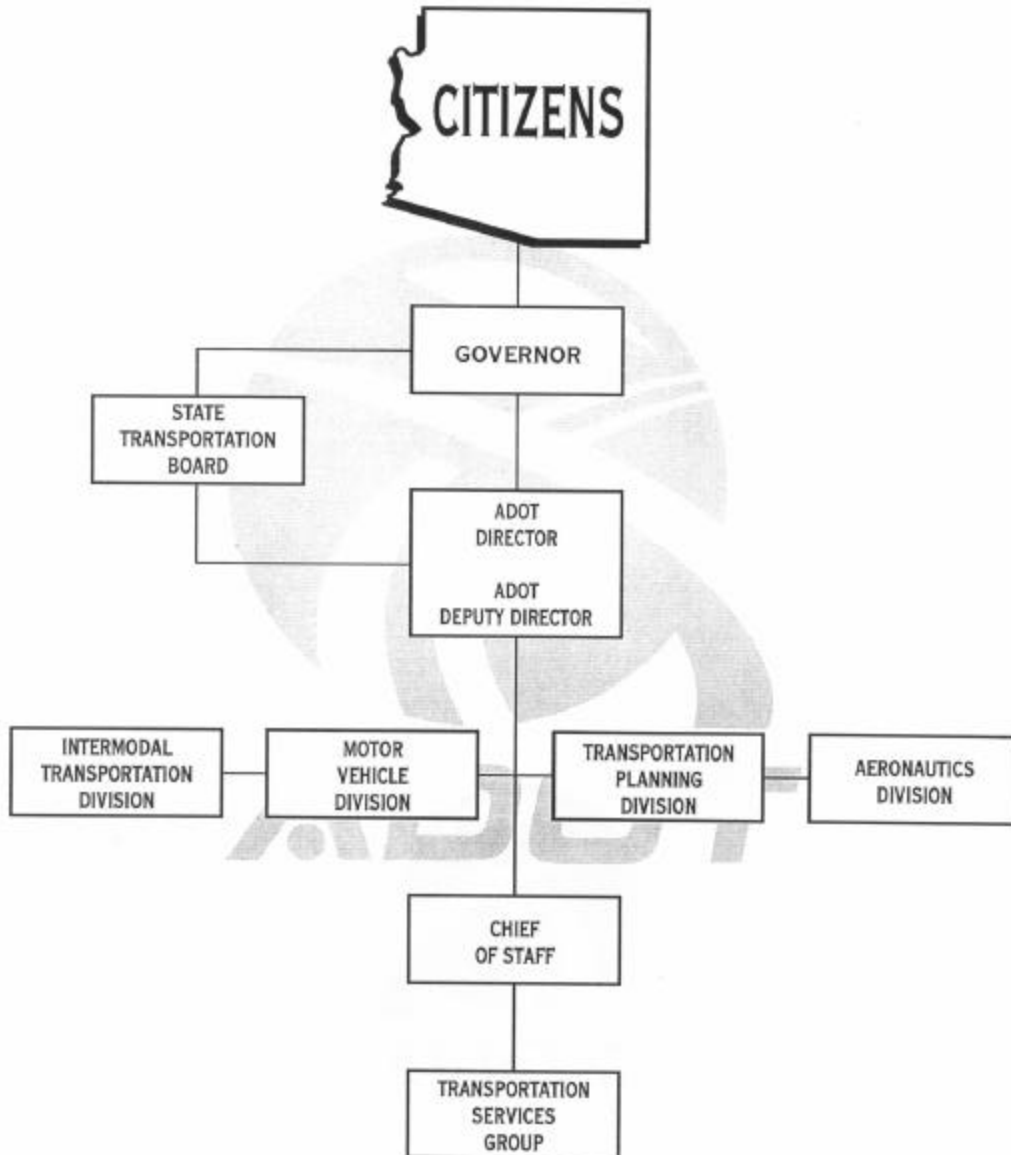
John E. McGee
Chief Financial Officer

Arizona State Transportation Board

F. Rockne Arnett, Chairperson	District One
Katie Dusenberry, Vice Chairperson	District Two
Ingo Radicke	District Four
Bill Jeffers	District Five
Richard Hileman	District Six
Dallas Gant	District One
James W. Martin	District Three

STATE OF ARIZONA-DEPARTMENT OF TRANSPORTATION

ORGANIZATIONAL CHART





FINANCIAL





INDEPENDENT AUDITORS' REPORT

The Director and Members of the
Transportation Board of the Arizona Department of Transportation

We have audited the accompanying financial statements of Arizona Department of Transportation (the "Department") as of June 30, 2001, and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Department. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the financial position and results of its operations and the cash flows of proprietary fund types of only that portion of the funds and account groups of the State of Arizona that is attributable to the transactions of the Department.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Department as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Department. These financial statements and schedules are also the responsibility of the management of the Department. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

The statistical data is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Department. Such additional information has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, a report has been issued on consideration of the State of Arizona's internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts, and grants for which ADOT is a department. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 3, 2001

Arizona Department of Transportation
Combined Balance Sheet - All Fund Types and Account Groups
June 30, 2001
(With comparative totals at June 30, 2000)

	Governmental Fund Types			Proprietary Fund Type
	Special Revenue	Debt Service	Capital Projects	Enterprise
Assets:				
Cash and cash equivalents on deposit with the State Treasurer:				
Restricted (Note 4)	\$ 81,830,804	\$ -	\$ -	\$ -
Unrestricted	341,404,745	18,275,447	270,552,513	2,396,073
Receivables:				
Subscriptions (net of allowance for uncollectibles)	-	-	-	474,595
Notes and loans (Note 5)	46,642,263	-	-	-
Accrued interest	3,182,819	1,812,454	1,706,946	5,750
Taxes and fees	-	-	-	-
Other	19,203,397	793	-	45,672
Due from U.S. Government for reimbursable construction costs	56,729,799	-	-	-
Due from other Arizona Department of Transportation funds (Note 6)	76,908,684	-	-	-
Due from Arizona counties, cities and other state agencies	22,770,802	-	-	-
Inventories	4,090,591	-	-	2,924,776
Prepaid items	-	-	-	721,810
Advances to other Arizona Department of Transportation funds (Note 6)	20,000,000	-	-	-
Fixed assets - net of accumulated depreciation (Note 7)	-	-	-	1,755,773
Other debits:				
Amount available in debt service funds for retirement of general long-term debt	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
Total assets and other debits	\$ 672,763,904	\$ 20,088,694	\$ 272,259,459	\$ 8,324,449

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

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
		General Fixed Assets	General Long-Term Debt	2001	2000
Internal Service	Agency				
\$ -	\$ 3,416,319	\$ -	\$ -	\$ 85,247,123	\$ 97,602,207
5,439,547	104,812,670	-	-	742,880,995	559,297,868
-	-	-	-	474,595	358,776
-	-	-	-	46,642,263	71,475,088
54,976	459,966	-	-	7,222,911	8,744,396
-	71,335,049	-	-	71,335,049	149,085,188
49,905	277,293	-	-	19,577,060	12,557,832
-	-	-	-	56,729,799	39,617,335
265,644	15,344,752	-	-	92,519,080	129,600,202
533,673	90,120	-	-	23,394,595	21,416,747
2,449,028	-	-	-	9,464,395	9,082,012
-	-	-	-	721,810	668,778
-	-	-	-	20,000,000	20,000,000
44,211,338	-	224,593,943	-	270,561,054	242,707,393
-	-	-	20,088,694	20,088,694	19,345,409
-	-	-	1,562,386,909	1,562,386,909	1,328,453,809
<u>\$ 53,004,111</u>	<u>\$ 195,736,169</u>	<u>\$ 224,593,943</u>	<u>\$ 1,582,475,603</u>	<u>\$ 3,029,246,332</u>	<u>\$ 2,694,082,988</u>

(Continued)

Arizona Department of Transportation
Combined Balance Sheet - All Fund Types and Account Groups
June 30, 2001
(With comparative totals at June 30, 2000)

	Governmental Fund Types			Proprietary Fund Type
	Special Revenue	Debt Service	Capital Projects	Enterprise
Liabilities, equity and other credits				
Liabilities:				
Contracts and retainage payable	\$ 70,696,574	\$ -	\$ 20,767,742	\$ -
Accounts payable	8,597,052	-	601,104	127,527
Accrued payroll and other accrued expenditures/expenses	5,579,160	-	-	183,525
Due to other Arizona Department of Transportation funds (Note 6)	685,245	-	-	75
Due to Arizona counties, cities and other state agencies	101,348,198	-	-	-
Deferred revenue	-	-	-	4,420,885
Surety and rental deposits	-	-	-	-
Federal arbitrage rebate	-	-	-	-
Advances from other Arizona Department of Transportation funds (Note 6)	20,000,000	-	-	-
Notes payable (Note 9)	40,190,611	-	-	-
Bonds payable (Note 9)	-	-	-	-
Capital leases payable (Note 9)	-	-	-	-
Long-term accrued vacation leave (Note 9)	-	-	-	-
Total liabilities	<u>247,096,840</u>	<u>-</u>	<u>21,368,846</u>	<u>4,732,012</u>
Equity and other credits:				
Contributed capital	-	-	-	1,038,698
Investment in general fixed assets	-	-	-	-
Retained earnings:				
Reserved for replacement of equipment	-	-	-	-
Unreserved	-	-	-	2,553,739
Fund balances:				
Reserved for:				
Highway construction	172,260,918	20,088,694	250,890,613	-
Repayment of advance	20,000,000	-	-	-
Inventories	4,090,591	-	-	-
Loans and other financial assistance	80,790,551	-	-	-
Unreserved, undesignated	148,525,004	-	-	-
Total equity and other credits	<u>425,667,064</u>	<u>20,088,694</u>	<u>250,890,613</u>	<u>3,592,437</u>
Total liabilities, equity and other credits	<u>\$ 672,763,904</u>	<u>\$ 20,088,694</u>	<u>\$ 272,259,459</u>	<u>\$ 8,324,449</u>

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

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
		General Fixed Assets	General Long-Term Debt	2001	2000
Internal Service	Agency				
\$ -	\$ -	\$ -	\$ -	\$ 91,464,316	\$ 40,360,359
197,427	1,780,678	-	-	11,303,788	37,862,184
783,946	-	-	-	6,546,631	6,631,922
485	91,833,275	-	-	92,519,080	129,600,202
6,549	100,083,742	-	-	201,438,489	247,235,293
-	-	-	-	4,420,885	4,484,216
-	2,038,474	-	-	2,038,474	2,056,717
-	-	-	-	-	1,512,260
-	-	-	-	20,000,000	20,000,000
7,482,690	-	-	-	47,673,301	68,362,765
-	-	-	1,572,161,784	1,572,161,784	1,337,108,423
-	-	-	1,370,161	1,370,161	2,065,773
-	-	-	8,943,658	8,943,658	8,625,022
8,471,097	195,736,169	-	1,582,475,603	2,059,880,567	1,905,905,094
6,322,179	-	-	-	7,360,877	7,331,935
-	-	224,593,943	-	224,593,943	194,956,023
-	-	-	-	-	9,985,210
38,210,835	-	-	-	40,764,574	30,339,291
-	-	-	-	443,240,225	312,300,184
-	-	-	-	20,000,000	20,000,000
-	-	-	-	4,090,591	3,961,476
-	-	-	-	80,790,551	55,508,591
-	-	-	-	148,525,004	153,795,142
44,533,014	-	224,593,943	-	969,365,765	788,177,894
<u>\$ 53,004,111</u>	<u>\$ 195,736,169</u>	<u>\$ 224,593,943</u>	<u>\$ 1,582,475,603</u>	<u>\$ 3,029,246,332</u>	<u>\$ 2,694,082,988</u>

Arizona Department of Transportation
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Governmental Fund Types			Totals (Memorandum Only)	
	Special Revenue	Debt Service	Capital Projects	2001	2000
Revenues:					
Transportation excise taxes	\$ 264,722,440	\$ -	\$ -	\$ 264,722,440	\$ 248,595,990
Vehicle registration, title, license and related fees	219,745,920	-	-	219,745,920	255,087,892
Fuel and motor carrier taxes and fees	300,749,961	-	-	300,749,961	276,188,840
Reimbursements of construction expenditures -					
Federal aid	421,577,938	-	-	421,577,938	402,266,192
Other Federal grants and reimbursements	6,711,805	-	-	6,711,805	11,748,706
State match	-	-	-	-	396,600
Reimbursements from Arizona counties, cities and					
other state agencies	16,894,425	-	-	16,894,425	18,608,709
State appropriations	255,991	-	-	255,991	179,690
Interest on loans receivable	92,913	-	-	92,913	1,591,725
Interest	27,242,634	8,478,825	8,833,990	44,555,449	39,942,195
Other	27,692,530	793	-	27,693,323	18,011,577
Total revenues	<u>1,285,686,557</u>	<u>8,479,618</u>	<u>8,833,990</u>	<u>1,303,000,165</u>	<u>1,272,618,116</u>
Expenditures:					
Current:					
Transportation - appropriated by State legislature	260,699,265	-	-	260,699,265	250,508,766
Transportation - not appropriated by State legislature	6,597,216	-	-	6,597,216	6,820,619
Capital outlay:					
Highway construction	789,270,170	-	219,319,580	1,008,589,750	941,913,498
Land, buildings and improvements -					
appropriated by State legislature	5,418,193	-	-	5,418,193	10,956,144
Contracts and capital leases payable	909,714	-	-	909,714	2,577,187
Arizona Department of Public Safety distributions -					
appropriated by State legislature	12,500,000	-	-	12,500,000	12,500,000
Debt service:					
Principal	-	208,920,000	-	208,920,000	175,075,000
Interest	-	78,501,394	-	78,501,394	76,603,575
Bond issuance costs	-	-	-	-	308,200
Federal arbitrage rebate	-	-	-	-	155,863
Distributions to Arizona counties, cities and other					
state agencies	24,352,489	-	-	24,352,489	30,070,861
Interest on loans payable	5,509,064	-	-	5,509,064	1,679,790
Other	-	116,582	-	116,582	172,834
Total expenditures	<u>1,105,256,111</u>	<u>287,537,976</u>	<u>219,319,580</u>	<u>1,612,113,667</u>	<u>1,509,342,337</u>
Excess <deficiency> of revenues over <under> expenditures	180,430,446	<279,058,358>	<210,485,590>	<309,113,502>	<236,724,221>
Other financing sources <uses>:					
Proceeds from sale of bonds	-	-	454,380,594	454,380,594	250,499,349
Proceeds from refunding bonds	-	-	-	-	26,172,174
Payment to refunded bond escrow agent	-	-	-	-	<25,115,000>
Proceeds from contracts and capital leases payable	909,714	-	-	909,714	2,577,187
Operating transfers in	107,067,394	280,692,617	-	387,760,011	294,626,329
Operating transfers out:					
Debt service	<280,692,617>	-	-	<280,692,617>	<227,118,977>
Other	<65,179,076>	<890,974>	<40,997,344>	<107,067,394>	<67,507,352>
Total other financing sources <uses>	<u><237,894,585></u>	<u>279,801,643</u>	<u>413,383,250</u>	<u>455,290,308</u>	<u>254,133,710</u>
Excess <deficiency> of revenues and other financing sources					
over <under> expenditures and other financing uses	<57,464,139>	743,285	202,897,660	146,176,806	17,409,489
Fund balances, July 1	483,881,203	19,345,409	47,992,953	551,219,565	534,560,076
Residual equity transfer	<750,000>	-	-	<750,000>	<750,000>
Fund balances, June 30	\$ 425,667,064	\$ 20,088,694	\$ 250,890,613	\$ 696,646,371	\$ 551,219,565

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

Arizona Department of Transportation
Combined Statement of Revenues and Expenditures - Budget and Actual (Budget Basis)
Budgeted Special Revenue Funds
For the fiscal year ended June 30, 2001

	Special Revenue Funds		
	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
Revenues:			
Vehicle registration, title, license and related fees	\$ 254,869,500	\$ 239,404,114	\$ <15,465,386>
Fuel and motor carrier taxes and fees	292,012,000	291,674,063	<337,937>
Interest	1,824,000	1,385,078	<438,922>
Flight property taxes	7,472,000	6,693,590	<778,410>
Grand Canyon National Park Airport	664,000	1,880,755	1,216,755
Other	10,000	120,936	110,936
Total revenues	<u>556,851,500</u>	<u>541,158,536</u>	<u><15,692,964></u>
Expenditures appropriated by State legislature in FY 2001 budget:			
Transportation:			
Administration	48,775,600	47,834,431	941,169
Highway	43,855,400	43,227,766	627,634
Highway Maintenance	91,877,779	89,425,237	2,452,542
Motor Vehicle Division	79,845,300	76,296,928	3,548,372
Aeronautics Division	1,741,500	1,501,823	239,677
Air Quality Program	46,400	46,400	-
Public Transit Program	<u>36,832,200</u>	<u>36,829,643</u>	<u>2,557</u>
Total transportation	302,974,179	295,162,228	7,811,951
Capital outlay - land, buildings and improvements:			
Highway	17,866,411	5,418,193	12,448,218
Arizona Department of Public Safety transfers	12,500,000	12,500,000	-
Expenditures appropriated by State legislature by carryover of previous years' unexpended budgets	<u>1,435,828</u>	<u>723,995</u>	<u>711,833</u>
Total expenditures	<u>334,776,418</u>	<u>313,804,416</u>	<u>20,972,002</u>
Excess of revenues over expenditures	<u>\$ 222,075,082</u>	<u>\$ 227,354,120</u>	<u>\$ 5,279,038</u>

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

Arizona Department of Transportation
Combined Statement of Revenues, Expenses and Changes in Retained Earnings
All Proprietary Fund Types
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2001	2000
Operating revenues:				
Equipment rentals	\$ -	\$ 26,312,583	\$ 26,312,583	\$ 26,104,085
Equipment sales	-	111,405	111,405	504,746
Magazine sales	6,105,620	-	6,105,620	6,223,932
Sales of related products	4,101,576	-	4,101,576	4,489,024
Inter-agency	-	2,893,457	2,893,457	3,504,235
Other	371,875	1,400,518	1,772,393	596,405
Total operating revenues	<u>10,579,071</u>	<u>30,717,963</u>	<u>41,297,034</u>	<u>41,422,427</u>
Operating expenses:				
Equipment operations	-	22,573,790	22,573,790	22,548,005
Cost of sales	9,551,682	-	9,551,682	10,177,574
General and administrative	1,212,552	-	1,212,552	1,253,531
Depreciation	313,615	7,161,742	7,475,357	8,465,913
Total operating expenses	<u>11,077,849</u>	<u>29,735,532</u>	<u>40,813,381</u>	<u>42,445,023</u>
Operating income <loss>	<498,778>	982,431	483,653	<1,022,596>
Non-operating revenues <expenses>:				
Interest	151,891	305,467	457,358	395,840
Loss on sale/disposal of fixed assets	<938>	-	<938>	<68,953>
Legislative transfer out	-	<500,000>	<500,000>	-
Total non-operating revenues <expenses>	<u>150,953</u>	<u><194,533></u>	<u><43,580></u>	<u>326,887</u>
Net income <loss>	<347,825>	787,898	440,073	<695,709>
Retained earnings, July 1	<u>2,901,564</u>	<u>37,422,937</u>	<u>40,324,501</u>	<u>41,020,210</u>
Retained earnings, June 30	<u>\$ 2,553,739</u>	<u>\$ 38,210,835</u>	<u>\$ 40,764,574</u>	<u>\$ 40,324,501</u>

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

Arizona Department of Transportation
Combined Statement of Cash Flows
All Proprietary Fund Types
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2001	2000
Cash flows from operating activities:				
Operating income <loss>	\$ <498,778>	\$ 982,431	\$ 483,653	\$ <1,022,596>
Adjustments to reconcile operating income <loss> to net cash provided by <used for> operating activities:				
Depreciation	313,615	7,161,742	7,475,357	8,465,913
Changes in assets and liabilities:				
Accounts receivables	<85,601>	186,880	101,279	22,882
Due from other Arizona Department of Transportation funds	-	<197,528>	<197,528>	1,707,231
Due from other state agencies	-	<533,673>	<533,673>	20,254
Inventories	<138,646>	<114,622>	<253,268>	255,496
Prepaid expenses	<53,032>	-	<53,032>	<62,487>
Accounts payable	<36,129>	197,427	161,298	<639,742>
Accrued payroll and other accrued expenses	2,258	56,854	59,112	<238,382>
Due to other Arizona Department of Transportation funds	75	485	560	<1,808>
Due to other state agencies	-	6,549		
Deferred revenue	<63,331>	-	<63,331>	226,605
Net cash provided by <used for> operating activities	<559,569>	7,746,545	7,180,427	8,715,913
Cash flows from capital and related financing activities:				
Acquisition of fixed assets	<5,238>	<8,842,418>	<8,847,656>	<10,050,449>
Proceeds from sale of fixed assets	-	1,108,231	1,108,231	1,035,668
Reduction of contributed capital	<500,000>	-	<500,000>	-
Increase of contributed capital	-	528,942	528,942	-
Legislative transfer out	-	<500,000>	<500,000>	-
Net cash used for capital and related financing activities	<505,238>	<7,705,245>	<8,210,483>	<9,014,781>
Cash flows from investing activities:				
Earnings on investments	151,891	305,467	457,358	413,293
Net cash provided by investing activities	151,891	305,467	457,358	413,293
Net increase <decrease> in cash and cash equivalents	<912,916>	346,767	<566,149>	114,425
Cash and cash equivalents, July 1	3,308,989	5,092,780	8,401,769	8,287,344
Cash and cash equivalents, June 30	\$ 2,396,073	\$ 5,439,547	\$ 7,835,620	\$ 8,401,769

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Arizona Department of Transportation (Department) is a department of the State of Arizona and is not legally separate. The Department has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of State highway routes 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 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.

The Financial Services Division of the Arizona Department of Administration controls expenditures and adherence to annual budgets. The State Treasurer invests the cash balances of the Department.

The general purpose financial statements of the Department have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applicable to governmental units. The more significant of the Department's accounting policies are described below.

Fund accounting

The accounts of the Department are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Department are grouped, in the financial statements, into six fund types and two account groups within four categories as follows:

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the Department's expendable financial resources and the related current liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds (special revenue, debt service, and capital projects). All governmental funds are accounted for using a current financial resources measurement focus.

Governmental funds are, in essence, accounting segregations of financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "Fund Balance."

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds - Special revenue funds, excluding the State Highway Fund, are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State Highway Fund is used to account for all financial transactions applicable to the 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 registration, title, licenses and related fees; and Federal grants. Other special revenue funds of the Department include the State Aviation Fund, Safety Enforcement and Transportation Infrastructure Fund, Grant Anticipation Notes Fund, Highway Expansion and Extension Loan Program Fund, Local Agency Deposits Fund, Maricopa Regional Area Road Construction Fund, Motor Carrier Safety Revolving Fund, Motor Vehicle Liability Insurance Enforcement Fund, and Vehicle Inspection and Title Enforcement Fund.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Debt service funds include the Highway Revenue Bond Principal Redemption and Interest Fund which accounts for the State of Arizona highway improvement bonds and revenue bonds, the Maricopa Regional Area Road Bond Fund which accounts for the State of Arizona transportation excise tax revenue bonds, and the Grant Anticipation Notes Fund which accounts for revenues received from the Federal Highway Administration.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of

major capital facilities (other than those financed by proprietary funds and trust funds). The capital projects funds of the Department are the Highway Revenue Bond Proceeds Fund, which accounts for transactions related to the issuance and use of the proceeds from Arizona Transportation Board Highway Revenue Bonds, the Maricopa Regional Area Road Bond Proceeds Fund, which accounts for the issuance and use of the proceeds from the State of Arizona Transportation Excise Tax Revenue Bonds, and the Grant Anticipation Notes Fund, which accounts for issuance and use of the proceeds from the State of Arizona Grant Anticipation Notes.

PROPRIETARY FUNDS

Proprietary funds are used to account for the Department's on-going organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the Department's business and quasi-business activities, where net income and capital maintenance are measured, are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position and cash flows.

Enterprise Fund - An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Department is that the costs (including depreciation) of providing goods and/or services to the general public on a continuing basis be financed from sales or other revenues. The only enterprise fund of the Department is the Arizona Highways Magazine Fund. The fund publishes a monthly magazine, *Arizona Highways Magazine*, as well as a number of books and sells several related products.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal Service Fund – An internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Department, or to other governments, on a cost-reimbursement basis. The internal service fund of the Department is the Equipment Fund.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Agency Funds

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds of the Department include the Privilege Tax Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Underground Storage Tank Fund, Highway Properties Fund, and Economic Strength Project Fund.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the Department's general fixed assets and unmatured principal of its general long-term debt.

General Fixed Assets - Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group rather than in governmental funds.

General Long-Term Debt - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group.

Basis of accounting

The modified accrual basis of accounting is used for all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. Reimbursements of construction expenditures, due primarily from the Federal government on a percentage of costs incurred basis, are recognized when the related obligation is incurred.

Those revenues susceptible to accrual are Federal grants, and reimbursable county, city and other state agency construction costs incurred by the Department. Federal grant monies are received after the incurrence of qualifying expenditures. As a result, the Federal share of all qualifying goods or services received or performed prior to year end has been accrued.

All proprietary funds are accounted for using the accrual basis of accounting. Under this basis, revenues are recorded when they are earned and expenses are recorded when incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and budgetary accounting

Biennial budgets for the operating expenditures and capital outlay including land, building and improvements for the State Highway Fund, Aviation Fund, Safety Enforcement and Transportation Infrastructure Fund, Air Quality Program and Public Transit Program are submitted to the Governor in accordance with State law. The budgets are legally enacted as appropriations after approval by the Legislature and signature by the Governor. The legal level of control is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures and all other operating expenditures are specifically budgeted within most divisions. In certain divisions, other specific programs are budgeted in addition to these categories. Revenue budgets are developed internally by the Department and are not a part of the appropriation process.

Amendments to the approved appropriations require Legislative approval. However, since the Agency's appropriation is a lump sum appropriation by program, the allocation of funds between personal services, employee-related expenses, and other operating expenses is an internal decision for the program manager. Accordingly, transfers between line items such as personal services and other operating expenses within a particular program may be done by the program manager. Transfers of funds between programs require the approval of the Joint Legislative Budget Committee. Absent an amendment to the Agency's appropriated amount by the full legislature, 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 next calendar month are charged against the prior fiscal year's budget. Most State appropriations lapse at year end.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for those operations subject to legislative appropriation.

A legal limitation is adopted for capital outlay including land, building and improvements for the State Highway Fund, Aviation Fund, and Safety Enforcement and Transportation Infrastructure Fund. Any balances and collections in these three funds in excess of the specific amounts appropriated in the general appropriations act are appropriated to the Department. The Department monitors expenditures through an internal budgetary process and the five-year construction program approved by the Transportation Board. A legal limitation is not adopted for the other special revenue funds, the debt service funds, capital projects funds, proprietary funds and fiduciary funds.

Encumbrance accounting

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable fund balance, is used by the Department as a budgetary control mechanism. However, outstanding encumbrances lapse at year-end. Accordingly, no reserve for encumbrances is reflected in the accompanying financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of FASB pronouncements to proprietary activities

The Department has elected, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

Cash and cash equivalents

The Department's cash and cash equivalents balance is on deposit with the State Treasurer for pooled investment purposes and is not evidenced by securities that exist in physical or book entry form in the Department's name. 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 or obligations of the U.S. Government. All investments are carried at cost, which approximates fair value.

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.

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments (investments with original maturities of three months or less).

The Department's investments are included in the State investment pool and these investments are not shown in the Department's name. Therefore, the Department presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and*

Financial Reporting for Certain Investments and for External Investment Pools.

Inventories

The State Highway Fund inventory is valued at cost, which approximates market, using the first-in, first-out (FIFO) method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

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

Fixed assets

General fixed assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the General Fixed Assets Account Group. Land is recorded primarily at cost. If cost is not determinable based on previously acquired property, estimated cost is used. Other general fixed assets are stated at either actual or estimated costs. Contributed fixed assets are recorded in the General Fixed Assets Account Group at estimated fair value on the date received. Public domain (infrastructure) general fixed assets consisting of roads and bridges are not capitalized, as these assets are immovable and of value only to the government. No depreciation is provided on general fixed assets.

Property and equipment of the proprietary funds are stated at cost, or estimated historical cost if original cost is not available; and, if donated, are stated at estimated fair value on the date received.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is provided using the straight-line method based on estimated useful life as follows:

Buildings	40 years
Buildings improvements	20 years
Furniture and fixtures	5 years
Mobile equipment	3-15 years
Shop tool, office and computer equipment and software	5 years

The cost of additions, improvements, and renewals which substantially extend the useful life of a particular asset are capitalized in the property accounts. Repairs and maintenance expenditures are charged to operations as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are eliminated from the property accounts and any resultant gain or loss is recognized as income or expense.

Bond premiums, discounts and issuance costs

Premiums or discounts on bond issuances are netted against the bond proceeds in the capital projects fund. The bonds are recorded at their face value in the General Long-Term Debt Account Group, except in the case of capital appreciation bonds. These bonds are initially recorded net of their discount. The discount is amortized over the life of the issue using the effective interest method. All costs related to bond issuance are recorded as debt service expenditures in the appropriate fund as incurred.

Deferred revenue

Deferred revenue relates to unearned subscription income associated with the enterprise fund. Unearned subscription income is recorded when subscription orders are received and is amortized into income over the terms of the related subscriptions. Costs

associated with the procurement of subscriptions are expensed in the year incurred.

Long-term obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group.

Compensated absences

Effective July 1, 1998, State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours, upon retirement directly from State service. The benefit value is calculated by taking the State hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is \$30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Expendable Trust Fund. As of June 30, 2001, employees had accumulated \$28,201,384 of nonvested unpaid sick leave.

Employees are allowed to accumulate up to 240 hours of vacation leave (320 hours for exempt employees) which is paid when vacation is taken or upon termination of employment at the individual's then current rate of pay. An accrual for vacation leave has been made and the current portion is included under

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the caption "Accrued payroll and other accrued expenditures/expenses." For governmental funds, the portion of the vacation normally taken in the first sixty days of the next fiscal year is recorded as a current liability. The amount of long-term accrued vested vacation leave recorded in the General Long-Term Debt Account Group represents that portion which is not expected to be liquidated with expendable available financial resources. For proprietary funds, all of the outstanding vacation accrual is recorded as a current liability.

Administrative expenditures

The Department renders certain services (primarily administrative services as trustee or agent) to counties and cities of Arizona as well as to other agencies of the State of Arizona, the costs of which are accounted for in the State Highway Fund, a special revenue fund. No charges are made for these services. The Department receives certain services (primarily claims processing and treasury services) without cost from other Arizona state agencies.

The Arizona Highways Magazine Fund provides promotional magazines to other Arizona state agencies without charge.

Transactions between funds

Transactions that would be treated as revenue, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenue, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements to a fund for expenditures or expenses initially made from that fund which are applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

Nonrecurring or nonroutine transfers of equity between funds are treated as residual equity transfers and are reported as additions to or deductions from the fund balance of governmental funds. Residual equity transfers to proprietary funds are treated as contributed capital, and such transfers from proprietary funds are reported as reductions of retained earnings or contributed capital as is appropriate in the circumstances. All other transactions are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

Certain services, including accounting and investment services and claims, are furnished to certain funds by various other funds of the Department without charge.

Operations of the internal service fund are conducted in facilities recorded in the General Fixed Assets Account Group, the costs of which are accounted for in the State Highway Fund, a special revenue fund of the Department. The internal service fund pays the costs of repairs and maintenance of those facilities, but no rental charges are made to the funds for the use thereof.

Use of estimates

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Memorandum and comparative totals

Total columns for 2001 and 2000 included in the accompanying combined financial statements are captioned memorandum only to indicate they are presented only to facilitate financial analysis. The

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

information in the columns is not intended to present financial position, results of operations or cash flows of its proprietary fund types in conformity with GAAP. This information is not comparable to a consolidation and interfund eliminations have not been made in the aggregation of the information.

Reclassifications

Certain 2000 amounts have been reclassified to conform to the 2001 presentation. Adjustments were made for Local Agency Deposits Fund and Privilege Tax Fund. The Local Agency Deposits Fund was

shown as an Agency Fund in fiscal year 2000 and has been reclassified as a Special Revenue Fund in fiscal year 2001. The Privilege Tax Fund was shown as a Special Revenue Fund in fiscal year 2000 and has been reclassified as an Agency Fund in fiscal year 2001.

New accounting pronouncement

The Department's financial statements are in compliance with Statement No. 33 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Nonexchange Transactions, effective for fiscal year 2001.

NOTE 2. BUDGET BASIS OF ACCOUNTING

The Department prepares its annual budget on a basis that differs from GAAP. The budget and the actual results of transactions are presented in accordance with the Department's method (budget basis) in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budget Basis) - Budgeted Special Revenue Funds in order to provide a meaningful

comparison of actual results with the budget. The adjustments required to convert the revenues and expenditures for the budgeted special revenue funds from the GAAP basis to the budgetary basis consist of accrual to cash basis adjustments and the exclusion of funds not budgeted through legislative appropriation.

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 2. BUDGET BASIS OF ACCOUNTING (Continued)

Adjustments necessary to convert the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2001, on a GAAP basis to budget basis are as follows:

	Special Revenue Funds
Deficiency of revenues and other financing sources over expenditures and other financing uses — GAAP basis	\$ <57,758,017>
Basis differences	
Net increase in accounts payable, accrued payroll and other accruals not recognized as expenditures on budget basis	<35,187,802>
Net increase in receivables related to fuel and motor carrier taxes and fees, vehicle registration, title, license, and related fees not recognized as revenue on budget basis	11,513,009
Total basis differences	<u><23,674,793></u>
Perspective differences	
Revenues and other financing sources not recognized on budget basis:	
Reimbursements of construction expenditures - Federal aid	<360,869,634>
Other Federal grants and reimbursements	<4,879,297>
Reimbursements from Arizona counties, cities, and other state agencies	<2,900,099>
State appropriations	<255,991>
Interest	<13,798,461>
Other	<17,640,143>
Proceeds from contracts and capital leases payable	<909,714>
Operating transfers in	<84,939,589>
Expenditures and other financing uses not recognized on budget basis:	
Transportation - not appropriated by State legislature	6,360,624
Capital outlay - highway construction	621,346,580
Capital outlay - contracts and capital leases payable	909,714
Distributions to Arizona counties, cities and other state agencies	16,863,659
Interest	3,320,981
Debt service transfer out	86,529,221
Other operating transfers out	20,016,934
Total perspective differences	<u>269,154,785</u>
Entity differences	
Less excess of revenues over expenditures for funds for which no annual budgets are prepared	39,632,145
Excess of revenues over expenditures — budget basis	<u>\$ 227,354,120</u>

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 2. BUDGET BASIS OF ACCOUNTING (Continued)

Throughout the fiscal year, the Legislature may revise the budget. The following schedule reflects the original budgeted expenditures, subject to legislative limitations and cumulative revisions during the current fiscal year:

	Special Revenue Funds
Original Budget	\$ 294,999,139
Cumulative Revisions	39,777,279
Revised Budget	<u>\$ 334,776,418</u>

NOTE 3. SECURITIES HELD IN LIEU OF RETENTION

In accordance with Arizona law, a contractor may assign to the Department, in lieu of contract retention, time certificates of deposit in federally insured banks licensed by the State of Arizona or securities of the United States of America, the State of Arizona, its counties, municipalities and school districts or deposits in savings and loan institutions authorized to transact business in the State of Arizona. At

June 30, 2001, the Trustee held assignment on securities aggregating \$23,037,219, and \$3,589,732 in lieu of contractor retentions for construction in the special revenue funds, and capital projects fund, respectively. Additional securities aggregating \$361,909 were on deposit but not assigned to a specific project. These additional securities are not reflected in the accompanying financial statements.

NOTE 4. RESTRICTION OF USE OF THE STATE HIGHWAY FUND CASH

Effective July 1, 1981, State law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the State Highway Fund (special revenue fund) from the Highway User Revenue Fund (agency fund) for the design, purchase

of right-of-way or construction of controlled-access highways which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). At June 30, 2001, approximately \$82,000,000 including interest, of the fund balance was reserved, representing such unspent monies.

NOTE 5. NOTES AND LOANS RECEIVABLES

Notes receivable represent real estate mortgage loans made to individuals purchasing homes previously owned by the Department for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination. Loans

receivable represent loans made pursuant to Loan Repayment Agreements in the Highway Expansion and Extension Loan Program Fund. Twenty loans have been authorized and ten loans were outstanding as of June 30, 2001, to ADOT and other cities and towns.

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

A summary of interfund receivables and payables at June 30, 2001, follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Special Revenue Funds:		
State Highway Fund:		
Due from Highway User Revenue Fund for taxes and fees	\$ 76,063,377	\$ -
Due to Highway Expansion and Extension Loan Program Fund	-	510,130
Other	335,080	443,537
Total State Highway Fund	<u>76,398,457</u>	<u>953,667</u>
 State Aviation Fund	59,625	157
Safety Enforcement and Transportation Infrastructure Fund	67,267	10
Motor Vehicle Liability Insurance Enforcement Fund	63,282	165
Vehicle Inspection and Title Enforcement Fund	42,192	75
Highway Expansion and Extension Loan Program Fund	510,130	-
Maricopa Regional Area Road Construction Fund	<u>36,560</u>	<u>-</u>
Total Special Revenue Funds	77,177,513	954,074
 Enterprise Funds:		
Arizona Highways Magazine Fund	-	75
 Internal Service Funds:		
Equipment Fund	265,644	485
 Agency Funds:		
Motor Vehicle Division Clearing Fund	524,684	15,682,535
Highway User Revenue Fund	12,946,037	76,150,740
Underground Storage Tank Fund	1,874,031	-
Total Agency Funds	<u>15,344,752</u>	<u>91,833,275</u>
 Total All Funds	<u>\$ 92,787,909</u>	<u>\$ 92,787,909</u>

Advances

Senate Bill 1201 authorized the transfer of \$20,000,000 from the State Highway Fund in fiscal year 2000. This amount is shown as Advances to other Arizona Department of Transportation funds in the State

Highway Fund and Advances from other Arizona Department of Transportation funds in the Highway Expansion and Extension Loan Program Fund. The advance is due no later than December 31, 2008.

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 7. FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 2000	Additions (1)	Disposals	Balance June 30, 2001
Land	\$ 13,499,044	\$ 2,947,523	\$ <100>	\$ 16,446,467
Buildings and improvements	133,198,724	1,894,193	-	135,092,917
Improvements other than buildings	9,403,527	1,655,049	-	11,058,576
Airport facilities	-	19,569,077	-	19,569,077
Machinery and equipment	38,854,728	7,771,048	<4,198,870>	42,426,906
Total General Fixed Assets	<u>\$ 194,956,023</u>	<u>\$ 33,836,890</u>	<u>\$ <4,198,970></u>	<u>\$ 224,593,943</u>

Summary of proprietary fund type fixed assets at June 30, 2001:

	Enterprise Fund	Internal Service Fund
Land	\$ 7,900	\$ -
Buildings	981,156	-
Shop tools, office and computer equipment, and software	2,427,692	2,542,510
Mobile equipment	-	110,376,195
	3,416,748	112,918,705
Less accumulated depreciation	<1,660,975>	<68,707,367>
Total proprietary fund fixed assets	<u>\$ 1,755,773</u>	<u>\$ 44,211,338</u>

(1) The acquisition of assets includes the transfer of \$19,569,077 in facilities located at the Grand Canyon National Park Airport from the Grand Canyon Airport Authority in fiscal year 2001.

NOTE 8. FUND EQUITY

Fund equity for the proprietary funds consists of the following:

Enterprise Fund:

	Contributed Capital	Retained Earnings	Arizona Highways Magazine Fund Totals	
			2001	2000
Balance, July 1, 2000	\$ 1,538,698	\$ 2,901,564	\$ 4,440,262	\$ 4,945,657
Reduction of contributed capital	<500,000>	-	<500,000>	-
Net <loss> income	-	<347,825>	<347,825>	<505,395>
Balance, June 30, 2001	<u>\$ 1,038,698</u>	<u>\$ 2,553,739</u>	<u>\$ 3,592,437</u>	<u>\$ 4,440,262</u>

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 8. FUND EQUITY (Continued)

Arizona Revised Statutes (ARS), Section 28-7315, established an Arizona Highways Magazine Fund. The Fund consists of monies appropriated by the Legislature from the State Highway Fund, a special revenue fund, not to exceed \$500,000 annually, in addition to all Arizona Highways Magazine revenues received less expenses. The balance of contributed

capital represents contributions from the State Highway Fund of \$38,698 and \$2,000,000 during 1991 and 1990, respectively, less a reduction of \$500,000 in fiscal years 1999 and 2001. Balances remaining in the Fund at the end of the fiscal year do not revert to the State of Arizona General Fund or the State Highway Fund.

Internal Service Fund:

	Equipment Fund				
	Contributed Capital	Reserved Retained Earnings	Unreserved Retained Earnings	Totals	
				2001	2000
Balance, July 1, 2000	\$ 5,793,237	\$ 9,985,210	\$ 27,437,727	\$ 43,216,174	\$ 43,406,488
Reduction of reserved retained earnings	-	<9,985,210>	9,985,210	-	-
Net income <loss>	-	-	1,208,390	1,208,390	<190,314>
Balance, June 30, 2001	<u>\$ 5,793,237</u>	<u>\$ -</u>	<u>\$ 38,631,327</u>	<u>\$ 44,424,564</u>	<u>\$ 43,216,174</u>

The Equipment Fund was established by Arizona Revised Statute, Section 28-7006. The Fund consists of monies appropriated by the Legislature from the State Highway Fund. In fiscal year 1999 and 2001

Senate Bill required a transfer of \$500,000 each year to the Department of Public Safety. These transfers were recorded as legislative transfer out and not a return of contributed capital.

Residual equity transfer

Residual equity transfer occurs when nonroutine transfers are made from one fund to another. During fiscal years 2000 and 2001, fund transfers were based upon Senate Bill 1001 passed during the 1999 first

special session. The residual equity transfers of \$750,000 were made in each fiscal year from the Safety Enforcement and Transportation infrastructure Fund to the Department of Public Safety.

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS

The following is a summary of changes in general long-term debt for the fiscal year ended June 30, 2001:

	Balance July 1, 2000	Additions	Retirements/ Refundings	Amortization of Discount	Balance June 30, 2001
Bonds & Notes:					
Highway Revenue Bonds:					
1991 Series A, Subordinated	\$ 10,495,000	\$ -	\$ -	\$ -	\$ 10,495,000
1992 Series A, Subordinated, Refunding	25,205,000	-	25,205,000	-	-
1992 Series B, Subordinated	36,560,000	-	-	-	36,560,000
1993 Series, Refunding	124,260,000	-	11,385,000	-	112,875,000
1993 Series A, Subordinated, Refunding	226,620,000	-	2,010,000	-	224,610,000
1993 Series B, Subordinated, Refunding	35,000,000	-	-	-	35,000,000
1999 Series	150,540,000	-	13,455,000	-	137,085,000
2000 Series	-	143,655,000	-	-	143,655,000
Transportation Excise Tax Revenue Bonds:					
1988 Series A, Capital Appreciation	57,918,423	-	-	4,333,361	62,251,784
1992 Series A, Refunding	127,020,000	-	40,170,000	-	86,850,000
1992 Series B	13,955,000	-	2,500,000	-	11,455,000
1993 Series, Subordinated Refunding	122,065,000	-	8,890,000	-	113,175,000
1995 Series A, Subordinated	77,440,000	-	13,925,000	-	63,515,000
1995 Series B, Subordinated, Refunding	86,195,000	-	255,000	-	85,940,000
1998 Series A	136,135,000	-	37,985,000	-	98,150,000
1999 Series, Subordinated	107,700,000	-	31,645,000	-	76,055,000
2000 Series	-	113,690,000	21,495,000	-	92,195,000
Grant Anticipation Notes					
2000 Series A	-	39,405,000	-	-	39,405,000
2001 Series A	-	142,890,000	-	-	142,890,000
Total Bonds & Notes Payable	1,337,108,423	439,640,000	208,920,000	4,333,361	1,572,161,784
Other long-term liabilities:					
Capital leases payable	2,065,773	909,714	1,605,326	-	1,370,161
Long-term accrued vacation leave	8,625,022	318,636	-	-	8,943,658
Total General Long-Term Debt	<u>\$1,347,799,218</u>	<u>\$ 440,868,350</u>	<u>\$ 210,525,326</u>	<u>\$ 4,333,361</u>	<u>\$1,582,475,603</u>

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Bonds payable

Bonds payable are due in varying annual principal amounts plus varying semiannual interest amounts, except for the 1988 Series A Capital Appreciation Bonds which are due in annual installments of

\$21,500,000 in 2002 through 2004 with the balance of \$8,500,000 due in 2005. Bonds payable at June 30, 2001, are comprised of the following individual issues:

Issue	Interest Rates	Final Maturity Date	Balance at June 30, 2001
State of Arizona Highway Revenue Bonds:			
1991 Series A, Subordinated	8.8%	7/1/2004	\$ 10,495,000
1992 Series B, Subordinated	6.1% - 8.0%	7/1/2006	36,560,000
1993 Series, Refunding	4.7% - 5.3%	7/1/2009	112,875,000
1993 Series A, Subordinated, Refunding	4.3% - 6.0%	7/1/2011	224,610,000
1993 Series B, Subordinated, Refunding	5.1% - 6.0%	7/1/2011	35,000,000
1999 Series	4.5% - 6.3%	7/1/2019	137,085,000
2001 Series	3.8% - 5.5%	7/1/2020	143,655,000
Total Highway Revenue Bonds			700,280,000
State of Arizona Transportation Excise Tax Revenue Bonds:			
1988 Series A Capital Appreciation Bonds (maturity value of \$73,000,000)	7.3% - 7.5%	7/1/2005	62,251,784
1992 Series A, Refunding	5.4% - 5.8%	7/1/2005	86,850,000
1992 Series B	5.4% - 5.8%	7/1/2005	11,455,000
1993 Series, Subordinated, Refunding	4.4% - 5.6%	7/1/2005	113,175,000
1995 Series A, Subordinated	4.5% - 6.5%	7/1/2005	63,515,000
1995 Series B, Subordinated, Refunding	4.5% - 6.5%	7/1/2005	85,940,000
1998 Series A	4.0% - 5.0%	7/1/2005	98,150,000
1999 Series, Subordinated	4.8% - 5.3%	7/1/2005	76,055,000
2000 Series	4.4% - 5.8%	7/1/2005	92,195,000
Total Transportation Excise Tax Revenue Bonds			<u>689,586,784</u>
State of Arizona Grant Anticipation Notes:			
2000 Series A	4.8% - 5.6%	1/1/2004	39,405,000
2001 Series A	4.0% - 5.3%	1/1/2008	142,890,000
Total Grant Anticipation Notes			182,295,000
Total Bonds and Notes Payable			<u>\$1,572,161,784</u>

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 State Highway Fund, a special revenue fund. Arizona Revised Statutes prohibit the

total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, from exceeding \$800,000,000.

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

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

The Grant Anticipation Notes are secured by revenues received from the Federal Highway Administration and certain other Federal-aid revenues.

Bonds aggregating \$562,685,000 (\$410,105,00 of Highway Revenue Bonds, \$113,175,000 of Transportation Excise Tax Revenue Bonds, and \$39,405,000 of Grant Anticipation Notes, respectively) are subject to redemption prior to their maturity dates, at the option of the Transportation Board, in whole at any time, or in part at various interest payment dates. These bonds may be redeemed at various redemption prices ranging from 100 percent to 102 percent of principal, plus accrued interest to the date fixed for redemption. Bonds aggregating \$1,020,225,000 are not subject to redemption prior to maturity.

The Bond Resolution adopted by the Transportation Board on July 25, 1986, established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988, gives the Transportation Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reflected in the accompanying financial statements. The policies (aggregating \$70,063,698 at June 30, 2001) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies

which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 2001, the carrying basis was \$62,251,784. At maturity on July 1, 2005, the carrying basis will equal the maturity amount of \$73,000,000.

On July 11, 2000, the Department issued \$39,405,000 in Grant Anticipation Notes (Series 2000A) to (i) pay a portion of the costs of acquiring right-of-way for, design and construction of certain controlled-access highways in the City of Phoenix, Arizona, and (ii) a portion of the costs of issuing the Series 2000A Notes. The Series 2000A Notes are due January 1, 2003, and January 1, 2004. Net proceeds totaled \$39,200,196 (after payment of \$34,804 original issue discount and \$170,000 underwriting fees).

On September 15, 2000, the Department issued \$113,690,000 in Transportation Excise Tax Revenue Bonds (2000 Series) to (i) finance the acquisition of land and the design and construction of certain controlled access highway within Maricopa County, Arizona and (ii) pay cost of issuing the 2000 Series Bonds. The 2000 Series Bonds are due July 1, 2001, through 2005. Net proceeds totaled \$115,001,157 (after receipt of \$1,960,638 of reoffering premium and payment of \$649,481 in underwriting fees).

On January 15, 2001, the Department issued \$143,655,00 of Highway Revenue Bonds (Series

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

2001) to (I) finance portions of the Transportation Board's five year capital program, and (ii) pay costs of issuing the 2001 Series Bonds. The 2001 Series Bonds are due July 1, 2007, through 2020. Net proceeds totaled \$150,000,853 (after receipt of \$7,278,759 of reoffering premium and payment of \$932,906 in underwriting fees).

On May 15, 2001, the Department issued \$142,890,000 in Grant Anticipation Notes (Series

2001A) to (i) pay a portion of the costs of acquiring right-of-way for, design and construction of certain controlled-access highways in the City of Phoenix, Arizona, and (ii) a portion of the costs of issuing the Series 2001A Notes. The Series 2001A Notes are due January 1, 2004, and January 1, 2008. Net proceeds totaled \$147,248,251 (after receipt of \$5,420,281 of reoffering premium and payment of \$1,061,760 in underwriting fees).

Future debt service requirements of bonds and notes outstanding at June 30, 2001, are as follows:

Fiscal Year	Highway Revenue Bonds		Transportation Excise Tax Revenue Bonds		Grant Anticipation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 37,790,000	\$ 37,819,589	\$ 163,455,000	\$ 33,442,329	\$ -	\$ 10,180,858	\$ 201,245,000	\$ 81,442,776
2003	39,595,000	36,001,478	171,110,000	25,789,218	13,150,000	8,683,403	223,855,000	70,474,099
2004	41,465,000	33,651,876	178,675,000	18,223,485	36,755,000	7,488,470	256,895,000	59,363,831
2005	44,315,000	31,287,180	187,095,000	9,804,902	49,000,000	5,400,850	280,410,000	46,492,932
2006	46,760,000	28,842,361	-	-	38,540,000	3,209,175	85,300,000	32,051,536
2007	56,460,000	26,249,382	-	-	37,000,000	1,307,500	93,460,000	27,556,882
2008	59,285,000	23,426,215	-	-	7,850,000	196,250	67,135,000	23,622,465
2009	62,600,000	20,111,170	-	-	-	-	62,600,000	20,111,170
2010	65,805,000	16,906,657	-	-	-	-	65,805,000	16,906,657
2011	69,420,000	13,288,691	-	-	-	-	69,420,000	13,288,691
2012	16,595,000	9,814,682	-	-	-	-	16,595,000	9,814,682
2013	17,515,000	8,893,806	-	-	-	-	17,515,000	8,893,806
2014	18,505,000	7,904,719	-	-	-	-	18,505,000	7,904,719
2015	19,560,000	6,849,474	-	-	-	-	19,560,000	6,849,474
2016	20,675,000	5,736,825	-	-	-	-	20,675,000	5,736,825
2017	21,850,000	4,560,288	-	-	-	-	21,850,000	4,560,288
2018	23,045,000	3,364,762	-	-	-	-	23,045,000	3,364,762
2019	24,305,000	2,103,726	-	-	-	-	24,305,000	2,103,726
2020	14,735,000	773,588	-	-	-	-	14,735,000	773,588
	<u>\$ 700,280,000</u>	<u>\$ 317,586,469</u>	<u>\$ 700,335,000</u>	<u>\$ 87,259,934</u>	<u>\$ 182,295,000</u>	<u>\$ 36,466,506</u>	<u>\$ 1,582,910,000</u>	<u>\$ 441,312,909</u>

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Refunded bonds

In prior years, the Transportation Board refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities

which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the financial statements of the Department.

Refunded bonds of the Department outstanding at June 30, 2001, are as follows:

<u>Original Issue Date</u>	<u>Type</u>	<u>Escrow Maturity Date</u>	<u>Balance Outstanding</u>
1991 Series A, Subordinated	Highway Revenue Bonds	July 1, 2001	\$ 160,645,000
1992 Series B, Subordinated	Highway Revenue Bonds	July 1, 2002	52,350,000
1988 Series A	Transportation Excise Tax Revenue Bonds		
	Capital Appreciaiton Bonds	July 1, 2005	8,996,156
	Total refunded bonds outstanding		<u>\$ 221,991,156</u>

Capital leases payable

Modular buildings and other equipment totaling \$3,895,054 acquired through purchase contracts are recorded in the General Fixed Assets Account Group. Payments are due in monthly installments through

March 2006 with interest rates ranging from 4.71 percent to 5.89 percent.

At June 30, 2001, remaining annual principal payments under purchase contracts were as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 466,977
2003	498,941
2004	296,714
2005	185,798
2006	64,435
Total minimum lease payments	1,512,865
Less: amount representing interest	<142,204>
Present value of minimum lease payment	<u>\$ 1,370,661</u>

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Notes payable

Notes payable represent \$32,662,040 in the State Highway Fund for the Highway Expansion and Extension Loan Program (HELP) Fund loans, \$7,528,571 in Maricopa Regional Area Road (RARF) Construction Fund for a City of Mesa construction loan, and \$7,482,690 in the Equipment Fund for heavy equipment purchases with third party financing. The RARF loan is based on actual draw downs from the City of Mesa construction loan account used to fund actual construction expenditures. The HELP loan

principal and interest payments are due monthly, with interest rates varying from 1.75 percent to 3.92 percent per annum. The final loan repayments are due in 2005. The interest rate on the RARF loan is 1.75 percent per annum, with interest payments due monthly. RARF loan principal repayments will commence in fiscal year 2003, with monthly repayment amounts corresponding to the actual monthly draw down amounts. The Equipment Fund loan payments are due in monthly installments through January 2005 with interest rates ranging from 4.71 percent to 5.41 percent per annum.

	<u>Equipment Fund</u>
Fiscal Year	
2002	
2003	
2004	
2005	
Total Outstanding	

NOTE 10. OPERATING LEASES

The Department leases data processing and other equipment and certain facilities from various lessors. The majority of the leases are for a one-year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the year ended June 30, 2001, approximated \$4,361,000.

In Fiscal Year 2000, the Department entered into a long-term lease for a facility located on Washington Street in Phoenix. The future operating lease commitments are as follows:

	2002	\$ 1,206,772
	2003	1,247,679
	2004	1,288,586
	2005	1,329,494
	2006	1,370,401
	2007	<u>1,411,309</u>
Future operating leasing commitments		<u>\$ 7,854,241</u>

Arizona Department of Transportation
Notes to Financial Statements (Continued)
June 30, 2001

NOTE 10. OPERATING LEASES (Continued)

Various funds also rent mobile equipment from the Equipment Fund on an as-needed basis. Rental income for mobile equipment for the year ended June 30, 2001, is as follows:

State Highway Fund	\$ 26,113,140
Arizona Highways Magazine Fund	30,978
Other	<u>168,465</u>
Total operating leases	<u>\$ 26,312,583</u>

NOTE 11. RETIREMENT PLANS

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

The Arizona State Retirement System (System) issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North

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

Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the year ended June 30, 2001, was computed to be 2.66 percent of covered payroll by an actuarial valuation performed at June 30, 1999. Contributions for the years ended June 30, 1999, 2000 and 2001 were \$4,705,156, \$3,877,921 and \$4,032,399, respectively, for both the employees and the Department, which were equal to the required contributions for each year.

NOTE 12. 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 Report.

NOTE 12. CONTINGENT LIABILITIES (Continued)

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.

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's fund types.

On August 5, 1999, in *Hurley Trucking Co., Inc. v. State*, the Tax Court of the State ruled in favor of a refund claim for motor vehicle use fuel (diesel) taxes and motor carrier taxes (based on vehicle weight and mileage) paid to the State (the "Disputed Revenues"). Several trucking companies have additionally filed refund claims. The claimants assert that the

applicable statutes at the time did not permit the State to collect Disputed Revenues for certain tax years prior to 1997 relating to travel on state maintained roads crossing Federal lands. The Arizona Legislature subsequently clarified the statutes in 1997. The State filed its notice of appeal to the Arizona Court of Appeals on September 3, 1999. Oral argument was held May 23, 2000. The Department disputes the claimants' interpretation of the applicable statutes and intends to assert a vigorous defense. However, if the plaintiff in the *Hurley* case were to prevail, the maximum potential amount of the claim is difficult to predict with certainty because the amount of each claim would vary based on the nature of the actual roads used and mileage of each claimant. If the plaintiff were to prevail on both counts and all existing claimants were to receive a lump sum payment in a single fiscal year, the Department does not believe that the maximum potential payment from the Arizona Highway User Revenue Fund would reduce the amount of State Highway Fund revenues by more than ten percent (10%) for the single fiscal year in which such payment were made.

Commitments under construction contracts

The Department's outstanding commitments under construction contracts were approximately \$974,163,000 at June 30, 2001.

NOTE 13. SUBSEQUENT EVENTS

On October 15, 2001, the Department issued \$66,010,000 in Transportation Excise Tax Revenue Bonds (Series 2001) to (i) finance the costs of design, right-of-way purchase, or construction of certain controlled-access highways within Maricopa County, Arizona and (ii) pay costs of issuing the Series 2001

Bonds. The Series 2001 Bonds are due July 1, 2003, through July 1, 2005. Net proceeds totaled \$68,421,205 (after receipt of \$2,805,666 of reoffering premium and payment of \$394,461 in underwriting fees) writing on final closing to complete this section.

Special Revenue Funds

The State Highway 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 for vehicle registration, title, license and related fees and fuel and motor carrier taxes. Reimbursements for certain construction expenditures are received from the Federal government, Arizona cities and counties, and other state agencies. The fund also receives interest and other revenues. The fund disburses money primarily for the engineering, construction, improvement and maintenance of state highways, parts of highways forming state routes and highways under cooperative agreements with the United States.

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 certain airports. The State Aviation Fund monies are used to build and maintain airport facilities.

The Safety Enforcement and Transportation Infrastructure Fund is appropriated by the legislature and receives monies from the registration of vehicles of nonresidents for enforcement of vehicle safety requirements, maintenance of transportation facilities and upgrades of transportation facilities, including roads, streets, and highways, approved by the Transportation Board within twenty-five miles of the border between Arizona and Mexico.

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

The Vehicle Inspection and Title Enforcement Fund are monies from continuing appropriation to be used to defray the cost of investigations involving certificates of title, licensing fraud, registration enforcement and other enforcement related issues.

The Grant Anticipation Notes Fund receives revenues from the Federal Highway Administration under a grant agreement and certain other Federal-Aid revenues to accelerate highway construction projects.

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 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.

The Maricopa Regional Area Road Construction Fund receives Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of state highways within Maricopa County.

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.



Arizona Department of Transportation
Special Revenue Funds
Combining Balance Sheet
June 30, 2001
(With comparative totals at June 30, 2000)

	Budgeted				
	Safety				
	Enforcement and Transportation Infrastructure Fund				
	Motor Vehicle Liability Insurance Enforcement Fund				
	Vehicle Inspection and Title Enforcement Fund				
	State Highway Fund	State Aviation Fund	Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund
Assets					
Cash and cash equivalents on deposit with the State Treasurer:					
Retricted	\$ 81,830,804	\$ -	\$ -	\$ -	\$ -
Unrestricted	82,753,461	12,025,819	4,758,351	1,840,537	821,577
Receivables:					
Notes and loans	-	6,231,139	-	-	-
Accrued interest	2,046,709	207,910	31,380	-	-
Other	15,585,471	233,903	-	-	24,620
Due from U.S. Government for reimbursable construction costs	52,419,798	-	-	-	-
Due from other Arizona Department of Transportation funds	76,398,457	59,625	67,267	63,282	42,192
Due from Arizona counties, cities and other state agencies	12,006	133,682	-	-	-
Inventories	4,090,591	-	-	-	-
Advances to other Arizona Department of Transportation funds	20,000,000	-	-	-	-
Total assets	\$ 335,137,297	\$ 18,892,078	\$ 4,856,998	\$ 1,903,819	\$ 888,389
Liabilities and fund balances					
Liabilities:					
Contracts and retainage payable	\$ 59,797,351	\$ -	\$ 215,149	\$ -	\$ -
Accounts payable	7,871,358	16,205	10,055	100,922	6,074
Accrued payroll and other accrued expenditures	5,486,638	28,706	18,960	10,782	23,260
Due to other Arizona Department of Transportation funds	684,838	157	10	165	75
Due to Arizona counties, cities and other state agencies	632,784	-	-	-	-
Federal arbitrage rebate	-	-	-	-	-
Advances from other Arizona Department of Transportation funds	-	-	-	-	-
Notes payable	32,662,040	-	-	-	-
Total liabilities	107,135,009	45,068	244,174	111,869	29,409
Fund balances:					
Reserved for highway construction	81,830,804	-	-	-	-
Repayment of advance	20,000,000	-	-	-	-
Reserved for inventories	4,090,591	-	-	-	-
Reserved for loans and other financial assistance	-	-	-	-	-
Unreserved, undesignated	122,080,893	18,847,010	4,612,824	1,791,950	858,980
Total fund balances	228,002,288	18,847,010	4,612,824	1,791,950	858,980
Total liabilities and fund balances	\$ 335,137,297	\$ 18,892,078	\$ 4,856,998	\$ 1,903,819	\$ 888,389

Grant Anticipation Notes Fund	Highway Expansion and Extension Loan Program Fund	Local Agency Deposits Fund	Maricopa Regional Area Road Construction Fund	Motor Carrier Safety Revolving Fund	Totals	
					2001	2000
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,830,804	\$ 95,020,770
324,126	163,414,888	5,029,061	70,428,529	8,396	341,404,745	385,822,246
-	36,795,608	-	3,615,516	-	46,642,263	71,475,088
1,618	751,385	-	143,817	-	3,182,819	5,411,832
-	-	1,043,265	2,316,138	-	19,203,397	12,209,328
-	-	4,138,597	171,404	-	56,729,799	39,617,335
-	241,301	-	36,560	-	76,908,684	93,371,232
-	310,947	40,552	22,273,615	-	22,770,802	21,349,115
-	-	-	-	-	4,090,591	3,961,476
-	-	-	-	-	20,000,000	20,000,000
<u>\$ 325,744</u>	<u>\$ 201,514,129</u>	<u>\$ 10,251,475</u>	<u>\$ 98,985,579</u>	<u>\$ 8,396</u>	<u>\$ 672,763,904</u>	<u>\$ 748,238,422</u>
\$ -	\$ -	\$ 4,181,752	\$ 6,502,322	\$ -	\$ 70,696,574	\$ 40,246,394
793	-	-	591,645	-	8,597,052	30,609,714
-	8,164	-	2,650	-	5,579,160	5,723,563
-	-	-	-	-	685,245	4,230,093
-	100,715,414	-	-	-	101,348,198	103,202,509
-	-	-	-	-	-	1,512,260
-	-	-	-	-	-	-
-	20,000,000	-	-	-	20,000,000	20,000,000
-	-	-	7,528,571	-	40,190,611	58,832,686
<u>793</u>	<u>120,723,578</u>	<u>4,181,752</u>	<u>14,625,188</u>	<u>-</u>	<u>247,096,840</u>	<u>264,357,219</u>
-	-	6,069,723	84,360,391	-	172,260,918	250,615,994
-	-	-	-	-	20,000,000	20,000,000
-	-	-	-	-	4,090,591	3,961,476
-	80,790,551	-	-	-	80,790,551	55,508,591
<u>324,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,396</u>	<u>148,525,004</u>	<u>153,795,142</u>
<u>324,951</u>	<u>80,790,551</u>	<u>6,069,723</u>	<u>84,360,391</u>	<u>8,396</u>	<u>425,667,064</u>	<u>483,881,203</u>
<u>\$ 325,744</u>	<u>\$ 201,514,129</u>	<u>\$ 10,251,475</u>	<u>\$ 98,985,579</u>	<u>\$ 8,396</u>	<u>\$ 672,763,904</u>	<u>\$ 748,238,422</u>

Arizona Department of Transportation
Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Budgeted				
	State Highway Fund	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund
Revenues:					
Transportation excise taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Vehicle registration, title, license and related fees	210,086,489	3,263,528	3,244,391	1,955,043	1,178,466
Fuel and motor carrier taxes and fees	300,354,146	395,815	-	-	-
Reimbursement of construction expenditures - Federal aid	360,869,634	-	-	-	-
Other Federal grants and reimbursements	4,879,115	182	-	-	-
State match	-	-	-	-	-
Reimbursements from Arizona counties, cities and other state agencies	2,900,099	-	-	-	-
State appropriations	255,991	-	-	-	-
Interest on loans receivable	-	-	-	-	-
Interest	13,844,679	1,096,837	242,023	-	-
Flight property taxes	-	6,693,589	-	-	-
Grand Canyon National Park Airport	-	968,046	-	-	-
Other	16,689,696	1,071,383	-	-	-
Total revenues	<u>909,879,849</u>	<u>13,489,380</u>	<u>3,486,414</u>	<u>1,955,043</u>	<u>1,178,466</u>
Expenditures:					
Current:					
Transportation - appropriated by State legislature:					
Administration	48,149,597	-	-	-	-
Highway	43,116,888	-	-	-	-
Highway Maintenance	89,400,095	-	-	-	-
Motor Vehicle Division	73,442,885	-	2,073,011	985,517	835,269
Aeronautics Division	-	1,673,730	-	-	-
Other	1,021,429	-	-	-	-
Total Transportation - appropriated by State legislature	<u>255,130,894</u>	<u>1,673,730</u>	<u>2,073,011</u>	<u>985,517</u>	<u>835,269</u>
Transportation - not appropriated by State legislature	6,360,624	-	-	-	-
Capital outlay:					
Highway construction	620,188,336	-	1,158,244	-	-
Land, buildings and improvements - appropriated by State legislature	5,418,193	-	-	-	-
Contracts and capital leases payable	909,714	-	-	-	-
Federal arbitrage rebate	-	-	-	-	-

Grant Anticipation Notes Fund	Highway Expansion and Extension Loan Program Fund	Local Agency Deposits Fund	Maricopa Regional Area Road Construction Fund	Motor Carrier Safety Revolving Fund	Totals	
					2001	2000
\$ -	\$ -	\$ -	\$ 264,722,440	\$ -	\$ 264,722,440	\$ 248,595,990
-	-	-	-	18,003	219,745,920	255,087,892
-	-	-	-	-	300,749,961	276,188,840
-	-	33,261,471	27,446,833	-	421,577,938	402,266,192
1,832,508	-	-	-	-	6,711,805	11,748,706
-	-	-	-	-	-	396,600
-	-	5,462,781	8,531,545	-	16,894,425	18,608,709
-	-	-	-	-	255,991	179,690
-	92,913	-	-	-	92,913	1,591,725
378,945	6,493,500	-	5,186,650	-	27,242,634	24,715,652
-	-	-	-	-	6,693,589	6,709,385
-	-	-	-	-	968,046	346,040
-	-	146,741	2,123,075	-	20,030,895	10,956,092
<u>2,211,453</u>	<u>6,586,413</u>	<u>38,870,993</u>	<u>308,010,543</u>	<u>18,003</u>	<u>1,285,686,557</u>	<u>1,257,391,513</u>
-	-	-	-	-	48,149,597	47,847,296
-	-	-	-	-	43,116,888	42,302,275
-	-	-	-	-	89,400,095	83,397,548
-	-	-	-	-	77,336,682	74,492,133
-	-	-	-	-	1,673,730	1,814,658
<u>844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,022,273</u>	<u>654,856</u>
<u>844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>260,699,265</u>	<u>250,508,766</u>
-	236,592	-	-	-	6,597,216	6,820,619
-	-	38,362,507	129,561,083	-	789,270,170	772,989,156
-	-	-	-	-	5,418,193	10,956,144
-	-	-	-	-	909,714	2,577,187
-	-	-	-	-	-	155,863

(Continued)

Arizona Department of Transportation
Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Budgeted				
			Safety		
	State Highway Fund	State Aviation Fund	Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund
Arizona Department of Public Safety distributions - appropriated by State legislature	12,500,000	-	-	-	-
Distributions to Arizona counties, cities and other state agencies	-	16,605,959	-	-	257,700
Interest on loans payable	3,052,152	-	-	-	-
Total expenditures	903,559,913	18,279,689	3,231,255	985,517	1,092,969
Excess <deficiency> of revenues over <under> expenditures	6,319,936	<4,790,309>	255,159	969,526	85,497
Other financing sources <uses>:					
Proceeds from contracts and capital leases payable	909,714	-	-	-	-
Operating transfers in	84,939,201	388	-	-	-
Operating transfers out:					
Debt service	<86,529,221>	-	-	-	-
Other	<20,007,142>	-	<9,792>	-	-
Total other financing sources <uses>	<20,687,448>	388	<9,792>	-	-
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	<14,367,512>	<4,789,921>	245,367	969,526	85,497
Fund balances, July 1	242,369,800	23,636,931	5,117,457	822,424	773,483
Residual equity transfer	-	-	<750,000>	-	-
Fund balances, June 30	\$ 228,002,288	\$ 18,847,010	\$ 4,612,824	\$ 1,791,950	\$ 858,980

Grant Anticipation Notes Fund	Highway Expansion and Extension Loan Program Fund	Local Agency Deposits Fund	Maricopa Regional Area Road Construction Fund	Motor Carrier Safety Revolving Fund	Totals	
					2001	2000
-	-	-	-	-	12,500,000	12,500,000
-	-	-	7,421,930	66,900	24,352,489	30,070,861
-	2,456,912	-	-	-	5,509,064	1,679,790
844	2,693,504	38,362,507	136,983,013	66,900	1,105,256,111	1,088,258,386
2,210,609	3,892,909	508,486	171,027,530	<48,897>	180,430,446	169,133,127
-	-	-	-	-	909,714	2,577,187
-	21,389,051	-	738,754	-	107,067,394	67,507,352
<1,885,658>	-	-	<192,277,738>	-	<280,692,617>	<227,118,977>
-	-	<92,935>	<45,069,207>	-	<65,179,076>	<19,001,167>
<1,885,658>	21,389,051	<92,935>	<236,608,191>	-	<237,894,585>	<176,035,605>
324,951	25,281,960	415,551	<65,580,661>	<48,897>	<57,464,139>	<6,902,478>
-	55,508,591	5,654,172	149,941,052	57,293	483,881,203	491,533,681
-	-	-	-	-	<750,000>	<750,000>
\$ 324,951	\$ 80,790,551	\$ 6,069,723	\$ 84,360,391	\$ 8,396	\$ 425,667,064	\$ 483,881,203

Arizona Department of Transportation
Special Revenue Funds
Combining Schedule of Revenues and Expenditures - Budget and Actual (Budget Basis)
For the fiscal year ended June 30, 2001

	State Highway Fund			State Aviation Fund		
	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
Revenues:						
Vehicle registration, title, license and related fees	\$ 246,332,900	\$ 229,580,665	\$ <16,752,235>	\$ 2,400,000	\$ 3,182,080	\$ 782,080
Fuel and motor carrier taxes and fees	291,454,000	291,217,587	<236,413>	558,000	456,476	<101,524>
Interest	-	-	-	1,574,000	1,130,698	<443,302>
Flight property taxes	-	-	-	7,472,000	6,693,590	<778,410>
Grand Canyon National Park Airport	-	-	-	664,000	1,880,755	1,216,755
Other	-	-	-	10,000	120,936	110,936
Total revenues	537,786,900	520,798,252	<16,988,648>	12,678,000	13,464,535	786,535
Expenditures appropriated by State legislature in FY 2001 budget:						
Administration:						
Personal services	18,028,200	18,027,849	351	-	-	-
Employee related expenditures	3,953,000	3,952,740	260	-	-	-
Other operating expenditures	26,794,400	25,853,842	940,558	-	-	-
Total Administration	48,775,600	47,834,431	941,169	-	-	-
Highway:						
Personal services	28,445,400	28,390,796	54,604	-	-	-
Employee related expenditures	6,131,100	6,105,418	25,682	-	-	-
Other operating expenditures	8,873,000	8,326,181	546,819	-	-	-
Radio communication	405,900	405,371	529	-	-	-
Total Highway	43,855,400	43,227,766	627,634	-	-	-
Highway Maintenance:						
Personal services	29,357,900	29,107,616	250,284	-	-	-
Employee related expenditures	7,497,700	7,490,796	6,904	-	-	-
Other operating expenditures	52,436,100	50,240,915	2,195,185	-	-	-
Highway Maintenance (nonreverting balance forward)	2,586,079	2,585,910	169	-	-	-
Total Highway Maintenance	91,877,779	89,425,237	2,452,542	-	-	-
Motor Vehicle Division:						
Personal services	39,879,800	39,864,475	15,325	-	-	-
Employee related expenditures	10,335,500	10,323,830	11,670	-	-	-
Other operating expenditures	19,857,600	18,958,811	898,789	-	-	-
License plates and tabs	2,295,300	2,295,300	-	-	-	-
Medical advisory board	200,000	200,000	-	-	-	-
Abandoned Vehicle	431,700	404,198	27,502	-	-	-
Attorney General Legal	127,900	127,900	-	-	-	-
Plate to Owner	900,600	193,873	706,727	-	-	-
On-line SSN Verification	191,200	190,403	797	-	-	-
Fee Acct and Rev Mgt Syst	1,527,000	409,319	1,117,681	-	-	-
Intergrated Inventory Syst	1,032,200	397,327	634,873	-	-	-
Total Motor Vehicle Division	76,778,800	73,365,436	3,413,364	-	-	-
Air Quality Program:						
Personal services	39,557	39,557	-	-	-	-
Employee related expenditures	6,643	6,643	-	-	-	-
Other operating expenditures	200	200	-	-	-	-
Total Air Quality Program	46,400	46,400	-	-	-	-
Public Transit Program:						
Personal services	62,900	61,847	1,053	-	-	-
Employee related expenditures	16,000	14,931	1,069	-	-	-
Other operating expenditures	5,200	4,765	435	-	-	-
HELP & VLT Deduction Appropriations	36,748,100	36,748,100	-	-	-	-
Total Public Transit Program	36,832,200	36,829,643	2,557	-	-	-

[illegible]

Exhibit A-3

Totals		
Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
\$ 254,869,500	\$ 239,404,114	\$ <15,465,386>
292,012,000	291,674,063	<337,937>
1,824,000	1,385,078	<438,922>
7,472,000	6,693,590	<778,410>
664,000	1,880,755	1,216,755
10,000	120,936	110,936
556,851,500	541,158,536	<15,692,964>
18,028,200	18,027,849	351
3,953,000	3,952,740	260
26,794,400	25,853,842	940,558
48,775,600	47,834,431	941,169
28,445,400	28,390,796	54,604
6,131,100	6,105,418	25,682
8,873,000	8,326,181	546,819
405,900	405,371	529
43,855,400	43,227,766	627,634
29,357,900	29,107,616	250,284
7,497,700	7,490,796	6,904
52,436,100	50,240,915	2,195,185
2,586,079	2,585,910	169
91,877,779	89,425,237	2,452,542
41,328,900	41,293,401	35,499
10,722,400	10,688,471	33,929
21,088,100	20,096,736	991,364
2,295,300	2,295,300	-
200,000	200,000	-
431,700	404,198	27,502
127,900	127,900	-
900,600	193,873	706,727
191,200	190,403	797
1,527,000	409,319	1,117,681
1,032,200	397,327	634,873
79,845,300	76,296,928	3,548,372
39,557	39,557	-
6,643	6,643	-
200	200	-
46,400	46,400	-
62,900	61,847	1,053
16,000	14,931	1,069
5,200	4,765	435
36,748,100	36,748,100	-
36,832,200	36,829,643	2,557

(Continued)

Arizona Department of Transportation
Special Revenue Funds
Combining Schedule of Revenues and Expenditures - Budget and Actual (Budget Basis)
For the fiscal year ended June 30, 2001

	State Highway Fund			State Aviation Fund		
	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
Aeronautics Division:						
Personal services	-	-	-	430,500	684,908	<254,408>
Employee related expenditures	-	-	-	147,600	163,093	<15,493>
Other operating expenditures	-	-	-	1,163,400	653,822	509,578
Total Aeronautics Division	-	-	-	1,741,500	1,501,823	239,677
Capital outlay - land, buildings and improvements	17,866,411	5,418,193	12,448,218	-	-	-
Arizona Department of Public Safety transfers	12,500,000	12,500,000	-	-	-	-
Expenditures appropriated by State legislature by carryover of previous years' unexpended budgets	1,435,828	723,995	711,833	-	-	-
Total expenditures	329,968,418	309,371,101	20,597,317	1,741,500	1,501,823	239,677
Excess of revenues over expenditures	\$ 207,818,482	\$ 211,427,151	\$ 3,608,669	\$ 10,936,500	\$ 11,962,712	\$ 1,026,212

Safety Enforcement and Transportation Infrastructure Fund			Motor Vehicle Liability Insurance Enforcement Fund			Vehicle Inspection and Title Enforcement Fund		
Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,098,900	960,126	138,774	997,700	982,490	15,210	969,900	988,876	<18,976>
\$ 2,414,500	\$ 2,591,226	\$ 176,726	\$ 668,200	\$ 1,098,253	\$ 430,053	\$ 237,400	\$ 274,778	\$ 37,378

Totals		
Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
430,500	684,908	<254,408>
147,600	163,093	<15,493>
1,163,400	653,822	509,578
1,741,500	1,501,823	239,677
17,866,411	5,418,193	12,448,218
12,500,000	12,500,000	-
1,435,828	723,995	711,833
334,776,418	313,804,416	20,972,002
\$ 222,075,082	\$ 227,354,120	\$ 5,279,038

Debt Service Funds

The Highway Revenue Bond Principal Redemption and Interest Fund

administers all payments of principal and interest for bonds issued by the Arizona Transportation Board and secured by highway user revenues including the Subordinated Highway Revenue Bonds Series 1991A, Subordinated Highway Revenue Bonds Series 1992B, Subordinated Highway Revenue Refunding Bonds Series 1993A & 1993B, Highway Revenue Refunding Bonds Series 1993, Highway Revenue Bonds Series 1999 and Highway Revenue Bonds Series 2001.

The Maricopa Regional Area Road Bond Fund

administers all payments of principal and interest for bonds issued by the Arizona Transportation Board and secured by transportation excise tax revenues including the 1988 Series A Bonds, 1992 Series A & 1992 Series B Bonds, Subordinated 1993 Series Bonds, Subordinated 1995 Series A & 1995 Series B Bonds, 1998 Series A Bonds, Subordinated 1999 Series Bonds and 2000 Series Bonds.

The Grant Anticipation Notes Bond Fund

administers all payments of principal and interest for notes issued by the Arizona Transportation Board and are secured by revenues received from the Federal Highway Administration under a grant agreement and certain other Federal-Aid revenues including Grant Anticipation Notes Series 2000 A and Series 2001 A.



Arizona Department of Transportation
Debt Service Funds
Combining Balance Sheet
June 30, 2001
(With comparative totals at June 30, 2000)

	Highway Revenue Bond Fund	Maricopa Regional Area Road Bond Fund	Grant Anticipation Notes Bond Fund	Totals	
				2001	2000
Assets					
Cash and cash equivalents on deposit with the State Treasurer	\$ 1,165,367	\$ 17,110,080	\$ -	\$ 18,275,447	\$ 17,061,567
Accrued interest receivable	757,778	1,054,676	-	1,812,454	2,283,842
Accounts receivable	-	-	793	793	-
Total assets	\$ 1,923,145	\$ 18,164,756	\$ 793	\$ 20,088,694	\$ 19,345,409
Fund balances					
Reserved for highway construction	\$ 1,923,145	\$ 18,164,756	\$ 793	\$ 20,088,694	\$ 19,345,409
Total fund balances	\$ 1,923,145	\$ 18,164,756	\$ 793	\$ 20,088,694	\$ 19,345,409

Arizona Department of Transportation
Debt Service Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Highway Revenue Bond Fund	Maricopa Regional Area Road Bond Fund	Grant Anticipation Notes Bond Fund	Totals	
				2001	2000
Revenues:					
Interest	\$ 2,660,302	\$ 5,818,523	\$ -	\$ 8,478,825	\$ 8,592,130
Other	-	-	793	793	-
Total revenues	<u>2,660,302</u>	<u>5,818,523</u>	<u>793</u>	<u>8,479,618</u>	<u>8,592,130</u>
Expenditures:					
Debt service:					
Principal	52,055,000	156,865,000	-	208,920,000	175,075,000
Interest	36,581,209	40,035,320	1,884,865	78,501,394	76,603,575
Bond issuance costs	-	-	-	-	308,200
Other	<u>37,376</u>	<u>78,413</u>	<u>793</u>	<u>116,582</u>	<u>172,834</u>
Total expenditures	<u>88,673,585</u>	<u>196,978,733</u>	<u>1,885,658</u>	<u>287,537,976</u>	<u>252,159,609</u>
Deficiency of revenues under expenditures	<86,013,283>	<191,160,210>	<1,884,865>	<279,058,358>	<243,567,479>
Other financing sources <uses>:					
Operating transfers in	86,529,221	192,277,738	1,885,658	280,692,617	227,118,977
Proceeds from refunding bonds	-	-	-	-	26,172,174
Payment to refunded bond escrow agent	-	-	-	-	<25,115,000>
Operating transfers out	<u><158,974></u>	<u><732,000></u>	<u>-</u>	<u><890,974></u>	<u>-</u>
Total other financing sources	<u>86,370,247</u>	<u>191,545,738</u>	<u>1,885,658</u>	<u>279,801,643</u>	<u>228,176,151</u>
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	356,964	385,528	793	743,285	<15,391,328>
Fund balances, July 1	<u>1,566,181</u>	<u>17,779,228</u>	<u>-</u>	<u>19,345,409</u>	<u>34,736,737</u>
Fund balances, June 30	<u>\$ 1,923,145</u>	<u>\$ 18,164,756</u>	<u>\$ 793</u>	<u>\$ 20,088,694</u>	<u>\$ 19,345,409</u>

Capital Projects Funds

The Highway Revenue Bond Proceeds Fund is used to administer bond proceeds from the Series 1999 and 2001 Arizona Transportation Board Highway Revenue Bonds issue. These monies are expended for the construction of Federal, state and local highways.

The Maricopa Regional Area Road Bond Proceeds Fund is used to administer bond proceeds from the 2000 Series Transportation Board of the State of Arizona Transportation Excise Tax Revenue Bond issues. These monies are spent on the construction of state highways within Maricopa County.

The Grant Anticipation Notes Bond Proceeds Fund is used to administer proceeds from the Series 2000 A and Series 2001 A Arizona Transportation Board Grant Anticipation Notes issues. These monies are expended for the acquisition of right-of-way purchase, or construction of certain controlled access highways within Maricopa County.



Arizona Department of Transportation
Capital Projects Funds
Combining Balance Sheet
June 30, 2001
(With comparative totals at June 30, 2000)

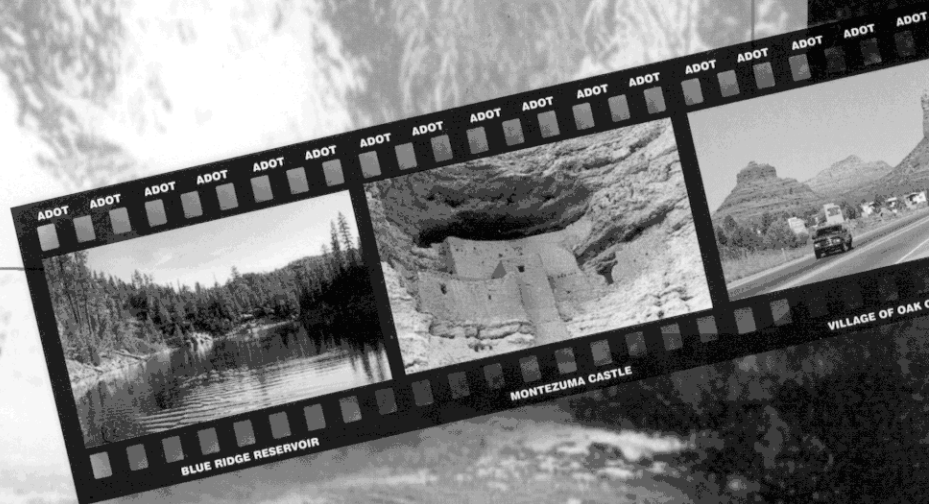
	Highway Revenue Bond Proceeds Fund	Maricopa Regional Area Road Bond Proceeds Fund	Grant Anticipation Notes Bond Proceeds Fund	Totals	
				2001	2000
Assets					
Cash and cash equivalents on deposit with the State Treasurer	\$ 114,028,945	\$ 10,877,947	\$ 145,645,621	\$ 270,552,513	\$ 50,410,037
Accrued interest receivable	818,899	86,085	801,962	1,706,946	559,451
Total assets	\$ 114,847,844	\$ 10,964,032	\$ 146,447,583	\$ 272,259,459	\$ 50,969,488
Liabilities and fund balances					
Liabilities:					
Construction contracts payable	\$ 4,224,902	\$ 2,887,556	\$ 13,655,284	\$ 20,767,742	\$ 113,965
Accounts payable	6,997	594,107	-	601,104	1,020,788
Due to other Arizona Department of Transportation Funds	-	-	-	-	1,841,782
Total liabilities	4,231,899	3,481,663	13,655,284	21,368,846	2,976,535
Fund balances - reserved for highway construction	110,615,945	7,482,369	132,792,299	250,890,613	47,992,953
Total liabilities and fund balances	\$ 114,847,844	\$ 10,964,032	\$ 146,447,583	\$ 272,259,459	\$ 50,969,488

Arizona Department of Transportation
Capital Projects Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Highway Revenue Bond Proceeds Fund	Maricopa Regional Area Road Bond Proceeds Fund	Grant Anticipation Notes Bond Proceeds Fund	Totals	
				2001	2000
Revenues:					
Interest	\$ 3,552,334	\$ 2,847,255	\$ 2,434,401	\$ 8,833,990	\$ 6,634,413
Other	-	-	-	-	60
Total revenues	<u>3,552,334</u>	<u>2,847,255</u>	<u>2,434,401</u>	<u>8,833,990</u>	<u>6,634,473</u>
Expenditures:					
Capital outlay - highway construction	<u>83,634,649</u>	<u>78,394,621</u>	<u>57,290,310</u>	<u>219,319,580</u>	<u>168,924,342</u>
Total expenditures	<u>83,634,649</u>	<u>78,394,621</u>	<u>57,290,310</u>	<u>219,319,580</u>	<u>168,924,342</u>
Deficiency of revenues under expenditures	<80,082,315>	<75,547,366>	<54,855,909>	<210,485,590>	<162,289,869>
Other financing sources <uses>:					
Proceeds from sale of bonds	150,933,759	115,650,638	187,796,197	454,380,594	250,499,349
Operating transfers out	<8,228,452>	<32,620,903>	<147,989>	<40,997,344>	<48,506,185>
Total other financing sources	<u>142,705,307</u>	<u>83,029,735</u>	<u>187,648,208</u>	<u>413,383,250</u>	<u>201,993,164</u>
Excess of revenues and other financing sources over expenditures and other financing uses	62,622,992	7,482,369	132,792,299	202,897,660	39,703,295
Fund balances, July 1	<u>47,992,953</u>	-	-	<u>47,992,953</u>	<u>8,289,658</u>
Fund balances, June 30	\$ <u>110,615,945</u>	\$ <u>7,482,369</u>	\$ <u>132,792,299</u>	\$ <u>250,890,613</u>	\$ <u>47,992,953</u>

Enterprise Fund

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



Arizona Department of Transportation
Arizona Highways Magazine Fund
Comparative Balance Sheets
June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Assets		
Current assets:		
Cash and cash equivalents on deposit with the State Treasurer	\$ 2,396,073	\$ 3,308,989
Subscriptions receivable, less allowance for doubtful accounts of \$7,300 in 2001 and 2000	474,595	358,776
Accrued interest receivable	5,750	28,205
Accounts receivable - retail/commercial, less allowance for returns of \$10,000 in 2001 and 2000	45,672	53,435
Inventories	2,924,776	2,786,130
Prepaid expenses	721,810	668,778
Total current assets	<u>6,568,676</u>	<u>7,204,313</u>
Fixed assets, net of accumulated depreciation	<u>1,755,773</u>	<u>2,065,088</u>
Total assets	<u>\$ 8,324,449</u>	<u>\$ 9,269,401</u>
Liabilities and fund equity		
Current liabilities:		
Accounts payable	\$ 127,527	\$ 163,656
Accrued payroll and other accrued expenses	183,525	181,267
Due to other Arizona Department of Transportation funds	75	-
Deferred revenue - unearned subscription revenue	4,420,885	4,484,216
Total current liabilities	<u>4,732,012</u>	<u>4,829,139</u>
Fund equity:		
Contributed capital	1,038,698	1,538,698
Retained earnings	2,553,739	2,901,564
Total fund equity	<u>3,592,437</u>	<u>4,440,262</u>
Total liabilities and fund equity	<u>\$ 8,324,449</u>	<u>\$ 9,269,401</u>

Arizona Department of Transportation
Arizona Highways Magazine Fund
Comparative Statements of Revenues, Expenses and Changes in Retained Earnings
For the fiscal years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Magazine sales	\$ 6,105,620	\$ 6,223,932
Sales of related products	4,101,576	4,489,024
Other	371,875	475,953
Total operating revenues	<u>10,579,071</u>	<u>11,188,909</u>
Operating expenses:		
Publication and promotional costs	5,241,594	5,644,967
Salaries and wages	2,097,029	2,122,261
Employee benefits	483,733	466,296
Shipping and postage	1,729,326	1,944,050
Supplies	99,862	112,112
Equipment rental	48,365	90,776
Temporary help, professional and outside services	574,025	541,960
Repairs and maintenance	76,496	83,058
Travel	27,351	26,397
Write-off of uncollectible accounts	60,522	91,127
Other	325,931	308,101
Depreciation	313,615	366,702
Total operating expenses	<u>11,077,849</u>	<u>11,797,807</u>
Operating loss	<498,778>	<608,898>
Non-operating revenues <expenses>:		
Interest	151,891	172,456
Loss on disposal of fixed assets	<938>	<68,953>
Total non-operating revenues	<u>150,953</u>	<u>103,503</u>
Net <loss>	<347,825>	<505,395>
Retained earnings, July 1	<u>2,901,564</u>	<u>3,406,959</u>
Retained earnings, June 30	<u>\$ 2,553,739</u>	<u>\$ 2,901,564</u>

Arizona Department of Transportation
Arizona Highways Magazine Fund
Comparative Statements of Cash Flows
For the fiscal years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating loss	\$ <498,778>	\$ <608,898>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	313,615	366,702
Changes in current assets and liabilities:		
Accounts receivable	<85,601>	185,315
Inventories	<138,646>	29,064
Prepaid expenses	<53,032>	<62,487>
Accounts payable	<36,129>	<82,585>
Accrued payroll and other accrued expenses	2,258	<56,578>
Due to other Arizona Department of Transportation funds	75	<1,808>
Deferred revenue	<63,331>	226,605
Total adjustments	<u><60,791></u>	<u>604,228</u>
Net cash used for operating activities	<559,569>	<4,670>
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	<5,238>	<80,349>
Reduction of contributed capital	<500,000>	-
Net cash used for capital and related financing activities	<u><505,238></u>	<u><80,349></u>
Cash flows from investing activities:		
Earnings on investments	151,891	172,456
Net cash provided by investing activities	<u>151,891</u>	<u>172,456</u>
Net increase <decrease> in cash and cash equivalents	<912,916>	87,437
Cash and cash equivalents, July 1	3,308,989	3,221,552
Cash and cash equivalents, June 30	<u>\$ 2,396,073</u>	<u>\$ 3,308,989</u>

Internal Service Fund

The Equipment Fund purchases and maintains equipment and materials to be used by other funds.



Arizona Department of Transportation
Equipment Fund
Comparative Balance Sheets
June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Assets		
Current assets:		
Cash and cash equivalents on deposit with the State Treasurer	\$ 5,439,547	\$ 5,092,780
Receivables:		
Accrued interest	54,976	34,825
Other	49,905	256,936
Due from other Arizona Department of Transportation funds	265,644	68,116
Due from other state agencies	533,673	-
Inventories	<u>2,449,028</u>	<u>2,334,406</u>
Total current assets	<u>8,792,773</u>	<u>7,787,063</u>
Fixed assets, net of accumulated depreciation	<u>44,211,338</u>	<u>45,686,282</u>
Total assets	<u>\$ 53,004,111</u>	<u>\$ 53,473,345</u>
Liabilities and fund equity		
Liabilities:		
Accounts payable	\$ 197,427	\$ -
Accrued payroll and other accrued expenses	783,946	727,092
Due to other Arizona Department of Transportation funds	485	-
Due to other state agencies	6,549	-
Notes payable	<u>7,482,690</u>	<u>9,530,079</u>
Total liabilities	<u>8,471,097</u>	<u>10,257,171</u>
Fund equity:		
Contributed capital	6,322,179	5,793,237
Retained earnings:		
Reserved for replacement of equipment	-	9,985,210
Unreserved	<u>38,210,835</u>	<u>27,437,727</u>
Total fund equity	<u>44,533,014</u>	<u>43,216,174</u>
Total liabilities and fund equity	<u>\$ 53,004,111</u>	<u>\$ 53,473,345</u>

Arizona Department of Transportation
Equipment Fund
Comparative Statements of Revenues, Expenses and Changes in Retained Earnings
For the fiscal years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Equipment rentals	\$ 26,312,583	\$ 26,104,085
Equipment sales	111,405	504,746
Inter-agency	2,893,457	3,504,235
Other	<u>1,400,518</u>	<u>120,452</u>
Total operating revenues	<u>30,717,963</u>	<u>30,233,518</u>
Operating expenses:		
Equipment maintenance	5,755,197	5,712,905
Fuel and lubricants	5,056,593	4,871,554
Salaries and related benefits	9,175,997	8,933,988
Supplies	445,403	368,417
Professional and outside services	515,920	505,538
Insurance	605,300	605,300
Travel	114,335	106,650
Other	905,045	1,443,653
Depreciation	<u>7,161,742</u>	<u>8,099,211</u>
Total operating expenses	<u>29,735,532</u>	<u>30,647,216</u>
Operating income <loss>	982,431	<413,698>
Non-operating revenues <expenses>:		
Interest	305,467	223,384
Legislative transfer out	<u><500,000></u>	<u>-</u>
Total non-operating revenues <expenses>	<u><194,533></u>	<u>223,384</u>
Net income <loss>	787,898	<190,314>
Retained earnings, July 1	<u>37,422,937</u>	<u>37,613,251</u>
Retained earnings, June 30	<u><u>\$ 38,210,835</u></u>	<u><u>\$ 37,422,937</u></u>

Arizona Department of Transportation
Equipment Fund
Comparative Statements of Cash Flows
For the fiscal years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating income <loss>	\$ 982,431	\$ <413,698>
Adjustments to reconcile operating income <loss> to net cash provided by operating activities:		
Depreciation	7,161,742	8,099,211
Changes in assets and liabilities:		
Accounts receivables	186,880	<162,433>
Due from other Arizona Department of Transportation funds	<197,528>	1,707,231
Due from other state agencies	<533,673>	20,254
Inventories	<114,622>	226,432
Accounts payable	197,427	<557,157>
Accrued payroll and other accrued expenses	56,854	<181,804>
Due to other Arizona Department of Transportation funds	485	-
Due to other state agencies	6,549	-
Total adjustments	<u>6,764,114</u>	<u>9,151,734</u>
Net cash provided by operating activities	<u>7,746,545</u>	<u>8,738,036</u>
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	<8,842,418>	<9,970,100>
Proceeds from sale of fixed assets	1,108,231	1,035,668
Increase of contributed capital	528,942	-
Legislative transfer out	<u><500,000></u>	<u>-</u>
Net cash used for capital and related financing activities	<u><7,705,245></u>	<u><8,934,432></u>
Cash flows from investing activities:		
Earnings on investments	<u>305,467</u>	<u>223,384</u>
Net cash provided by investing activities	<u>305,467</u>	<u>223,384</u>
Net increase in cash and cash equivalents	346,767	26,988
Cash and cash equivalents, July 1	<u>5,092,780</u>	<u>5,065,792</u>
Cash and cash equivalents, June 30	<u><u>\$ 5,439,547</u></u>	<u><u>\$ 5,092,780</u></u>

Fiduciary Funds

Agency Funds

The 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.

The Motor Vehicle Division Clearing Fund accounts for the collection and disbursement of all Motor Vehicle Division revenues.

The Highway User Revenue Fund collects motor vehicle and liquid use fuel taxes and receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the State Highway Fund, the Department of Public Safety, the Arizona State Parks, the Economic Strength Project Fund, and various cities and counties.

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

The Highway Properties 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.

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



Arizona Department of Transportation
Agency Funds
Combining Balance Sheet
June 30, 2001
(With comparative totals at June 30, 2000)

	Privilege Tax	Motor Vehicle Division Clearing	Highway User Revenue	Underground Storage Tank	Highway Properties
Assets					
Cash and cash equivalents on deposit with the State Treasurer:					
Restricted	\$ 282	\$ -	\$ -	\$ 468,281	\$ -
Unrestricted	-	28,019,559	76,380,505	-	412,606
Receivables:					
Accrued interest	-	-	436,519	6,598	-
Taxes and fees	-	9,537,905	61,797,144	-	-
Other	-	-	-	-	-
Due from other Arizona Department of Transportation funds	-	524,684	12,946,037	1,874,031	-
Due from Arizona counties, cities and other state agencies	-	-	90,120	-	-
Total assets	<u>\$ 282</u>	<u>\$ 38,082,148</u>	<u>\$ 151,650,325</u>	<u>\$ 2,348,910</u>	<u>\$ 412,606</u>
Liabilities					
Liabilities:					
Accounts payable	\$ 282	\$ 1,080,473	\$ -	\$ 10,024	\$ 412,606
Due to other Arizona Department of Transportation funds	-	15,682,535	76,150,740	-	-
Due to Arizona Department of Public Safety	-	-	-	-	-
Due to Arizona counties, cities and other state agencies	-	19,280,666	75,499,585	2,338,886	-
Surety and rental deposits	-	2,038,474	-	-	-
Total liabilities	<u>\$ 282</u>	<u>\$ 38,082,148</u>	<u>\$ 151,650,325</u>	<u>\$ 2,348,910</u>	<u>\$ 412,606</u>

Economic Strength Project	Totals	
	2001	2000
\$ 2,947,756	\$ 3,416,319	\$ 2,581,479
-	104,812,670	81,672,155
16,849	459,966	426,241
-	71,335,049	149,085,188
277,293	277,293	38,133
-	15,344,752	36,160,854
-	90,120	67,632
\$ 3,241,898	\$ 195,736,169	\$ 270,031,682
\$ 277,293	1,780,678	\$ 6,068,026
-	91,833,275	123,528,327
-	-	2,685,000
2,964,605	100,083,742	135,693,612
-	2,038,474	2,056,717
\$ 3,241,898	\$ 195,736,169	\$ 270,031,682

Arizona Department of Transportation
Agency Fund
Combining Statement of Changes in Assets and Liabilities
For the fiscal year ended June 30, 2001

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Privilege Tax				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, restricted	\$ 42	\$ 4,659	\$ 4,419	\$ 282
Total assets	\$ 42	\$ 4,659	\$ 4,419	\$ 282
<u>Liabilities:</u>				
Accounts payable	\$ 42	\$ 4,659	\$ 4,419	\$ 282
Total liabilities	\$ 42	\$ 4,659	\$ 4,419	\$ 282
 Motor Vehicle Division Clearing				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, unrestricted	\$ 17,809,183	\$ 890,879,382	\$ 880,669,006	\$ 28,019,559
Taxes and fees receivable	72,677,349	827,806,256	890,945,700	9,537,905
Due from other Arizona Department of Transportation funds	654,106	-	129,422	524,684
Due from Arizona counties, cities and other state agencies	4,737	21,656	26,393	-
Total assets	\$ 91,145,375	\$ 1,718,707,294	\$ 1,771,770,521	\$ 38,082,148
<u>Liabilities:</u>				
Accounts payable	\$ 5,946,241	\$ 90,238,504	\$ 95,104,272	\$ 1,080,473
Due to other Arizona Department of Transportation funds	39,655,730	441,395,003	465,368,198	15,682,535
Due to Arizona counties, cities and other state agencies	43,486,687	295,973,741	320,179,762	19,280,666
Surety and rental deposits	2,056,717	-	18,243	2,038,474
Total liabilities	\$ 91,145,375	\$ 827,607,248	\$ 880,670,475	\$ 38,082,148

(Continued)

Arizona Department of Transportation
Agency Fund
Combining Statement of Changes in Assets and Liabilities
For the fiscal year ended June 30, 2001

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Highway User Revenue				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, unrestricted	\$ 61,382,787	\$ 1,058,002,343	\$ 1,043,004,625	\$ 76,380,505
Receivables:				
Accrued interest	391,910	2,201,017	2,156,408	436,519
Taxes and fees	76,407,839	625,777,345	640,388,040	61,797,144
Due from other Arizona Department of Transportation funds	32,120,113	396,191,254	415,365,330	12,946,037
Due from Arizona counties, cities and other state agencies	62,895	119,789	92,564	90,120
Total assets	\$ 170,365,544	\$ 2,082,291,748	\$ 2,101,006,967	\$ 151,650,325
<u>Liabilities:</u>				
Due to other Arizona Department of Transportation funds	\$ 83,872,435	\$ 504,611,288	\$ 512,332,983	\$ 76,150,740
Due to Arizona Department of Public Safety	2,685,000	10,937,500	13,622,500	-
Due to Arizona counties, cities and other state agencies	83,808,109	508,740,618	517,049,142	75,499,585
Total liabilities	\$ 170,365,544	\$ 1,024,289,406	\$ 1,043,004,625	\$ 151,650,325
Underground Storage Tank				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, restricted	\$ 425,834	\$ 29,159,847	\$ 29,117,400	\$ 468,281
Accrued interest receivable	14,745	206	8,353	6,598
Due from other Arizona Department of Transportation funds	3,386,635	27,638,890	29,151,494	1,874,031
Total assets	\$ 3,827,214	\$ 56,798,943	\$ 58,277,247	\$ 2,348,910
<u>Liabilities:</u>				
Accounts payable	\$ 121,743	\$ 997,270	\$ 1,108,989	\$ 10,024
Due to Arizona counties, cities and other state agencies	3,705,471	26,641,826	28,008,411	2,338,886
Total liabilities	\$ 3,827,214	\$ 27,639,096	\$ 29,117,400	\$ 2,348,910
Highway Properties				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, unrestricted	\$ 2,480,185	\$ 2,924,768	\$ 4,992,347	\$ 412,606
Accounts receivable	38,133	-	38,133	-
Total assets	\$ 2,518,318	\$ 2,924,768	\$ 5,030,480	\$ 412,606
<u>Liabilities:</u>				
Accounts payable	\$ -	\$ 412,606	\$ -	\$ 412,606
Due to other Arizona Department of Transportation funds	162	-	162	-
Due to Arizona counties, cities and other state agencies	2,518,156	-	2,518,156	-
Total liabilities	\$ 2,518,318	\$ 412,606	\$ 2,518,318	\$ 412,606

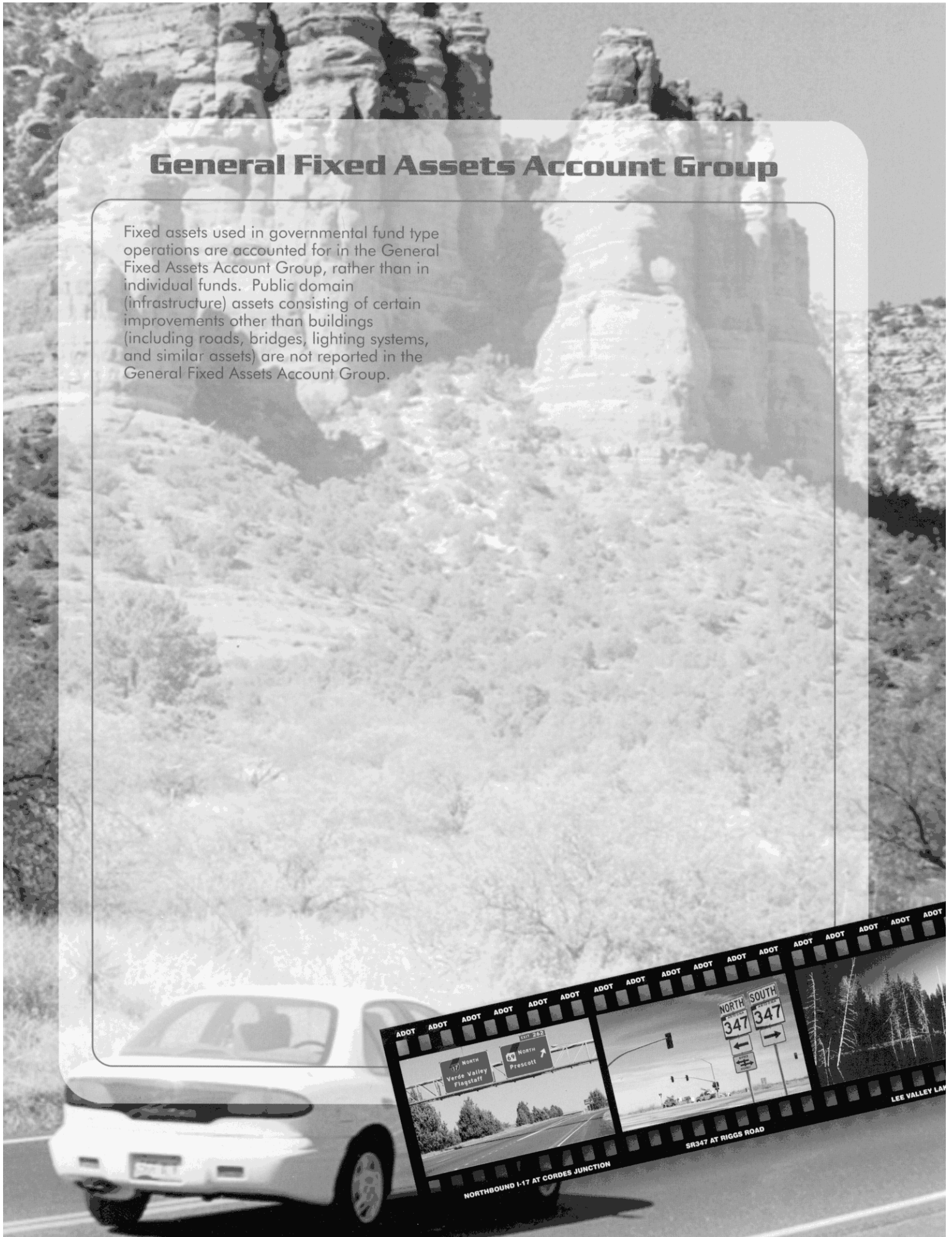
(Continued)

Arizona Department of Transportation
Agency Fund
Combining Statement of Changes in Assets and Liabilities
For the fiscal year ended June 30, 2001

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Economic Strength Project				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, restricted	\$ 2,155,603	\$ 1,151,778	\$ 359,625	\$ 2,947,756
Receivables:				
Accounts receivable	-	277,293	-	277,293
Accrued interest receivable	19,586	149,041	151,778	16,849
Due from other Arizona Department of Transportation funds	-	1,000,000	1,000,000	-
Total assets	\$ 2,175,189	\$ 2,578,112	\$ 1,511,403	\$ 3,241,898
<u>Liabilities:</u>				
Accounts payable	\$ -	\$ 277,293	\$ -	\$ 277,293
Due to Arizona counties, cities and other state agencies	2,175,189	977,733	188,317	2,964,605
Total liabilities	\$ 2,175,189	\$ 1,255,026	\$ 188,317	\$ 3,241,898
Total - All Agency Funds				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer:				
Restricted	\$ 2,581,479	\$ 30,316,284	\$ 29,481,444	\$ 3,416,319
Unrestricted	81,672,155	1,951,806,493	1,928,665,978	104,812,670
Receivables:				
Accrued interest	426,241	2,350,264	2,316,539	459,966
Taxes and fees	149,085,188	1,453,583,601	# 1,531,333,740	71,335,049
Other	38,133	277,293	38,133	277,293
Due from other Arizona Department of Transportation funds	36,160,854	424,830,144	445,646,246	15,344,752
Due from Arizona counties, cities and other state agencies	67,632	141,445	118,957	90,120
Total assets	\$ 270,031,682	\$ 3,863,305,524	\$ 3,937,601,037	\$ 195,736,169
<u>Liabilities:</u>				
Accounts payable	\$ 6,068,026	\$ 91,930,332	\$ 96,217,680	\$ 1,780,678
Due to other Arizona Department of Transportation funds	123,528,327	946,006,291	977,701,343	91,833,275
Due to Arizona Department of Public Safety	2,685,000	10,937,500	13,622,500	-
Due to Arizona counties, cities and other state agencies	135,693,612	832,333,918	867,943,788	100,083,742
Surety and rental deposits	2,056,717	-	18,243	2,038,474
Total liabilities	\$ 270,031,682	\$ 1,881,208,041	\$ 1,955,503,554	\$ 195,736,169

General Fixed Assets Account Group

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in individual funds. Public domain (infrastructure) assets consisting of certain improvements other than buildings (including roads, bridges, lighting systems, and similar assets) are not reported in the General Fixed Assets Account Group.



Arizona Department of Transportation
 Comparative Schedules of General Fixed Assets
 By Source
 June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
General fixed assets		
Land	\$ 16,446,467	\$ 13,499,044
Buildings and improvements	135,092,917	133,198,724
Improvements other than buildings	11,058,576	9,403,527
Airport facilities	19,569,077	-
Machinery and equipment	42,426,906	38,854,728
Total general fixed assets	<u>\$ 224,593,943</u>	<u>\$ 194,956,023</u>
Investment in general fixed assets by source		
Special revenue funds	\$ 216,386,063	\$ 187,863,944
Proprietary funds	1,705,000	1,498,913
Third-party financing	6,502,880	5,593,166
Total investment in general fixed assets	<u>\$ 224,593,943</u>	<u>\$ 194,956,023</u>

Arizona Department of Transportation
Schedule of General Fixed Assets - By Function and Activity
June 30, 2001

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Improvements Other than Buildings</u>	<u>Machinery and Equipment</u>	<u>Total</u>
Administration	\$ 879,016	\$ 14,303,750	\$ 732,130	\$ 13,676,793	\$ 29,591,689
Aeronautics Division	-	21,604	19,573,331	979,123	20,574,058
Motor Vehicle Division	10,101,592	41,941,184	2,185,158	8,006,906	62,234,840
Highway:					
Highway development	-	-	-	3,144,733	3,144,733
Highway construction	141,465	4,577,391	259,962	3,459,065	8,437,883
Transportation planning and research	-	-	121,106	602,030	723,136
Materials engineering	-	4,815,144	-	3,165,224	7,980,368
Traffic engineering	-	282,332	17,942	954,266	1,254,540
Administrative and other services	936,421	30,331,276	866,538	3,896,642	36,030,877
Highway Maintenance	<u>4,387,973</u>	<u>38,820,236</u>	<u>6,871,486</u>	<u>4,542,124</u>	<u>54,621,819</u>
Total general fixed assets	<u>\$ 16,446,467</u>	<u>\$ 135,092,917</u>	<u>\$ 30,627,653</u>	<u>\$ 42,426,906</u>	<u>\$ 224,593,943</u>

Arizona Department of Transportation
Schedule of Changes in General Fixed Assets - By Function and Activity
For the fiscal year ended June 30, 2001

Function and Activity	General Fixed Assets July 1, 2000	Additions	Deductions	General Fixed Assets June 30, 2001
Administration	\$ 29,508,357	\$ 3,076,078	\$ <2,992,746>	\$ 29,591,689
Aeronautics Division	202,629	20,379,475	<8,046>	20,574,058
Motor Vehicle Division	59,619,922	2,860,164	<245,246>	62,234,840
Highway:				
Highway development	3,341,178	358,896	<555,341>	3,144,733
Highway construction	7,352,627	1,135,474	<50,218>	8,437,883
Transportation planning and research	715,486	62,115	<54,465>	723,136
Materials engineering	7,646,125	444,222	<109,979>	7,980,368
Traffic engineering	990,017	331,550	<67,027>	1,254,540
Administrative and other services	35,543,647	552,682	<65,452>	36,030,877
Highway Maintenance	50,036,035	4,636,234	<50,450>	54,621,819
Total general fixed assets	<u>\$ 194,956,023</u>	<u>\$ 33,836,890</u>	<u>\$ <4,198,970></u>	<u>\$ 224,593,943</u>

General Long-Term Debt Account Group

All long-term liabilities that are not presented as liabilities of a specific fund are accounted for in the General Long-Term Debt Account Group. This Account Group represents the noncurrent debt obligations of the Department.



Arizona Department of Transportation
Schedule of Debt Service Requirements
June 30, 2001

Subordinated Highway Revenue Bonds						
Fiscal	1991 Series A Bonds		1992 Series B Bonds			
Year	Principal	Interest	Principal	Interest		
2002	\$ -	\$ 918,312	\$ 5,990,000	\$ 2,687,330		
2003	10,495,000	918,312	6,870,000	2,321,940		
2004	-	-	7,300,000	1,896,000		
2005	-	-	7,885,000	1,312,000		
2006	-	-	8,515,000	681,200		
	<u>\$ 10,495,000</u>	<u>\$ 1,836,624</u>	<u>\$ 36,560,000</u>	<u>\$ 8,898,470</u>		
Highway Revenue Bonds						
Fiscal	1993 Series Refunding Bonds		1993 Series A and B Subordinated, Refunding Bonds		1999 Series	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 13,380,000	\$ 5,821,328	\$ 13,970,000	\$ 13,138,982	\$ 4,450,000	\$ 7,709,533
2003	1,000,000	5,179,088	16,585,000	12,524,302	4,645,000	7,513,732
2004	16,760,000	5,129,088	1,620,000	11,777,976	15,785,000	7,304,708
2005	17,600,000	4,291,088	13,820,000	11,703,456	5,010,000	6,436,532
2006	14,820,000	3,367,088	18,170,000	11,053,916	5,255,000	6,196,053
2007	15,605,000	2,589,038	28,235,000	10,181,758	5,515,000	5,934,482
2008	16,425,000	1,769,776	29,610,000	8,805,300	5,790,000	5,658,733
2009	17,285,000	907,464	31,395,000	7,028,700	6,100,000	5,347,062
2010	-	-	51,685,000	5,458,950	6,420,000	5,029,863
2011	-	-	54,520,000	2,624,700	6,790,000	4,655,897
2012	-	-	-	-	7,195,000	4,252,638
2013	-	-	-	-	7,625,000	3,825,262
2014	-	-	-	-	8,080,000	3,367,763
2015	-	-	-	-	8,575,000	2,872,862
2016	-	-	-	-	9,110,000	2,336,925
2017	-	-	-	-	9,680,000	1,767,550
2018	-	-	-	-	10,235,000	1,210,950
2019	-	-	-	-	10,825,000	622,438
	<u>\$ 112,875,000</u>	<u>\$ 29,053,958</u>	<u>\$ 259,610,000</u>	<u>\$ 94,298,040</u>	<u>\$ 137,085,000</u>	<u>\$ 82,042,983</u>

(Continued)

Arizona Department of Transportation
Schedule of Debt Service Requirements
June 30, 2001

Fiscal Year	Highway Revenue Bonds			
	2001 Series		Total	
	Principal	Interest	Principal	Interest
2002	\$ -	\$ 7,544,104	\$ 37,790,000	\$ 37,819,589
2003	-	7,544,104	39,595,000	36,001,478
2004	-	7,544,104	41,465,000	33,651,876
2005	-	7,544,104	44,315,000	31,287,180
2006	-	7,544,104	46,760,000	28,842,361
2007	7,105,000	7,544,104	56,460,000	26,249,382
2008	7,460,000	7,192,406	59,285,000	23,426,215
2009	7,820,000	6,827,944	62,600,000	20,111,170
2010	7,700,000	6,417,844	65,805,000	16,906,657
2011	8,110,000	6,008,094	69,420,000	13,288,691
2012	9,400,000	5,562,044	16,595,000	9,814,682
2013	9,890,000	5,068,544	17,515,000	8,893,806
2014	10,425,000	4,536,956	18,505,000	7,904,719
2015	10,985,000	3,976,612	19,560,000	6,849,474
2016	11,565,000	3,399,900	20,675,000	5,736,825
2017	12,170,000	2,792,738	21,850,000	4,560,288
2018	12,810,000	2,153,812	23,045,000	3,364,762
2019	13,480,000	1,481,288	24,305,000	2,103,726
2020	14,735,000	773,588	14,735,000	773,588
	<u>\$ 143,655,000</u>	<u>\$ 101,456,394</u>	<u>\$ 700,280,000</u>	<u>\$ 317,586,469</u>

(Continued)

Arizona Department of Transportation
Schedule of Debt Service Requirements
June 30, 2001

Transportation Excise Tax Revenue Bonds						
Fiscal Year	1988 Series A Capital Appreciation Bonds		1992 Series A Refunding Bonds		1992 Series B Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	21,500,000	-	110,000	4,958,740	2,635,000	647,905
2003	21,500,000	-	23,240,000	4,952,690	2,780,000	502,980
2004	21,500,000	-	24,545,000	3,651,250	2,935,000	347,300
2005	8,500,000	-	38,955,000	2,239,913	3,105,000	178,538
	\$ 73,000,000	\$ -	\$ 86,850,000	\$ 15,802,593	\$ 11,455,000	\$ 1,676,723

Transportation Excise Tax Revenue Bonds						
Fiscal Year	1993 Series Subordinated, Refunding Bonds		1995 Series A Subordinated Bonds		1995 Series B Subordinated, Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	30,835,000	5,502,045	14,555,000	3,819,500	33,185,000	5,091,063
2003	31,180,000	3,775,285	15,355,000	3,018,975	10,215,000	3,099,963
2004	32,335,000	2,372,185	16,275,000	2,097,675	12,470,000	2,614,750
2005	18,825,000	884,775	17,330,000	1,039,800	30,070,000	1,804,200
	\$ 113,175,000	\$ 12,534,290	\$ 63,515,000	\$ 9,975,950	\$ 85,940,000	\$ 12,609,976

Transportation Excise Tax Revenue Bonds						
Fiscal Year	1998 Series A Bonds		1999 Series Subordinated Bonds		2000 Series Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 21,580,000	\$ 4,818,000	\$ 17,685,000	\$ 3,853,738	\$ 21,370,000	\$ 4,751,338
2003	25,865,000	3,757,000	18,555,000	2,969,487	22,420,000	3,712,838
2004	25,615,000	2,481,750	19,420,000	2,041,737	23,580,000	2,616,838
2005	25,090,000	1,217,000	20,395,000	1,070,738	24,825,000	1,369,938
	\$ 98,150,000	\$ 12,273,750	\$ 76,055,000	\$ 9,935,700	\$ 92,195,000	\$ 12,450,952

Transportation Excise Tax Revenue Bonds		
Fiscal Year	Total	
	Principal	Interest
2002	\$ 163,455,000	\$ 33,442,329
2003	171,110,000	25,789,218
2004	178,675,000	18,223,485
2005	187,095,000	9,804,902
	\$ 700,335,000	\$ 87,259,934

(Continued)

Arizona Department of Transportation
Schedule of Debt Service Requirements
June 30, 2001

Fiscal Year	Grant Anticipation Notes					
	2000 Series A		2001 Series A		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ -	\$ 1,884,866	\$ -	\$ 8,295,992	\$ -	\$ 10,180,858
2003	13,150,000	1,572,553	-	7,110,850	13,150,000	8,683,403
2004	26,255,000	630,120	10,500,000	6,858,350	36,755,000	7,488,470
2005	-	-	49,000,000	5,400,850	49,000,000	5,400,850
2006	-	-	38,540,000	3,209,175	38,540,000	3,209,175
2007	-	-	37,000,000	1,307,500	37,000,000	1,307,500
2008	-	-	7,850,000	196,250	7,850,000	196,250
	\$ 39,405,000	\$ 4,087,539	\$ 142,890,000	\$ 32,378,967	\$ 182,295,000	\$ 36,466,506

Fiscal Year	Total Bonds & Notes		
	Principal	Interest	Total
2002	\$ 201,245,000	\$ 81,442,776	\$ 282,687,776
2003	223,855,000	70,474,099	294,329,099
2004	256,895,000	59,363,831	316,258,831
2005	280,410,000	46,492,932	326,902,932
2006	85,300,000	32,051,536	117,351,536
2007	93,460,000	27,556,882	121,016,882
2008	67,135,000	23,622,465	90,757,465
2009	62,600,000	20,111,170	82,711,170
2010	65,805,000	16,906,657	82,711,657
2011	69,420,000	13,288,691	82,708,691
2012	16,595,000	9,814,682	26,409,682
2013	17,515,000	8,893,806	26,408,806
2014	18,505,000	7,904,719	26,409,719
2015	19,560,000	6,849,474	26,409,474
2016	20,675,000	5,736,825	26,411,825
2017	21,850,000	4,560,288	26,410,288
2018	23,045,000	3,364,762	26,409,762
2019	24,305,000	2,103,726	26,408,726
2020	14,735,000	773,588	15,508,588
	\$ 1,582,910,000	\$ 441,312,909	\$ 2,024,222,909

STATISTICAL



Table I

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

Fiscal Year	Administration /1	Highway /2	Motor Vehicle Division	Highway Maintenance	Highway Construction /3	Aeronautics	Debt Service	Other /4	Total
2001	\$ 48,150	\$ 43,117	\$ 77,337	\$ 89,400	\$ 1,008,590	\$ 18,280	\$ 292,930	\$ 34,310	\$ 1,612,114
2000	47,847	42,302	74,492	83,398	941,913	21,640	253,823	43,927	1,509,342
1999	44,648	42,035	67,144	79,304	853,695	26,787	226,928	62,600	1,403,141
1998	43,914	41,381	63,056	76,597	602,955	30,734	199,948	65,625	1,124,210
1997	43,981	40,230	30,147	70,336	540,203	18,975	210,446	84,433	1,038,751

	Administrative Services /5	Highway Division /6	Motor Vehicle Division	Transportation Planning	Highway Construction	Aeronautics	Debt Service	Other /7	Total
1996	\$ 36,406	\$ 108,670	\$ 33,486	\$ 3,214	\$ 555,087	\$ 11,107	\$ 200,364	\$ 87,960	\$ 1,036,294
1995	36,933	108,495	35,221	3,381	418,601	9,239	182,554	57,757	852,181
1994	45,363	104,288	27,992	3,468	481,538	13,579	181,519	78,254	936,001
1993	38,473	111,188	30,776	3,589	446,676	17,279	168,684	66,274	882,939
1992	34,620	105,725	29,588	4,047	450,793	17,406	159,096	65,679	866,954

SOURCE: General Purpose Financial Statements - fiscal years 1992 through 2001.

NOTES: /1 Includes the Director's Office, Financial Management (formerly Administrative) Services, Transportation Support Services and the Department's Risk Management Premium.

/2 Includes Transportation Planning.

/3 For years prior to 1999, includes Expendable Trust Fund.

/4 Includes Transportation not appropriated, Land, Building & Improvements, Leases Payable and Transfers

/5 Includes the Department's Risk Management Premium.

/6 Includes Highway Maintenance.

/7 Includes Reimbursements, Transfers, Director's Office, Highway Safety Office, and Land, Buildings & Improvements.

Total Expenditures

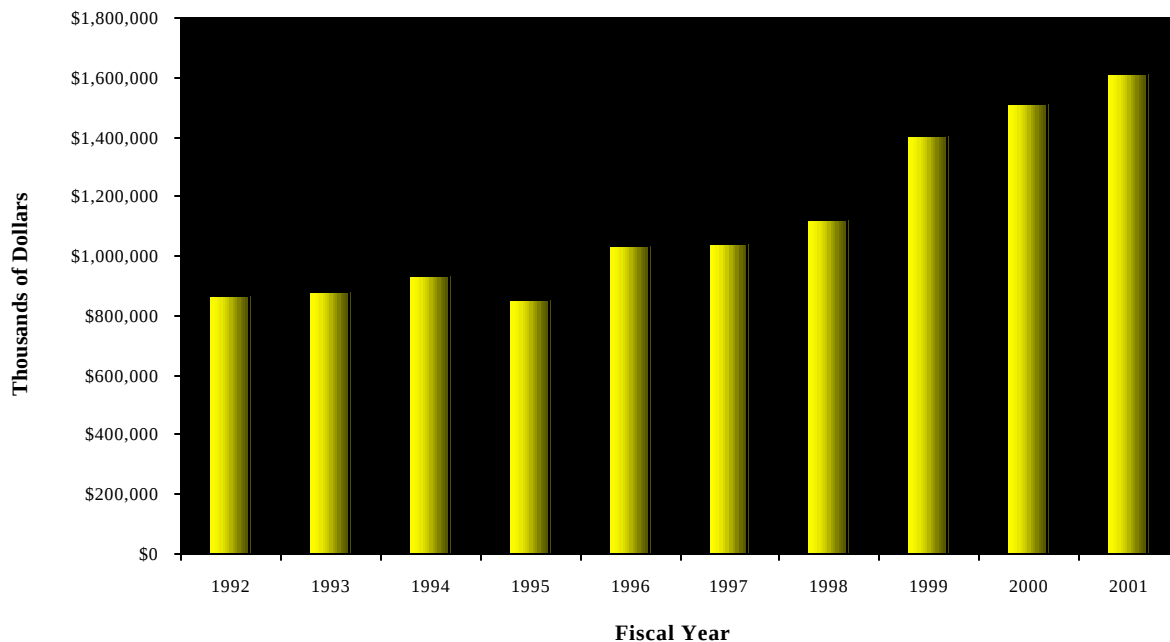


Table II

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

Fiscal Year	Motor Fuel Tax	Reg., Fees, Permits, Service Charges	Expenditures of Federal Awards /1	Investment Earnings	Other	Reimbursements	Total /2
2001	\$ 300,750	\$ 219,746	\$ 428,290	\$ 44,648	\$ 292,416	\$ 17,150	\$ 1,303,000
2000	276,189	255,088	414,015	41,534	267,004	18,788	1,272,618
1999	298,394	250,121	401,464	34,377	257,479	15,748	1,257,583
1998	273,806	210,370	283,982	34,382	223,486	8,505	1,034,531
1997	288,878	198,002	305,438	33,238	231,792	15,083	1,072,431
1996	291,000	171,823	268,605	29,603	228,698	32,711	1,022,440
1995	293,870	133,689	225,607	22,340	190,498	17,808	883,812
1994	280,394	117,412	261,000	14,229	177,561	13,130	863,726
1993	264,307	102,524	183,407	18,560	153,333	22,604	744,735
1992	261,678	89,261	174,683	22,422	138,097	18,513	704,654

SOURCE: General Purpose Financial Statements - Fiscal Years 1992 through 2001.

NOTE: /1 For years prior to 1999, includes Expendable Trust Fund.

/2 Method of accounting for taxpayer assessed revenues has been changed due to the adoption of GASB Statement No. 22 during fiscal year 1995.

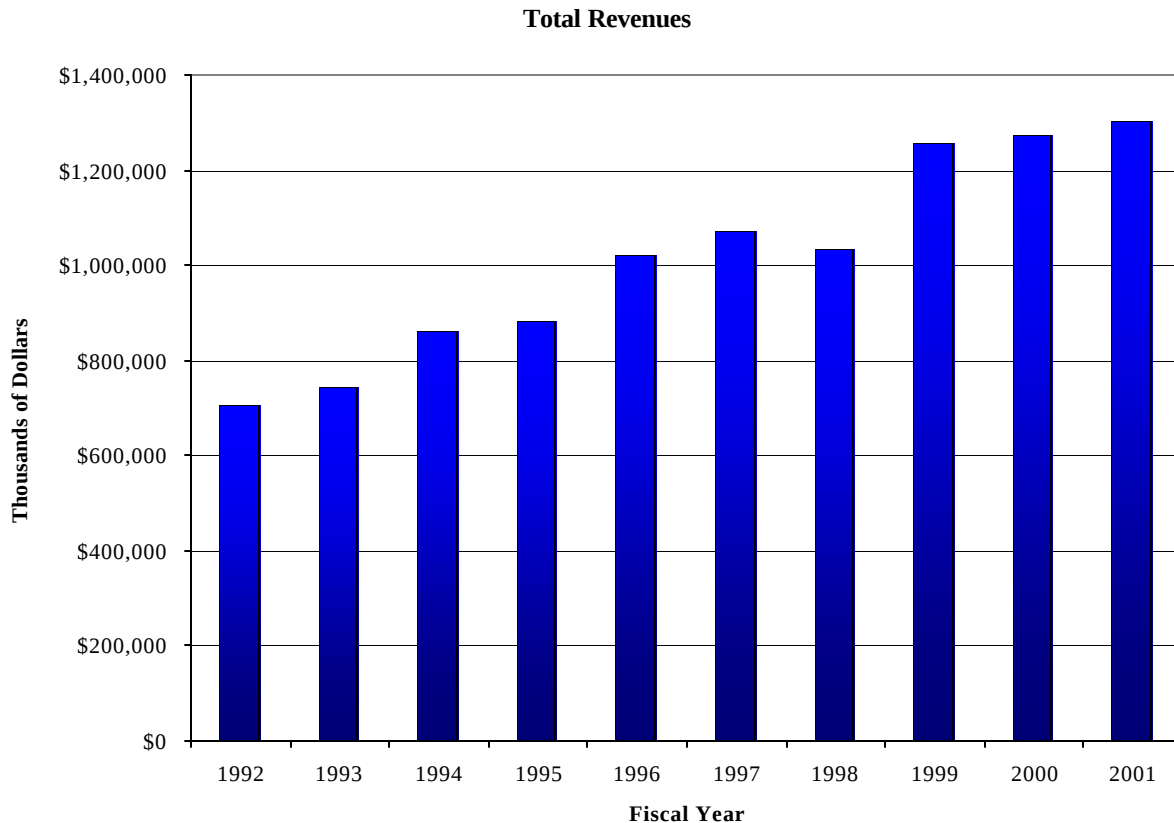


Table III

Arizona Department of Transportation
Expenditures of Federal Awards /1
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	FAA	FRA	FTA	NHTSA	FHWA	BLM	BIA	Sub-total	FHWA /2	Total
2001	\$ -	\$ 14	\$ 4,746	\$ 65	\$390,204	\$ -	\$ -	\$395,029	#####	#####
2000	6	2	3,717	65	409,177	-	1,048	414,015	15,219	429,234
1999	6,278	69	5,107	275	388,761	-	974	401,464	17,748	419,212
1998	2,379	14	3,392	49	278,148	-	-	283,982	-	283,982
1997	91	130	2,508	-	302,633	-	76	305,438	-	305,438
1996	506	499	3,552	-	261,820	-	2,228	268,605	-	268,605
1995	849	475	1,687	-	221,818	28	750	225,607	-	225,607
1994	129	437	3,448	-	256,986	-	-	261,000	-	261,000
1993	3,208	441	1,715	55	177,968	20	-	183,407	-	183,407
1992	4,369	12	1,097	54	169,151	-	-	174,683	-	174,683

SOURCE: Single Audit Reports - fiscal years 1992 through 2001

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

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

Total Expenditures of Federal Awards

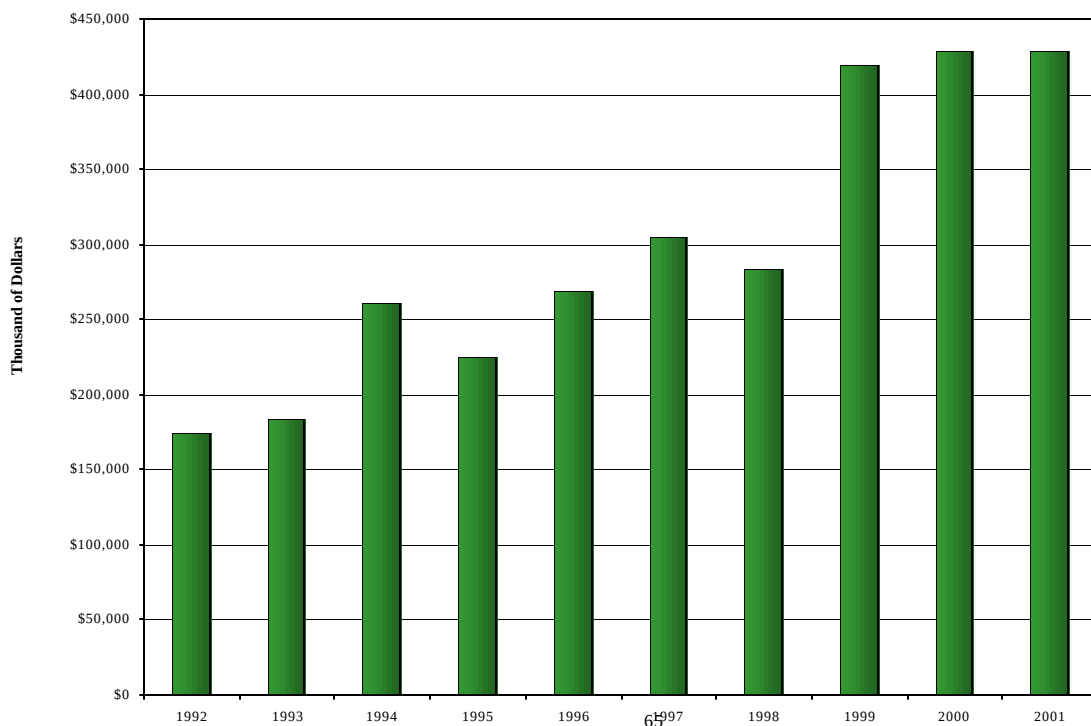


Table IV

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

Fiscal Year	Effective Date	Gasoline Tax	Use Fuel Tax
2001	07/01/2000	18	26
2000	-	18	27
1999	-	18	27
1998	12/31/1997	18	27
1997	-	18	18
1996	-	18	18
1995	-	18	18
1994	-	18	18
1993	-	18	18
1992	-	18	18

SOURCE: Arizona Revised Statutes §28-5606, §28-5708

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

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

Fiscal Year	Motor Veh. Fuel Tax Revenue	Motor Veh. Reg. Fee Revenues	Motor Carrier Tax Revenues	Motor Veh. Operators' License Fees and Other Fees	Motor Veh. License (In Lieu) Tax Revenues	Total Deposited To Arizona Hwy. User Rev. Fund
2001	\$ 566,115	\$ 148,336	\$ 15,094	\$ 43,248	\$ 251,496	\$ 1,024,289
2000	545,901	158,424	15,040	43,508	235,287	998,160
1999	636,117	145,340	14,409	15,939	217,905	1,029,710
1998	508,544	109,445	56,123	36,426	176,950	887,488
1997	488,701	101,528	90,186	41,294	175,253	896,962
1996	473,741	97,601	85,433	42,654	160,145	859,574
1995	451,089	86,159	92,103	39,238	131,562	800,151
1994	422,556	83,826	118,530	37,161	113,990	776,063
1993	387,235	80,717	120,303	24,161	105,027	717,443
1992	369,789	74,180	109,573	25,507	96,146	675,195

SOURCES: General Purpose Financial Statement - Fiscal Years 1999 through 2001.
Arizona Highway User Revenue Fund Revenue Collections by Category -
Fiscal Years 1992 through 1998.

Highway User Revenue Fund Collections

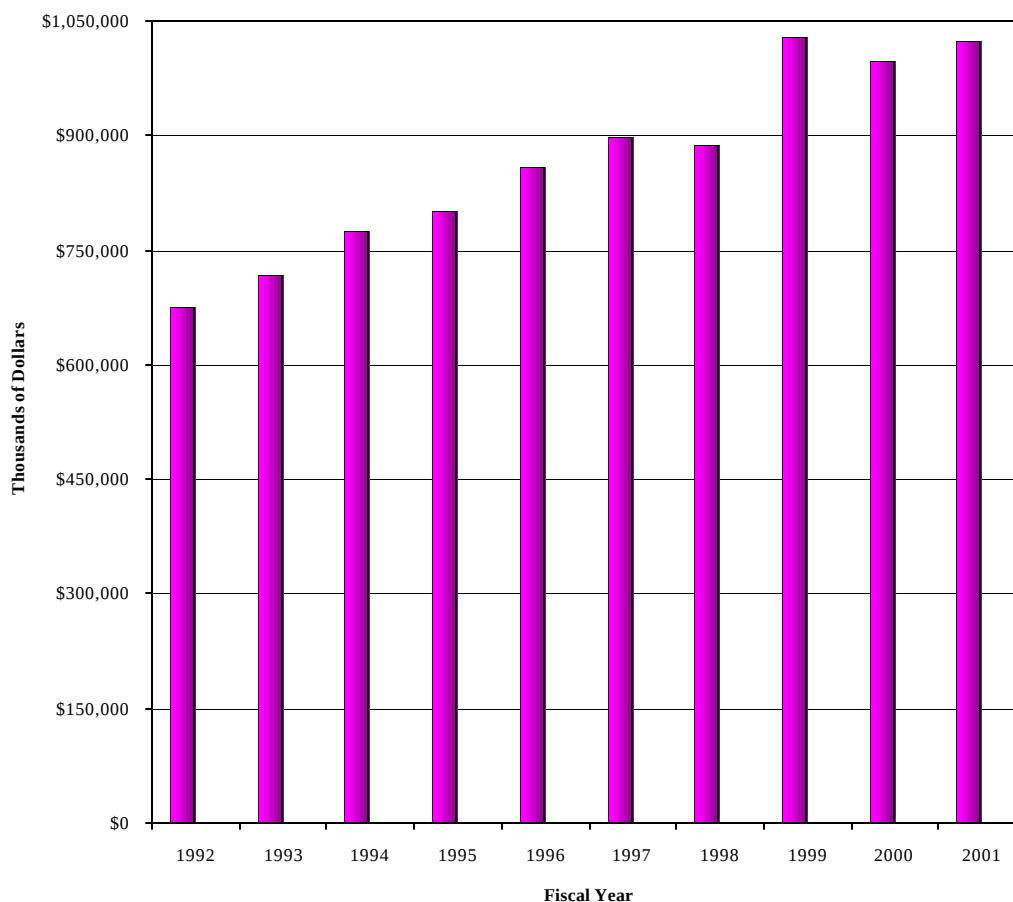


Table VI

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

Fiscal Year	State Highway Fund /1	Cities and Towns	Counties	Department of Public Safety	Economic Strength Project Fund	Other /2	Total
2001	\$ 503,611	\$ 305,009	\$ 188,982	\$ 10,937	\$ 1,000	\$ 14,750	\$ 1,024,289
2000	493,697	323,798	157,594	13,622	1,000	8,449	998,160
1999	512,149	295,879	199,591	12,630	1,000	8,461	1,029,710
1998	435,882	263,220	163,973	14,688	1,000	8,519	887,282
1997	444,927	268,696	167,350	17,188	1,000	9,289	908,450
1996	429,171	256,901	152,571	19,688	1,000	9,304	868,635
1995	412,206	244,512	145,349	20,000	1,000	9,084	832,151
1994	406,376	205,479	134,511	24,925	1,000	532	772,823
1993	355,304	210,531	124,468	24,928	1,000	1,212	717,443
1992	339,807	201,394	119,068	12,453	1,000	1,473	675,195

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

SOURCES: General Purpose Financial Statement - Fiscal Years 1994 through 2001.
Highway User Revenue Fund Schedule 1 Summary for Revenue Collected - Fiscal Years 1992 and 1993.
Monthly Reports MV675580-01 fiscal years 1993 through 2001 (adjusted for accrual basis in years 1994 through 2001); Highway User Revenue Fund Report (Budgetary Basis) - fiscal year 1992.

NOTES: /1 In fiscal year 1995, HB 2431 authorized the transfer of \$1 million for border transportation projects. The revenues beginning in fiscal year 1994 are presented on an accrual basis and are not the same as Table VII.

/2 Appropriation to the Motor Vehicle Division for funding of mandatory insurance enforcement administration for fiscal years 1992 through 1994. In fiscal years 1995 through 2001, an appropriation for Arizona State Parks is included.

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

Fiscal Year	Principal	Interest	Total	Pledged Revenues /1	Coverage
2001	\$ 52,055	\$ 36,581	\$ 88,636	\$ 513,890	5.8
2000	46,270	33,994	80,264	528,721	6.6
1999	43,805	31,090	74,895	509,935	6.8
1998	43,405	33,266	76,671	468,240	6.1
1997	40,970	36,148	77,118	468,542	6.1
1996	38,430	38,770	77,200	429,825	5.6
1995	36,330	40,974	77,304	399,605	5.2
1994	33,425	44,037	77,462	385,844	5.0
1993	27,865	48,289	76,154	355,304	4.7
1992	26,185	39,957	66,142	339,807	5.1

SOURCES: Highway User Revenue Fund Schedule 1 Summary For Revenue Collected Monthly Reports MV675577-1 fiscal years 1993 through 2001; Highway User Revenue Fund Report (Budgetary Basis) - fiscal year 1992; Debt Service Funds - fiscal years 1992 through 2001.

/1 For fiscal years 1992 through 1996, net of 7% distributed to cities with a population greater than 300,000 persons. For fiscal years 1997 and after, includes vehicle license tax revenues distributed directly to the State Highway Fund.

Highway User Revenue Fund Series Bond Coverage

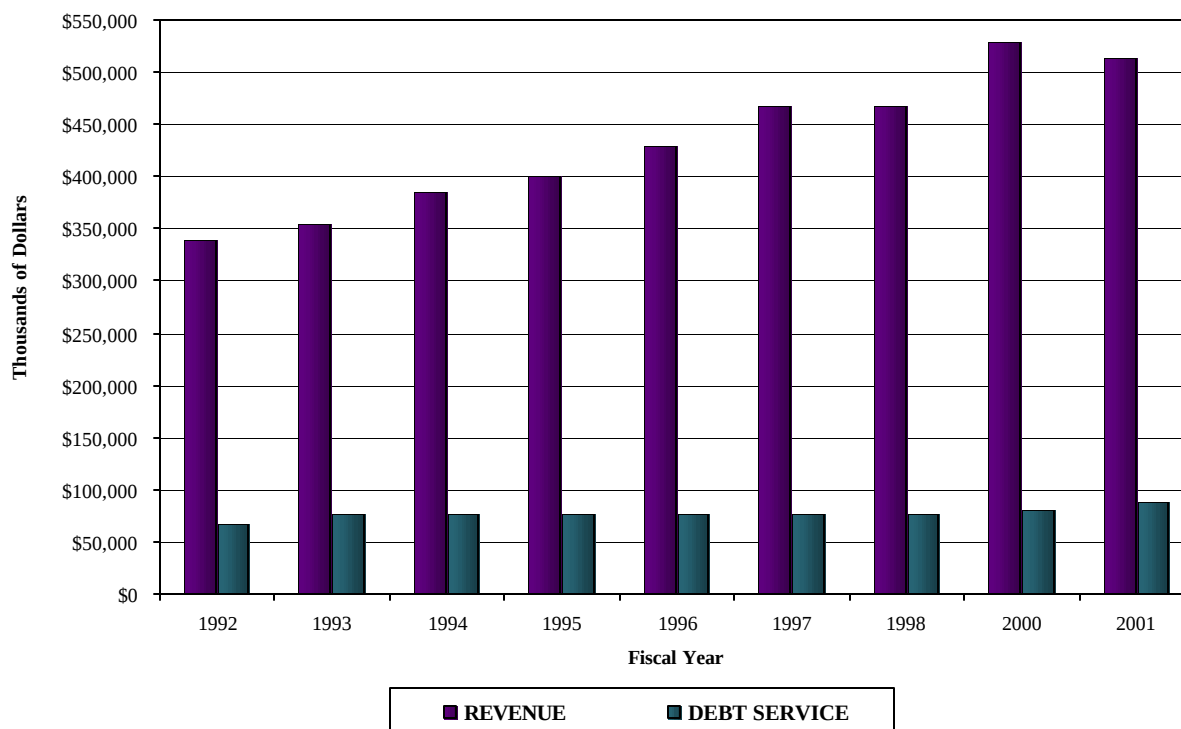


Table VIII

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

Fiscal Year	Principal	Interest	Total	Revenues	Coverage
2001	\$156,865	\$40,035	#####	#####	1.3
2000	128,805	42,609	171,414	248,596	1.5
1999	106,765	43,251	150,016	229,470	1.5
1998	82,765	40,512	123,277	209,263	1.7
1997	78,015	45,248	123,263	192,257	1.6
1996	76,955	46,209	123,164	178,413	1.4
1995	57,930	47,320	105,250	160,319	1.5
1994	54,710	49,347	104,057	142,846	1.4
1993	45,650	46,880	92,530	127,273	1.4
1992	38,410	54,544	92,954	116,497	1.3

SOURCE: Maricopa County Regional Area Road Fund Report.

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

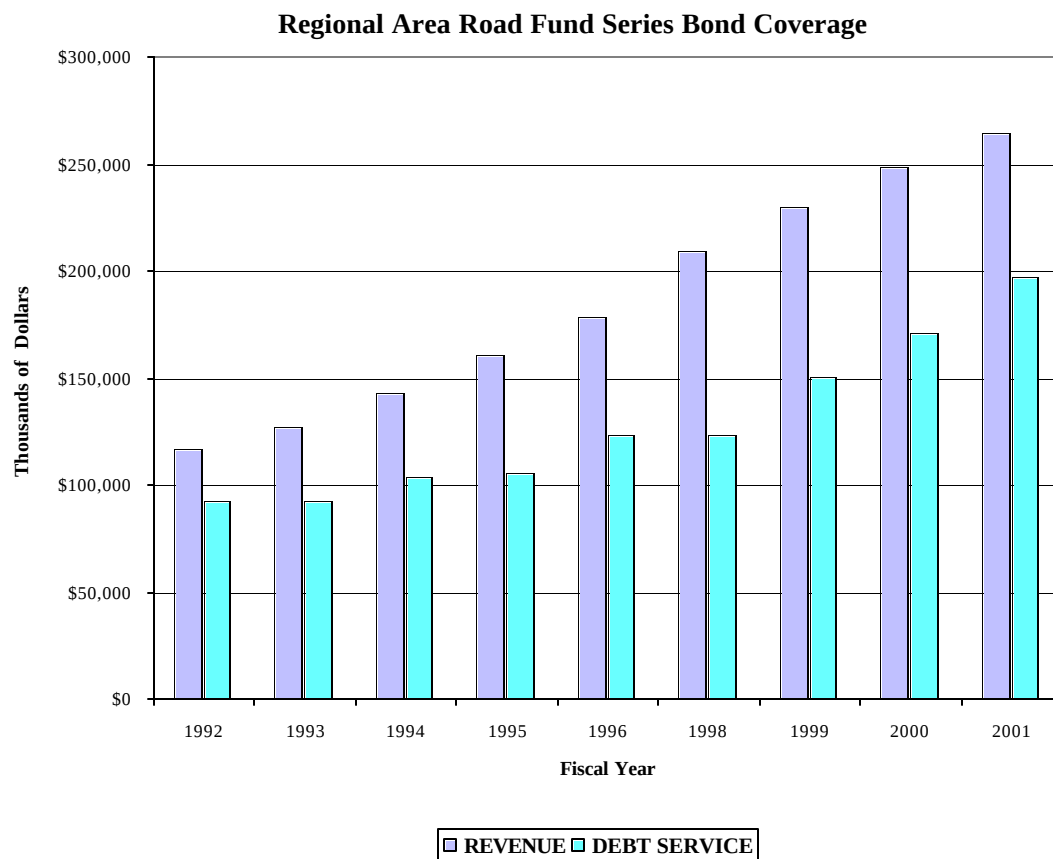


Table IX

Arizona Department of Transportation
Total Public Road Mileage By Highway Class and Governmental Ownership
For the calendar year ended December 31, 2000
(With comparative totals for the calendar year ended December 31, 1999)
(In Miles)

FUNCTIONAL CLASSIFICATION	STATE	COUNTY	MUNICIPAL	FEDERAL	TOTAL	
					2000	1999
RURAL:						
Interstate Freeway	995	-	-	-	995	996
Principal Arterial	1,115	45	17	7	1,184	1,186
Minor Arterial	1,132	101	23	-	1,256	1,257
Major Collector	1,850	1,554	242	841	4,487	4,505
Minor Collector	366	1,130	62	746	2,304	2,300
Local	361	14,481	1,574	10,247	26,663	26,937
TOTAL RURAL	5,819	17,311	1,918	11,841	36,889	37,181
URBAN:						
Interstate Freeway	172	-	-	-	172	172
Urban Expressway	111	2	13	-	126	108
Principal Arterial	262	100	659	-	1,021	1,028
Minor Arterial	133	291	868	5	1,297	1,275
Urban Collector	8	485	1,229	17	1,739	1,749
Local	101	929	12,890	30	13,950	12,944
TOTAL URBAN	787	1,807	15,659	52	18,305	17,276
STATEWIDE COMPOSITE:						
Freeways and Expressways	1,278	2	13	-	1,293	1,276
Arterials	2,642	537	1,567	12	4,758	4,746
Collectors	2,224	3,169	1,533	1,604	8,530	8,554
Locals	462	15,410	14,464	10,277	40,613	39,881
TOTAL STATEWIDE	6,606	19,118	17,577	11,893	55,194	54,457

Source: Arizona's Highway Performance Monitoring System (HPMS) 2000 & 1999 Data

ACKNOWLEDGMENTS

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

Craig Rudolph, MBA, CGFM, CPA, CPFO
Theresa Simms, MBA, CGFM, CPA
Lawrence H. Ehrke, Jr., MBA
Stanley Brown, MS
Richard Gromoll, MBA
Elaine Buenvich
John Ralston, CPA
Marsha Bloom, CPA

Special acknowledgment goes to:

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