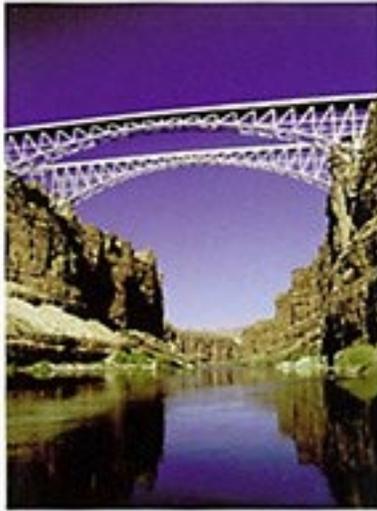


# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
JUNE 30, 1998



ARIZONA  
DEPARTMENT  
OF TRANSPORTATION

PREPARED BY:

FINANCIAL MANAGEMENT  
SERVICES

**Arizona Department of Transportation**  
**Comprehensive Annual Financial Report**  
For the fiscal year ended June 30, 1998

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December 4, 1998

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, 1998. 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 transportation system, together with the means of revenue collection, licensing and safety programs, which meets the needs of the citizens of 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 18, 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 Board is responsible

for the annual update of the five-year highway and airport construction program and awards contracts each month for highway projects. The Board also has authority for the issuance of highway revenue and transportation excise tax bonds and approval of privatization agreements for toll facilities.

The Department is structured into three major organizational units: Intermodal Transportation Division (ITD), Motor Vehicle Division (MVD), and Transportation Services Group (TSG). The Department employs 4,723 persons.

The Department's key responsibilities to its customers include:

- ♦ Planning, designing, constructing, and maintaining a state wide 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. Transportation Services Group (TSG) includes a range of support services for the Department's core business functions. Field activities for the Motor Vehicle Division are carried out statewide including 22 Ports-of-Entry around the State's borders, and 70 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 report of the independent auditors, general purpose financial statements and notes, and 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 generally accepted accounting principles 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**

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax, produced mixed results during Fiscal Year 1998.

For Fiscal Year 1998, HURF collections totaled \$887.5 million, a decrease of 1.1 percent from the Fiscal Year 1997 revenue level. The HURF revenues finished the year 4.1 percent below the estimate. The only major revenue category to post a gain was Use Fuel Tax.

Fiscal Year 1998 saw a continued strong Arizona economy; however, significant legislative and procedural changes contributed to the decline in HURF revenues. Senate Bill (SB) 1144 and SB 1398 impacted the fuel tax, motor carrier fee, and apportioned registration fee categories, while the procedural changes impacted the Vehicle License Tax (VLT), motor carrier, and registration categories.

Senate Bill 1144 eliminated the weight-distance tax on October 1, 1997, and replaced it with a new Motor Carrier Fee and higher registration fees. Due to the Year 2000 issue, three states were unable to program Arizona's higher registration fees which deferred an estimated \$12 million in motor carrier fees and apportioned registration fees into Fiscal Years 1999 and 2000.

Senate Bill 1398 changed the point of taxation on gasoline and use fuel from the distributor to the supplier on January 1, 1998. This change resulted in a one-time loss of an estimated \$7.4 million due to distributors having tax-paid fuel in inventory. This bill also eliminated, on October 1, 1997, the \$.08 per gallon "surcharge" on use fuel purchased by "use class" vehicles and implemented a \$.09 per gallon increase at the pump for "use class" vehicles.

The vehicle license revenues experienced a one-time loss of \$8 million due to a change in revenue recognition procedures in November 1997. Without this change, VLT collections would have reached the estimated level for the year. In addition, a new "staggered registration" procedure implemented by MVD impacted VLT, registration, and motor carrier revenues.

Excluding the non-economic factors that led to the decrease in HURF, Arizona economic indicators sustained above average growth rates in Fiscal Year 1998. The main economic variables contributing to HURF are population, personal income and wage and salary employment.

Arizona's population has grown at an average annual rate of 3.2 percent since 1990, reaching an estimated 4.7 million in July 1998. Arizona continues to rank as one of the fastest growing states. The economic wealth of Arizona has also increased with personal income growing at an annual average rate of 7.7 percent since 1990 compared to 5.4 percent for the United States. Over the 1990-1998 period, Arizona's wage and salary employment has grown by 4.5 percent, creating an average of 70,000 jobs each year.

The second significant funding source for the Department is the Maricopa County Transportation Excise Tax, which funds the Maricopa County Regional Freeway System. The Transportation Excise 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.

For Fiscal Year 1998, the Maricopa County Transportation Excise Tax collections totaled \$209.3 million on a cash basis, an increase of 8.8 percent over the Fiscal Year 1997 collections level. The Transportation Excise tax tracked 2.1 percent above the forecast for the year. Since 1990, the Maricopa County Transportation Excise Tax collections have grown by an average annual growth rate of 8.3 percent.

The revenue categories leading the growth for the Transportation Excise Tax collections in Fiscal Year 1998 were retail sales, contracting, and rental of personal property. Retail sales, the largest revenue category, posted an 8.1 percent increase over the Fiscal Year 1997 revenue level. The strength in retail sales was centered in apparel and accessory stores, motor vehicle dealers, and miscellaneous automotive, motorcycle and boat sales. Contracting revenues, the second largest category, generated a 13.6 percent increase over Fiscal Year 1997. The home construction sector remained strong while a majority of the growth moved into the commercial and industrial sectors. Rental of personal property receipts for Fiscal Year 1998 increased 14.5 percent over the Fiscal Year 1997. This category has benefited from increased personal income and a strong demand for leased motor vehicles.

### **For the Future**

The Department estimates HURF collections in Fiscal Year 1999 will reach \$939.9 million, an increase of 5.9 percent over Fiscal Year 1998 collections. The HURF average compound growth rate for Fiscal Years 1987-1998 is 3.9 percent.

The distribution of HURF collections in Fiscal Year 1999 is estimated to be as follows: State Highway Fund \$465.8 million; Arizona's cities and towns \$281.3 million; Arizona's counties \$175.3 million; Department of Public Safety \$12.5 million; Williams Gateway Authority \$4 million, and Economic Strength Project Fund \$1 million. In addition, the Department's share of the non-HURF portion of the Vehicle License Tax is estimated at \$20.1 million.

The Department also estimates total collections for the Transportation Excise Tax to reach \$213.4 million, an increase of 2.0 percent over the Fiscal Year 1998 collections level. It should be noted that both the HURF and the Transportation Excise Tax

forecasts for Fiscal Year 1999 are based on the November 1997 Official Forecasts which are currently in the process of being updated. It is anticipated that the updated revenue forecasts will reflect higher growth rates, given the continued strength of the economy statewide as well as regionally.

The outlook for Fiscal Year 1999 remains positive with some moderation in Arizona economic indicators anticipated. Even with the moderated growth, Arizona will continue to rank among the top ranked states in both population and job gains. The Arizona population is expected to grow by 2.6 percent in Fiscal Year 1999, compared to 2.8 percent in Fiscal Year 1998. Personal income is projected to grow by 7.1 percent in Fiscal Year 1999, a slight decrease from the 7.5 percent gain in Fiscal Year 1998. The main driver behind the strong Arizona economy is the growth in new jobs. Arizona wage and salary employment growth is estimated at 3.7 percent for Fiscal Year 1999, down slightly from 4.3 percent in Fiscal Year 1998.

The Maricopa County economic outlook for Fiscal Year 1999 remains somewhat stronger than for the state as a whole, but moderate compared to Fiscal Year 1998. Population growth in Maricopa County is projected at 2.7 percent in Fiscal Year 1999, compared to 3.0 percent in Fiscal Year 1998. Personal income is expected to grow by 6.9 percent in Fiscal Year 1999, down from 7.5 percent in Fiscal Year 1998. Construction employment is projected to decrease by 1.0 percent in Fiscal Year 1999, comparing favorably to the 3.2 percent decrease in Fiscal Year 1998. Growth in contracting activity is expected to decline over the next year or two, while the remaining revenue categories should experience above average growth during Fiscal Year 1999.

Landmark Federal transportation legislation was enacted into law on June 9, 1998, providing Arizona funding through FY 2003 under a multi-year authorization bill. This measure, the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21), provides a record level of investment for transportation infrastructure. Under TEA-21, Arizona is expected to receive \$2.4 billion over the Fiscal Year 1998-2003 period. On an annual basis, the Department expects to receive an average of \$318 million per year in Federal highway funding with an additional \$90 million allocated to local governments. The TEA-21 funding level for Arizona is estimated to be around 60 percent higher than the average Arizona received

under the previous Federal Transportation Act (ISTEA).

Investment in transportation infrastructure will continue to play an important role in the strengthening of the Arizona economy in the 21<sup>st</sup> Century. Investment in transportation infrastructure ultimately contributes to higher productivity and income. In order to optimize dollars for construction, the Department is focusing on implementation of several new financial mechanisms. These initiatives include a State Infrastructure Bank, Grant Anticipation Notes, and leasing of right-of-way to third parties.

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 area. 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 the projected budgets for operations, the Five Year Highway and Aviation Construction Programs, 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**

During Fiscal Year 1998, 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.

During Fiscal Year 1998, a total of \$889 million was obligated for highway construction, the highest level ever attained. This total included \$250 million for Maricopa Regional Freeway System projects, \$206 million for other projects in Maricopa County, and \$433 million for work statewide. At the end of Fiscal Year 1998, the Department had \$1.1 billion in highway construction work underway, a continuing record level of activity.

The Regional Freeway Program continues to reflect significant advances. This program, which was accelerated in 1995 as part of a comprehensive transportation initiative launched by the Governor, is ahead of schedule for the completion of 107 miles of freeways in Maricopa County (often referred to as the Valley) by the year 2007. With 11 new miles of freeway opening in the Valley in Fiscal Year 1998, the program is moving full speed ahead. At the end of Fiscal Year 1998, the Department had \$456 million in freeway construction contracts underway in Maricopa County.

As part of the Department's congestion management program for the Valley, a 12.5 mile extension of the freeway management system (FMS) was opened in the Spring of 1998 on the Red Mountain, Squaw Peak and Hohokam Freeways. The expansion links to the existing system on I-10 and I-17 will cover over 41 miles of freeway in the Phoenix area. The FMS uses loop detectors, closed-circuit television cameras, variable message signs and ramp meters. The Department's use of advanced technology through its FMS has improved incident detection and emergency response. Plans are being designed to extend FMS to 36 miles of the Black Canyon, Red Mountain, Price and Pima Freeways.

A \$4.7 million project to reconstruct two miles of the westbound frontage road on I-10 between Ruthrauff and Miracle Mile roads on Tucson's north side was started in early September 1998. The project is the second in a series of frontage road projects that eventually will provide two-lane, continuous one-way frontage roads on both sides of I-10 from Ruthrauff Road to the I-10/I-19 interchange, a distance of about eight miles.

The final touches have been put on widening 34 miles of SR 69 between I-17 and Prescott, providing a four-lane divided highway for motorists traveling to the rapidly growing seat of Yavapai County.

Twenty miles of I-40 were resurfaced in the Holbrook area during Fiscal Year 1998 at a cost of \$9.3 million, providing a smoother surface for motorists traveling across northern Arizona.

In June 1998, the Transportation Board approved a \$3.2 billion Five Year Highway Construction Program for Fiscal Years 1999 through 2003, which provides funding for highway facilities throughout the State. The Five Year program includes approximately \$933 million for freeway and expressway construction in Maricopa County funded in large part from the Maricopa County Regional Area Road Fund; \$1 billion for new construction and widening projects on the National Highway System statewide; \$532 million for resurfacing projects on both the National Highway System and statewide system; and \$603 million for minor projects on the statewide system.

The Board also adopted a Five Year \$320 million Statewide Airport Development Program that includes 661 projects at general aviation and air carrier airports located throughout the state. During Fiscal Year 1998, the Department awarded grants totaling \$24.3 million to help finance projects at 80 airports. The projects included pavement construction and preservation, lighting aids, security fencing, land acquisition and master planning.

The state-owned Grand Canyon National Park Airport remained the third busiest air carrier airport in the State with 194,615 takeoffs and landings and with 1,231,050 passengers enplaning and deplaning. The airport has been owned by the State since its construction in 1965. Grand Canyon Airport revenue for Fiscal Year 1998 amounted to \$1.5 million. A \$12 million construction project was completed at the Grand Canyon Airport during Fiscal Year 1998. This multi-phased project included water supply/distribution systems, runway and taxiway

rehabilitation, and reconstruction of all aircraft parking aprons.

Aircraft registrations in Arizona totaled 5,553 in Fiscal Year 1998. Aircraft registration revenue collected in Fiscal Year 1998 was \$1.9 million. Another major source of aviation revenue in Fiscal Year 1998 came from airline flight property taxes of \$17.7 million.

To maximize aviation resources, the Department continued the airport loan program. This program enables the Board to make loans to airports to expedite construction projects to advance revenue-producing projects ineligible for Federal and State assistance under the airport grant program and to assist airport owners with matching other airport grants. Currently, airport loans total \$7.5 million.

The Department is making significant strides toward becoming Year 2000 (Y2K) compliant. By the Fall of 1998, the Department will have brought all of its mission critical systems into Year 2000 compliance. The Department also has a major PC upgrade underway including migrating all Microsoft Mail users to Exchange/Outlook and upgrading PCs that are not Y2K compliant. These efforts will continue until October of 1999. This upgrade includes MVD's Digital Drivers License system, which is being moved from an OS/2 environment to Windows NT.

In Fiscal Year 1998, an extensive outreach program with meetings statewide was launched to obtain feedback from employees on a "shared vision" for the agency. The Department also embarked on a comprehensive strategic planning effort, adopting an integrated planning methodology which brings a results oriented approach to implementation of the Department's new strategic plan. Focus, alignment, and accountability are the guiding principles for this new initiative.

Since the Department became the first State agency ever to win a "Pioneer Award for Quality" on October 3, 1995, the quality initiative has continued. Through this initiative, the Department has been developing a more systematic approach to process improvement. The Department is using State quality award criteria based on the nationally recognized Malcolm Baldrige criteria to perform annual assessments. Emphasis is placed on improving business processes through cross-functional teams and a high level of employee involvement.

During Fiscal Year 1998, the Department received the Investment Policy Certification Award from the Municipal Treasurers' Association of the United States and Canada. This first time award is for success in developing a comprehensive written investment policy which meets the criteria of the Investment Policy Certification Program.

A significant milestone was reached in Fiscal Year 1998 for Arizona's newly established State Infrastructure Bank (SIB) program. The Transportation Board on March 20, 1998, approved the first two SIB loans, totaling \$50 million, to advance critical segments of the Regional Freeway System. The first loan for \$26 million was to fund the construction of the Price Freeway from Warner to Frye Roads. The second loan, in the amount of \$24 million, accelerated the design and right of way of the Gilbert-Country Club section of the Red Mountain Freeway.

Also in the 1998 legislative session, comprehensive state SIB legislation (HB 2488) was passed. Arizona's SIB under the provisions of HB 2488, is now designated as the Highway Expansion and Extension Loan Program.

The Arizona Highways Magazine received numerous prestigious awards during Fiscal Year 1998. The most notable awards included: the Maggie Awards for Best Regional and State Magazine; the Best Overall Design for a Consumer Magazine from the Western Publishers Association; a Gold Award for Overall Design for Magazines without Advertising from the International Regional Magazine Association; and a Gold Award for Magazine Color Photo Illustration of a Travel Article from the Society of American Travel Writers Foundation.

With the growing public demand for information and services through the Internet, Web sites have become an important way for government agencies to provide information to their customers and partners. The ADOT Internet site, [www.dot.state.az.us](http://www.dot.state.az.us), continues to be a favorable site of Web surfers and those making transportation-related inquiries. The site includes MVD Service Arizona, Arizona Highways Online, Arizona Freeway Management's TrailMaster site and other pertinent Department information. ADOT is currently working to add applications that provide up-to-date project information.

Also under development is the ADOT Intranet (ADOTNet), a centralized, on-line area to view, retrieve, and post data for employee access.

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 teaming with public and private contractors to provide certain MVD services. For example, the Arizona Automobile Dealers Association (AADA) now processes vehicle titles and mails license plates to new car owners for dealers who choose to sign on with the AADA third party program. Contractors such as the Sears Driving School and the Western Truck School give driver's license tests. The Motor Vehicle Division and IBM are partners in an agreement that allows IBM to provide some MVD services by telephone or on the Internet. During Fiscal Year 1998, the percentage of MVD business being performed by third party providers increased to 12 percent

Significant process improvements in the Motor Vehicle Division are benefiting customers. Most MVD customers who are renewing their vehicle registrations by mail are receiving them back in their mailboxes within five days. To improve turnaround time, MVD has staggered the mailing of registration packets to spread out the heavy volume of renewals returned in the first few days of each month. About 50 percent of vehicle owners still do over-the-counter renewals. MVD is working to encourage even more customers to renew by mail, thereby avoiding a trip to a MVD office. During Fiscal Year 1998, MVD expanded the number of call centers, improving overall telephone wait time.

The most important new law (SB 1144) to affect highway user taxation in Arizona is the repeal of the weight-distance tax on motor carriers, which went into effect on October 1, 1997. The replacement fee structure included a new annual motor carrier registration fee, combined with increases in the highway use fee, the use fuel tax rate, and the single-trip permit fee for commercial vehicles. Also effective in Fiscal Year 1998 was SB 1398 which moved the collection of fuel taxes from the distributor level to the supplier and the legal incidence of the tax to the ultimate consumer, thereby reducing tax evasion. These legislative initiatives were developed with the goal to maintain overall revenue neutrality in Arizona.

The legislative-authorized Incentive Pay Program reflected increased participation by Department employees in Fiscal Year 1998. By the year end, around 1400 employees were participating in the program, earning incentive pay up \$100 a month. This program focuses on improving productivity, enhancing service delivery, and reducing costs.

Incentive pay is tied to reaching agreed upon performance standards and is awarded in graduated steps depending on how much of each standard is achieved. The program, which was launched in MVD four years ago, has been expanded to include Procurement, Equipment Services, Highway Maintenance, and Highway Construction.

The Department's Partnering Program continues to be the benchmark for Departments of Transportation across the country. Through partnering, construction completion schedules have been measurably improved, the incidence of claims and litigation substantially reduced, and millions of taxpayer dollars saved. Since supplier partnering has been in place, there have been virtually no unresolved claims or litigation against the Department.

During Fiscal Year 1998, the Department launched the AzTech Intelligent Transportation System (ITS) Model Deployment Initiative (MDI), a seven-year plan to develop an integrated intelligent transportation system for the Phoenix metropolitan area. The estimated project cost totals \$15 million of which fifty percent, or \$7.5 million, will be Federally funded. The objectives of the AzTech project are to integrate the existing intelligent transportation system infrastructure into a regional system; establish a regional integrated traveler-information system; and expand the transportation management system for the Phoenix metropolitan area. Once complete, the system will serve approximately 97 percent of the State's population.

### **For the Future**

As Arizona approaches the 21<sup>st</sup> Century, 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***

With the significant gap that exists in Arizona between transportation needs and existing revenues, the Department is continuing to explore and implement appropriate innovative financing and privatization concepts to enhance funding. The State Infrastructure Bank initiative, now designated as the Highway Expansion and Extension Loan Program, will be expanded during Fiscal Year 1999. An extensive outreach program to local governments is planned. Also, under the direction of a new Advisory Committee, additional loans will be made for highway improvements statewide.

The Department will move forward with the development of a Grant Anticipation Note (GAN) Program. This new financing mechanism will enable the Department to accelerate Federally funded projects.

In cooperation with the Maricopa Association of Governments, a Value Lane feasibility study for the Phoenix area will be conducted during Fiscal Year 1999. This study will evaluate the potential of converting HOV lanes to tolled lanes.

The Department will continue to explore other innovative financing opportunities with the Federal Highway Administration, including the new Transportation Infrastructure Financing Innovation Act (TIFIA) mechanism authorized under TEA-21.

In line with the Department's strategy to optimize resources, the Department continues to evaluate opportunities to lease highway rights-of-way. The Department expects to expand the number of agreements with wireless telecommunications providers to establish cellular tower sites along the State's highways. In exchange for leasing these sites, the providers are either making annual cash payments or providing Intelligent Transportation Infrastructure equipment and services to the Department. Future opportunities could include a shared resource partnership for a statewide fiber optics network.

### ***Phoenix Area Freeways***

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 ten year period from Fiscal Year 1986 to 1997, ADOT spent \$4.4 billion in Maricopa County, of which \$2.6 billion represented new urban freeway construction in the Phoenix area, financed largely with the 1985 voter approved ½ cent sales tax. This investment has been a powerful engine for economic growth in the region.

Between 1998 and 2006, the Department will spend an additional \$1.2 billion to build new freeways and improve existing highways in the Phoenix area. Planned construction is highlighted below:

***Pima Freeway (Loop 101)***

Pima Freeway from Loop 202 to McDonald Drive is open and construction is underway on the freeway north to Princess Drive, north of Bell Road. Motorists will be able to access the Pima Freeway at Shea Boulevard near the end of 1999. In the next four years, the Department will spend over \$100 million to extend the Pima Freeway across the northern edge of the Valley, linking it with Interstate 17 and the Agua Fria Freeway.

***Price Freeway (Loop 101)***

As the Price Freeway moves south, East Valley motorists will have even more choices. This north-south route will be the city of Chandler's first freeway, giving this growing community direct access to the Regional Freeway System. Two projects between Guadalupe and Frye Roads are now under construction with completion estimated near the end of 2000. The Price Freeway interchange with the Santan Freeway (Loop 101) is expected to be completed by late 2005.

***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 County Club Drive (SR87), making it easier for motorists to reach the State's rim country. Over the next eight years, the Department will spend

more than \$180 million to build Loop 202 to Bush Highway to serve the rapidly growing communities of the East Valley.

***Squaw Peak Freeway (SR 51)***

By the Spring of 1999, the Squaw Peak Freeway will be open to Bell Road, bringing the total number of open miles on this facility to eight. The remaining two miles are scheduled for completion by 2006.

***Agua Fria Freeway (Loop 101)***

The northwest Valley has seen major strides toward the completion of the Agua Fria Freeway. In fall of 1996, five new miles of the Loop 101 from 75<sup>th</sup> Avenue to 27<sup>th</sup> Avenue were opened to traffic. The west half of the Loop 101/I-17 interchange was completed in early 1998. The residents of the growing West Valley suburbs now have direct freeway access to downtown Phoenix. By the end of the year 2000, the Department will have spent more than \$135 million to finish the Agua Fria Freeway Loop, making the connection complete from I-17 to I-10.

***Design Build Contracting***

In the year ahead, the Department is expected to show exceptional progress in advancing projects through Design-Build contracting. Legislation passed in 1996 authorized two design-build projects as part of a pilot program. The first design-build project to be awarded by the Department is the I-10/Cortaro Road Interchange reconstruction project in Pima County. This \$3 million project will be completed in September 1998, approximately three months earlier than under a conventional approach. The second design-build project to add an HOV lane on I-17 between Thomas and Dunlap Roads will be awarded in November 1998. The estimated cost of this project is \$70 million.

Legislation passed in Fiscal Year 1998 expanded the Department's authorized design-build projects from two to five. The first of the newly authorized projects will be advanced in Fiscal Year 1999. This project estimated to cost \$41.5 million will convert 13.5 miles of two-way roadway to a four lane divided highway from Bullhead City to Kingman.

### ***CANAMEX Corridor***

The CANAMEX Corridor is strategic trade corridor located in the western region of North America linking western Mexico to western Canada through the states of Arizona, Nevada, Utah, Idaho, and Montana with Arizona serving as the major gateway to Mexico. A newly appointed Task Force of the Governor is charged with developing a comprehensive strategic plan for the development of the corridor within Arizona. The Department is participating in this initiative and will have a lead role in development of the needed transportation improvements to promote access and enhance the Corridor's competitiveness.

### ***New Hoover Dam By-Pass Bridge***

In partnership with the Nevada Department of Transportation, the Department is moving forward with plans for a new bridge across the Colorado River, south of the existing bridge across the Hoover Dam. This new bridge is viewed as a critical link in the CANAMEX corridor. The estimated cost is between \$180-\$220 million, depending on the alignment selected. A financial feasibility study will be conducted during Fiscal Year 1999 to determine the optimum funding plan. Under TEA-21, Arizona will receive \$41 million in Federal apportionments for this project.

### ***Technology***

Technology offers significant promise for transportation in Arizona to improve the system, increase capacity, and provide the traveling public information to save time and enhance safety. The Department continues to make major strides in the Intelligent Transportation Systems (ITS) arena. ITS is the application of computers, electronics, control systems, communication technologies, and management strategies to transportation systems in an integrated manner, to increase safety and efficiency of the surface transportation system.

Over the past two years, the Department, under its AzTech, initiative has installed new technologies in the Valley to detail current traffic conditions, ease congestion, alert drivers to delays, and improve public transit operations. Commuters can now get current traffic information through radio, the Internet, cellular phones, cable television, interactive kiosks and hand-held computers

In the year ahead, as part of a regional Intelligent Transportation System in the Phoenix metropolitan area, a new Web site, [www.etaktraffic.com](http://www.etaktraffic.com), will soon feature a fee-based service that will allow Valley commuters needing relief from traffic delays to receive the latest traffic information to avoid backs-ups.

Travelers can now get traffic and weather information from Ecotek interactive kiosks at 16 locations in the Valley. Nine additional kiosks will be installed in late 1998 at Valley malls and transit centers in Phoenix, Scottsdale and Tempe. AzTech plans to have over 60 kiosks in use by the end of Fiscal Year 1999.

Transit agencies are using ITS technology to improve operations, update bus schedules and provide information to passengers. AzTech installed global positioning systems on 94 buses to track them as they travel the Valley. An electronic sign at the transit center in downtown Phoenix informs passengers when their bus will arrive based on traffic conditions. Additional signs will be installed at transit centers in Mesa and Tempe during Fiscal Year 1999.

### ***Customer Service***

Looking ahead to Fiscal Year 1999, the Motor Vehicle Division will be launching a major public relations and advertising campaign to inform customers of alternatives to renewing auto registrations at MVD offices, including renewal by mail, by telephone and on the Internet. As an incentive to use these alternative registration options, IBM, under its partnership agreement with MVD, will be waiving their convenience fee for customers who access MVD products and services through the Internet, the telephone system and self-service automated teller machines (ATMs).

## **FINANCIAL INFORMATION**

Department management is responsible for establishing and maintaining internal controls designed to 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 generally accepted accounting principles (GAAP) as applied to governmental units. The internal controls are 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.

In order to provide accurate, reliable, and timely financial information, accounting policies, procedures, and systems are monitored on an ongoing basis and revised, as needed, to meet Department requirements. The Department upgraded its on-line accounting system July 1, 1998. This new system is Year 2000 compliant.

General Government Functions The following two schedules present a summary of All Governmental Fund Types and Expendable Trust Funds, which includes the Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Expendable Trust Funds revenues and expenditures, respectively, for Fiscal Year 1998, and the amount and percent of

increases or decreases in relation to prior year's amounts.

Operating revenues from all governmental funds totaled \$1,034.5 million during the Fiscal Year 1998, a decrease of 3.5 percent from the preceding year. The decreases in revenues can be attributed to decrease in the following major sources: fuel and motor carrier taxes, intergovernmental revenues, and transfers from other state funds. As was explained in the Economic Conditions and Outlook section, some of these changes can be attributed to the way we do business.

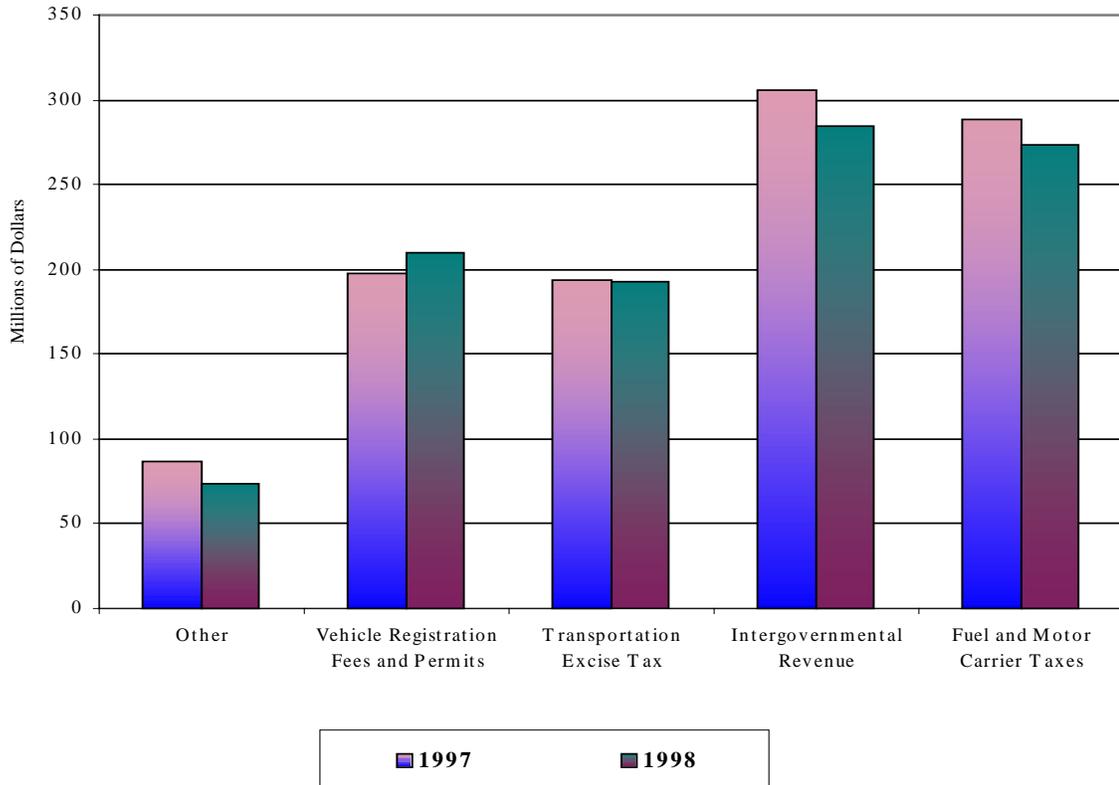
The increase in the vehicle registration, title, license and related fees was mainly due to the implementation of SB 1144, which sharply increased apportioned registration fees for motor carriers. However, as stated earlier in the Economic Conditions and Outlook section, the Department had planned on receiving even higher revenues, but approximately \$12 million was deferred to Fiscal Years 1999 and 2000.

On the graphical presentation, the Other category includes interest, other, and transfers from other state funds. The following is a summary of the Department's governmental fund revenues.

**Schedule 1**  
**Summary Statement of Revenues**  
All Governmental Fund Types and Expendable Trust Funds  
Fiscal years ended June 30, 1998 and 1997  
(Expressed in Millions)

<b>Revenues</b>	<b>1998 Amount</b>	<b>Percent of Total</b>	<b>1997 Amount</b>	<b>Percent of Total</b>	<b>Increase &lt;Decrease&gt; from Prior Year</b>	<b>Percent Increase &lt;Decrease&gt; from Prior Year</b>
Fuel and Motor Carrier Taxes	\$ 273.8	26.5%	\$ 288.9	26.9%	\$ <15.1>	<5.2%>
Vehicle Registration, Title, License and Related Fees	210.3	20.3%	198.0	18.5%	12.3	6.2%
Intergovernmental Revenue	284.0	27.5%	305.4	28.5%	<21.4>	<7.0%>
Transportation Excise Tax	192.5	18.6%	193.8	18.1%	<1.3>	<0.7%>
Interest	34.4	3.3%	33.2	3.1%	1.2	3.6%
Other	31.0	3.0%	37.3	3.5%	<6.3>	<16.9%>
Transfers from Other State Funds	8.5	0.8%	15.8	1.5%	<7.3>	<46.2%>
<b>Total Revenues</b>	<b>\$ 1,034.5</b>	<b>100.0%</b>	<b>\$ 1,072.4</b>	<b>100.0%</b>	<b>\$ &lt;37.9&gt;</b>	<b>&lt;3.5%&gt;</b>

**Summary Statement of Revenues**

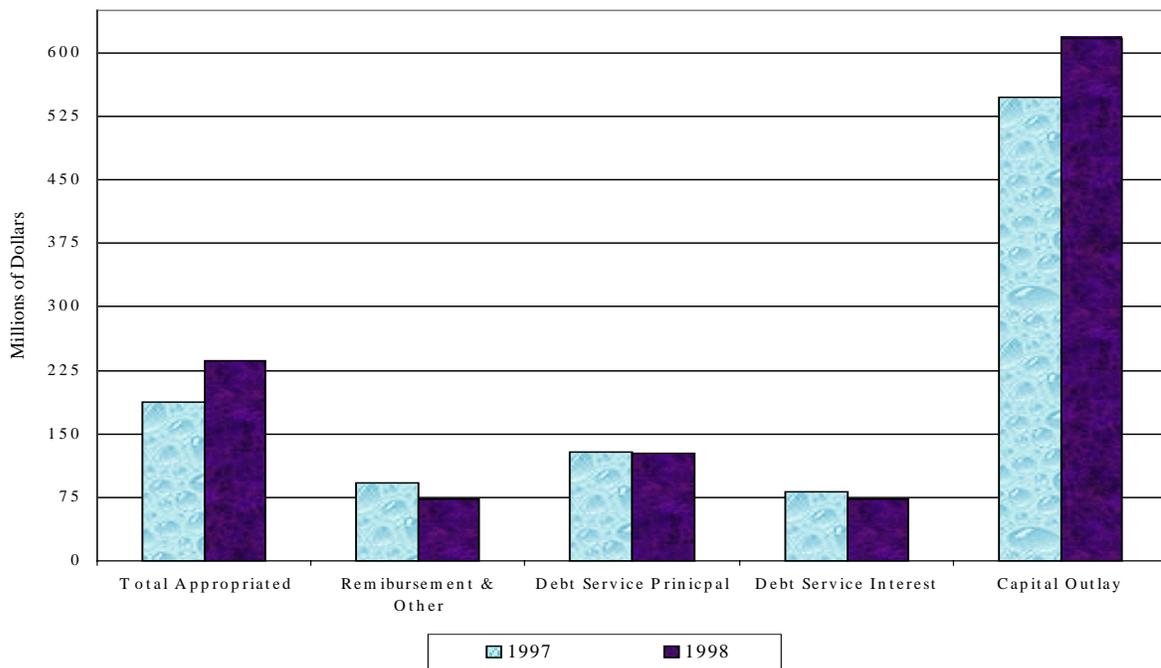


Governmental and Expendable Trust Funds expenditures totaled \$1,124.2 million during Fiscal Year 1998, an \$85.5 million increase from the previous year. The largest increase in expenditures was \$68.1 million for capital outlay. The total fund

balance for governmental funds decreased by \$89.1 million or 14.6 percent to \$522.9 million. The following is a summary of Governmental and Expendable Trust Funds expenditures.

<b>Schedule 2</b>						
Summary Statement of Expenditures						
All Governmental Fund Types and Expendable Trust Funds						
Fiscal years ended June 30, 1998 and 1997						
(Expressed in Millions)						
<b>Expenditures</b>	<b>1998 Amount</b>	<b>Percent of Total</b>	<b>1997 Amount</b>	<b>Percent of Total</b>	<b>Increase &lt;Decrease&gt; from Prior Year</b>	<b>Percent Increase &lt;Decrease&gt; from Prior Year</b>
Appropriated by Legislature (Operating)						
Administration	\$ 43.9	3.9%	\$ 44.0	4.2%	\$ <0.1>	<0.2%>
Highway	41.4	3.7%	40.2	3.9%	1.2	3.0%
Highway Maintenance	76.6	6.8%	70.3	6.8%	6.3	9.0%
Motor Vehicle Division	63.1	5.6%	30.2	2.9%	32.9	108.9%
Aeronautics Division	9.4	0.8%	1.4	0.1%	8.0	571.4%
Other	1.2	0.1%	1.6	0.2%	<0.4>	<25.0%>
<b>Total Appropriated</b>	<b>235.6</b>	<b>21.0%</b>	<b>187.7</b>	<b>18.1%</b>	<b>47.9</b>	<b>25.5%</b>
Reimbursements & Other	61.1	5.4%	49.2	4.7%	11.9	24.2%
Debt service:						
Principal	126.1	11.2%	129.0	12.4%	<2.9>	<2.2%>
Interest	73.8	6.6%	81.4	7.8%	<7.6>	<9.3%>
Capital Outlay	616.3	54.8%	548.2	52.8%	68.1	12.4%
Not Appropriated by Legislature	11.3	1.0%	43.2	4.2%	<31.9>	<73.8%>
<b>Total Expenditures</b>	<b>\$ 1,124.2</b>	<b>100.0%</b>	<b>\$ 1,038.7</b>	<b>100.0%</b>	<b>\$ 85.5</b>	<b>8.2%</b>

### Summary Statement of Expenditures



Budgetary Controls The Department employs a significant number of tools and techniques in its budgetary control process. Arizona Revised Statutes, Title 35-113 outlines the Department's basic budgetary responsibilities. During the 1998 legislative session, the annual operating budget requirement was changed to a two-year budget submitted each odd-numbered year. The first two-year budget will be submitted in 1999 for Fiscal Years 2000 and 2001. 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 changed to a two-year budget submitted each even-numbered year. The Department is considered as a separate building system.

Each Fiscal Year shall be delineated separately. When the Legislature convenes in even-numbered years, the Governor may submit to the Legislature any proposed revisions to the enacted operating budgets for the current and ensuing Fiscal Years. The plan shall include an estimate of all available monies and revenues and an explanation for any changes to the enacted budgets.

The Director of the Department is responsible for developing a strategic plan for the entire Department and for developing a 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 list shall 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.

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 necessitated by gains, losses or transfers of positions. The result is a detailed operating budget which guides the divisions and programs in their financial operation.

The Five-Year Highway and Aviation Construction Programs are included in the Capital Improvements 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.

Amendments to the approved appropriations require legislative approval. Expenditures may not legally exceed these budgeted appropriations. The Governor's Office of Strategic Planning and Budgeting may transfer spending authority between and within programs if spending authority is appropriated to the agency by programs. The amount transferred from or into a program shall not exceed ten percent of the original appropriation unless otherwise provided by law.

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 year end.

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 Transportation Accounting System (TRACS) 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 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 not adopted for capital outlay - highway construction, capital outlay - contracts payable and certain transportation operating expenditures of the State Highway and State Aviation Funds, the other special revenue funds and all of the debt service funds, capital project funds, proprietary funds and fiduciary funds. The Department monitors expenditures for such items without legal limitations through an internal budgetary process and the five-year construction program developed by the Transportation Board.

In addition, the Department's Office of Budget and Strategic Planning personnel perform 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 TRACS to project total year-end expenditures by organizational unit and highlight potential problem areas.

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.

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.

Internal service funds are 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. Internal service funds of the Department include the Equipment Revolving Fund and the Warehouse Revolving 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. Trust and Agency Funds include expendable trust funds and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds and include the Bridge Construction Fund, the Davis-Monthan Runway Extension Fund, and the Local Agency Deposits Fund. 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 Motor Vehicle Division Clearing Fund, the Highway User Revenue Fund, the Underground Storage Tank Fund, the Highway Property Rentals - 24 Percent Fund, the Highway Trust Right-of-Way Fund, the Economic

Strength Project Fund, the Privilege Tax Fund and the Special Organization Plates Clearing Fund.

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 1998 was \$132 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 year ended June 30, 1998, was actuarially computed to be 3.54 percent of covered payroll by an actuarial valuation performed at June 30, 1996. The contribution requirement for Fiscal Year 1998 was \$4.7 million by both the employees and the Department.

Debt Administration As of June 30, 1998, the Department had \$1.26 billion in outstanding bonds payable. This total included \$163.3 million in Highway Revenue Bonds (commonly known as HURF bonds) secured by a first lien pledge against the Department's share of the highway user revenues and \$404.9 million in subordinated bonds. In addition, there is \$263.5 million in Transportation Excise Tax Bonds (commonly known as RARF bonds) secured by a first lien pledge against the revenues flowing into the Maricopa Regional Area Road Fund, and \$425.5 million in subordinate Transportation Excise Tax Bonds secured by a second-lien pledge against revenues flowing into the Maricopa Regional Area Road Fund.

The bonds have been sold in 15 separate issues between 1986 and 1995. All bonds issued to date are scheduled to mature not later than July 1, 2011. The bonds are obligations of the Transportation Board and are not obligations of the State of Arizona. They do not constitute a legal debt of the State, and payment is not enforceable from any revenue other than Highway User Revenues or Maricopa Transportation Excise Taxes.

Of the \$2.87 billion total in bonds issued between 1986 and 1995, \$1.03 billion, or approximately 36

percent, have been refunding issues to lower debt service costs. These efforts have resulted in cumulative savings of \$55.4 million in current dollar debt service costs and \$37.9 million on a present value basis. These savings provide additional dollars for highway construction.

The senior lien HURF bonds have been rated Aa/AAA by Moody's Investors Service and Standard & Poor's Corporation (S&P), respectively. The Department is one of only two state transportation issuers whose highway bonds are rated AAA by S&P. The Department's subordinate lien HURF bonds have been rated Aa/AA. The RARF senior lien bonds are rated AA2/AA-, while the RARF subordinate bonds are rated A1/A-.

Cash Management During Fiscal Year 1998, the Department earned \$34.4 million in interest from its investment program. The interest was earned from investing 99.4 percent of the Department's \$580 million average cash balance during the year. An average yield of 5.5 percent was received on the Department's investments during Fiscal Year 1998.

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 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 completed. An

annual Investment Planning and Monitoring Report has been developed, including yearly objectives and strategies for key performance areas. The emphasis of the Investment Program has focused on maintaining 99 percent of cash invested, thereby 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 Department has taken further steps to strengthen its collision investigation and litigation investigation programs through the consolidation of all claims in the Office of Risk Management.

The State has a self-insured retention worker's compensation program. The Department's Safety Office has increased its emphasis on training, accident investigation, and 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. Loss control programs have been effective at keeping losses under control.

## **OTHER INFORMATION**

Independent Audit Arizona Revised Statutes, Title 41-1279.03, requires the State Auditor General to "conduct or cause to be conducted at least biennial financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the Single Audit Act of 1984 (P.L. 98-502). The audits shall be conducted in accordance with generally accepted governmental 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 1998, the accounting firm of Ernst & Young LLP conducted the Department’s financial audit and Single Audit as required by the Arizona Revised Statutes, Title 41-1279.03.

Ernst & Young 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, Ernst & Young LLP noted no matters involving internal control and its operation which 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 is also included in the Single Audit of the State for the Fiscal Year ended June 30, 1998. The Department’s Single Audit for Fiscal Year 1998 has been completed and the reports are available upon request.

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

Sincerely,

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Mary E. Peters, Director  
Arizona Department of Transportation

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, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The comprehensive annual financial 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. The Department has received a Certificate of Achievement for the last eight consecutive years ended June 30, 1997. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

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 the Fiscal Operations and Resource Management whose commitment, professionalism, and dedicated efforts contributed to the timely preparation of the Fiscal Year 1998 comprehensive annual financial report.

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Suzanne H. Sale, Chief Financial Officer  
Financial Management Services

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

**Mary E. Peters**  
Director

**Edward D. Wright**  
Deputy Director

**Sam Maroufkhani**  
Chief of Staff

**Thomas G. Schmitt**  
State Engineer  
Intermodal Transportation Division

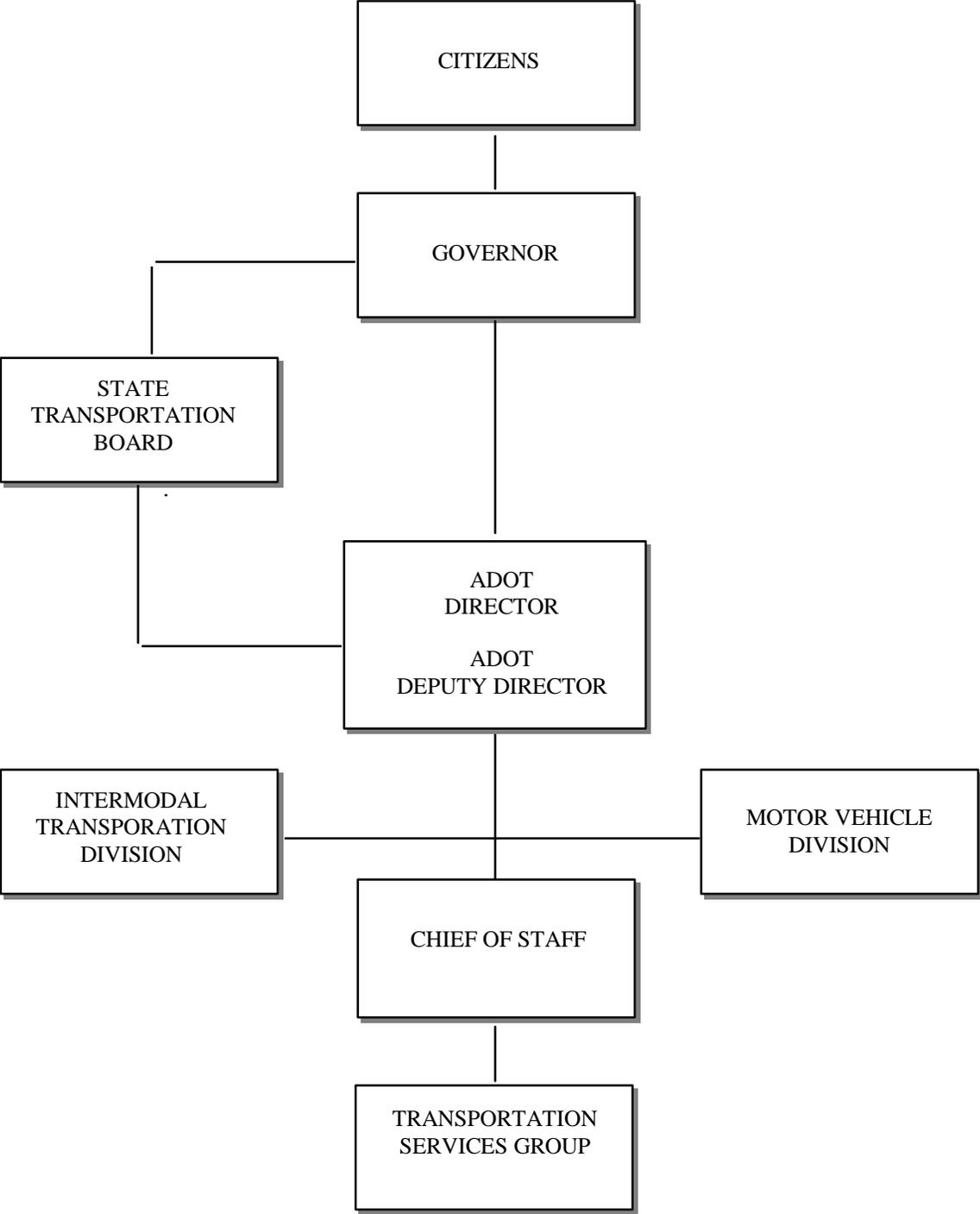
**Russell K. Pearce**  
Assistant Director  
Motor Vehicle Division

**Suzanne H. Sale**  
Chief Financial Officer

**Arizona State Transportation Board**

Jack F. Husted, Chairperson	District Five
John I. Hudson, Vice Chairperson	District Six
F. Rockne Arnett	District One
Katie Dusenberry	District Two
Jerry C. Williams	District Three
Ingo Radicke	District Four
Burton S. Kruglick	At Large

**ARIZONA DEPARTMENT OF TRANSPORTATION**



### Report of Independent Auditors

Transportation Board of the State of Arizona  
Arizona Department of Transportation

We have audited the accompanying general purpose financial statements of the Arizona Department of Transportation (Department), a department of the state of Arizona, as listed in the table of contents, as of June 30, 1998, and for the year then ended. These general purpose financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

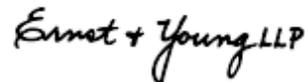
We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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, the general purpose financial statements of the Department are intended to present the financial position and results of operations and the cash flows of its 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, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Arizona Department of Transportation at June 30, 1998, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 1998 on our consideration of the Department's internal control over financial reporting and on its compliance with laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Department taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the financial section of the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements 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 in relation to the general purpose financial statements taken as a whole.



October 2, 1998

Arizona Department of Transportation  
 Combined Balance Sheet - All Fund Types and Account Groups  
 June 30, 1998  
 (With comparative totals at June 30, 1997)

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Types</u>	
	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Internal Service</u>
<b>Assets and other debits</b>				
Assets:				
Cash and cash equivalents on deposit with the State Treasurer	\$ 413,593,153	\$ 25,312,879	\$ 4,480,074	\$ 3,366,795
Receivables (net of allowance for uncollectibles):				
Subscriptions	-	-	185,854	-
Notes	15,335,744	-	-	-
Accrued interest	5,543,277	2,652,390	86,042	59,089
Taxes and fees	-	-	-	-
Other	6,086,061	-	410,549	127,022
Due from U.S. Government for reimbursable construction costs	28,756,975	-	-	-
Due from other Arizona Department of Transportation funds (Note 6)	79,016,288	-	-	1,963,009
Due from Arizona counties, cities and other state agencies	18,107,227	-	-	114,164
Inventories	4,249,661	-	2,771,895	2,371,219
Prepaid items	-	-	321,228	-
Land held for future highway use	-	-	-	-
Fixed assets - net of accumulated depreciation (Note 7)	-	-	2,834,434	37,001,177
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	-	-	-	-
<b>Total assets and other debits</b>	<b><u>\$ 570,688,386</u></b>	<b><u>\$ 27,965,269</u></b>	<b><u>\$ 11,090,076</u></b>	<b><u>\$ 45,002,475</u></b>

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

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
	Trust and Agency	General Fixed Assets	General Long-Term Debt	1998
\$ 74,603,768	\$ -	\$ -	\$ 521,356,669	\$ 613,007,464
-	-	-	185,854	174,041
-	-	-	15,335,744	15,577,217
544,859	-	-	8,885,657	7,847,634
136,304,460	-	-	136,304,460	118,064,264
640,457	-	-	7,264,089	6,047,025
2,290,938	-	-	31,047,913	24,395,458
33,649,083	-	-	114,628,380	123,880,549
489,516	-	-	18,710,907	36,939,791
-	-	-	9,392,775	9,828,934
-	-	-	321,228	276,558
-	-	-	-	151,131
-	182,505,056	-	222,340,667	202,192,464
-	-	27,965,269	27,965,269	35,074,587
-	-	1,239,003,546	1,239,003,546	1,354,613,504
<b>\$ 248,523,081</b>	<b>\$ 182,505,056</b>	<b>\$ 1,266,968,815</b>	<b>\$ 2,352,743,158</b>	<b>\$ 2,548,070,621</b>

(Continued)

Arizona Department of Transportation  
 Combined Balance Sheet - All Fund Types and Account Groups  
 June 30, 1998  
 (With comparative totals at June 30, 1997)

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Types</u>	
	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Internal Service</u>
<b>Liabilities, equity and other credits</b>				
Liabilities:				
Construction contracts payable	\$ 44,873,314	\$ -	\$ -	\$ -
Accounts payable	21,194,028	-	187,687	802,088
Accrued payroll and other accrued expenditures/expenses	8,134,034	-	235,381	827,901
Due to U.S. Government	-	-	-	-
Due to other Arizona Department of Transportation funds (Note 6)	2,718,189	-	2,311	-
Due to Department of Public Safety	-	-	-	-
Due to Arizona counties, cities and other state agencies	1,849,074	-	-	-
Deferred revenue	-	-	4,366,877	-
Surety and rental deposits	-	-	-	-
Bonds payable (Note 9)	-	-	-	-
Contracts and capital leases payable (Note 9)	-	-	-	-
Long-term accrued vacation leave (Note 1)	-	-	-	-
Total liabilities	<u>78,768,639</u>	<u>-</u>	<u>4,792,256</u>	<u>1,629,989</u>
Equity and other credits:				
State Highway Fund contribution	-	-	2,038,698	6,106,640
Investment in general fixed assets	-	-	-	-
Retained earnings:				
Reserved for replacement of equipment	-	-	-	9,985,210
Unreserved	-	-	4,259,122	27,280,636
Fund balances:				
Reserved for:				
Bridge construction	-	-	-	-
Airport runway extension	-	-	-	-
Highway construction	36,455,326	-	-	-
Inventories	4,249,661	-	-	-
Land held for future highway use	-	-	-	-
Unreserved, undesignated	451,214,760	27,965,269	-	-
Total equity and other credits	<u>491,919,747</u>	<u>27,965,269</u>	<u>6,297,820</u>	<u>43,372,486</u>
<b>Total liabilities, equity and other credits</b>	<u><b>\$ 570,688,386</b></u>	<u><b>\$ 27,965,269</b></u>	<u><b>\$ 11,090,076</b></u>	<u><b>\$ 45,002,475</b></u>

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

Fiduciary Fund Types		Account Groups		Totals (Memorandum Only)	
Trust and Agency	General Fixed Assets	General Long-Term Debt	1998	1997	
\$ 2,749,215	\$ -	\$ -	\$ 47,622,529	\$ 42,999,187	
6,032,197	-	-	28,216,000	14,326,465	
-	-	-	9,197,316	10,183,005	
-	-	-	-	4,358,530	
111,907,880	-	-	114,628,380	123,880,549	
1,562,500	-	-	1,562,500	1,875,000	
121,084,805	-	-	122,933,879	128,298,764	
-	-	-	4,366,877	4,364,571	
2,287,641	-	-	2,287,641	2,444,174	
-	-	1,257,155,705	1,257,155,705	1,379,835,799	
-	-	1,908,665	1,908,665	2,310,454	
-	-	7,904,445	7,904,445	7,541,838	
<u>245,624,238</u>	<u>-</u>	<u>1,266,968,815</u>	<u>1,597,783,937</u>	<u>1,722,418,336</u>	
-	-	-	8,145,338	8,145,338	
-	182,505,056	-	182,505,056	163,461,473	
-	-	-	9,985,210	9,985,210	
-	-	-	31,539,758	32,134,953	
-	-	-	-	1,737,431	
-	-	-	-	6,600,000	
2,898,843	-	-	39,354,169	112,166,356	
-	-	-	4,249,661	4,828,964	
-	-	-	-	151,131	
-	-	-	479,180,029	486,441,429	
<u>2,898,843</u>	<u>182,505,056</u>	<u>-</u>	<u>754,959,221</u>	<u>825,652,285</u>	
<b><u>\$ 248,523,081</u></b>	<b><u>\$ 182,505,056</u></b>	<b><u>\$ 1,266,968,815</u></b>	<b><u>\$ 2,352,743,158</u></b>	<b><u>\$ 2,548,070,621</u></b>	

Arizona Department of Transportation  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balance  
 All Governmental Fund Types and Expendable Trust Funds  
 For the fiscal year ended June 30, 1999  
 (With comparative totals for the fiscal year ended June 30, 1998)

	Governmental Fund Types			Fiduciary Fund Types	Totals (Memorandum Only)	
	Special Revenue	Debt Service	Capital Projects	Expendable Trust	1998	1997
<b>Revenues:</b>						
Transportation excise tax	\$ 192,518,877	\$ -	\$ -	\$ -	\$ 192,518,877	\$ 193,755,881
Vehicle registration, title, license and related fees	210,369,491	-	-	-	210,369,491	198,001,560
Fuel and motor carrier taxes and fees	273,805,897	-	-	-	273,805,897	288,878,476
Reimbursements of construction expenditures - federal aid	237,435,162	-	-	26,411,442	263,846,604	268,239,163
Other federal grants and reimbursements	20,135,794	-	-	-	20,135,794	37,198,464
Reimbursements from Arizona counties, cities and other state agencies	2,876,353	-	-	1,812,709	4,689,062	8,347,123
State appropriations	615,900	-	-	3,200,000	3,815,900	6,735,800
Distributions from agency funds	-	-	-	-	-	770,150
Interest	27,564,137	6,817,499	-	-	34,381,636	33,238,498
Other	30,915,930	-	-	51,660	30,967,590	37,266,168
Total revenues	<u>996,237,541</u>	<u>6,817,499</u>	<u>-</u>	<u>31,475,811</u>	<u>1,034,530,851</u>	<u>1,072,431,283</u>
<b>Expenditures:</b>						
Current:						
Transportation - appropriated by State legislature	235,571,745	-	-	-	235,571,745	187,674,263
Transportation - not appropriated by State legislature	11,294,362	-	-	-	11,294,362	43,145,597
Capital outlay:						
Highway construction	566,394,266	-	3,792,977	32,767,897	602,955,140	540,203,165
Land, buildings and improvements - appropriated by State legislature	12,810,323	-	-	-	12,810,323	7,875,823
Contracts and capital leases payable	537,526	-	-	-	537,526	169,596
Arizona Department of Public Safety distributions - appropriated by State legislature	15,000,000	-	-	-	15,000,000	19,600,000
Arizona Department of Emergency and Military Affairs distributions - appropriated by State legislature	800,000	-	-	-	800,000	574,000
Year 2000 computer projects	6,364,000	-	-	-	6,364,000	-
Debt service:						
Principal	-	126,170,000	-	-	126,170,000	129,050,373
Interest	-	73,777,474	-	-	73,777,474	81,395,372
Distributions to Arizona counties, cities and other state agencies	29,017,595	-	-	9,800,000	38,817,595	24,513,677
Distributions to agency funds	-	-	-	-	-	4,358,530
Other	-	110,843	821	-	111,664	190,486
Total expenditures	<u>877,789,817</u>	<u>200,058,317</u>	<u>3,793,798</u>	<u>42,567,897</u>	<u>1,124,209,829</u>	<u>1,038,750,882</u>
Excess <deficiency> of revenues over <under> expenditures	118,447,724	<193,240,818>	<3,793,798>	<11,092,086>	<89,678,978>	33,680,401
<b>Other financing sources &lt;uses&gt;:</b>						
Proceeds from contracts and capital leases payable	537,526	-	-	-	537,526	169,596
Operating transfers in	8,564,954	191,417,408	-	<71>	199,982,291	205,907,311
Operating transfers out:						
Debt service	<191,417,408>	-	-	-	<191,417,408>	<202,178,149>
Other	<2,831,788>	<5,285,908>	<79,536>	<367,651>	<8,564,883>	<3,729,162>
Total other financing sources <uses>	<u>&lt;185,146,716&gt;</u>	<u>186,131,500</u>	<u>&lt;79,536&gt;</u>	<u>&lt;367,722&gt;</u>	<u>537,526</u>	<u>169,596</u>
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	<66,698,992>	<7,109,318>	<3,873,334>	<11,459,808>	<89,141,452>	33,849,997
Fund balances, July 1	558,618,739	35,074,587	3,873,334	14,358,651	611,925,311	578,075,314
<b>Fund balances, June 30</b>	<b>\$ 491,919,747</b>	<b>\$ 27,965,269</b>	<b>\$ -</b>	<b>\$ 2,898,843</b>	<b>\$ 522,783,859</b>	<b>\$ 611,925,311</b>

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, 1998

	<b>Special Revenue Funds</b>		
	<b>Budget</b>	<b>Actual Non-GAAP</b>	<b>Variance - Favorable &lt;Unfavorable&gt;</b>
<b>Revenues:</b>			
Vehicle registration, title, license and related fees	\$ 174,171,800	\$ 190,667,476	\$ 16,495,676
Fuel and motor carrier taxes and fees	298,355,500	256,653,060	<41,702,440>
Interest	2,132,800	2,690,233	557,433
Flight property tax	8,900,000	7,582,939	<1,317,061>
Grand Canyon Airport	1,661,000	1,345,633	<315,367>
Other	6,000	87,727	81,727
Total revenues	<u>485,227,100</u>	<u>459,027,068</u>	<u>&lt;26,200,032&gt;</u>
<b>Expenditures appropriated by State legislature in 1998 budget:</b>			
Transportation:			
Administration	43,546,100	43,196,572	349,528
Highway	40,954,000	40,776,217	177,783
Highway Maintenance	78,489,176	76,598,085	1,891,091
Motor Vehicle Division	62,682,700	62,297,819	384,881
Aeronautics Division	1,658,100	1,614,317	43,783
Air Quality Program	37,900	37,875	25
General Fund Program	78,000	76,568	1,432
Total transportation	<u>227,445,976</u>	<u>224,597,453</u>	<u>2,848,523</u>
Capital outlay - land, buildings and improvements:			
Highway	21,290,934	12,796,632	8,494,302
Aviation	68,869	68,396	473
Arizona Department of Public Safety transfers	15,000,000	15,000,000	-
Arizona Department of Emergency and Military Affairs transfers	800,000	800,000	-
Year 2000 Projects	6,364,000	6,364,000	-
<b>Expenditures appropriated by State legislature by carryover of previous years' unexpended budgets</b>			
Total expenditures	<u>1,937,171</u>	<u>1,040,279</u>	<u>896,892</u>
Total expenditures	<u>272,906,950</u>	<u>260,666,760</u>	<u>12,240,190</u>
<b>Excess of revenues over expenditures</b>	<b><u>\$ 212,320,150</u></b>	<b><u>\$ 198,360,308</u></b>	<b><u>\$ &lt;13,959,842&gt;</u></b>

*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, 1998  
 (With comparative totals for the fiscal year ended June 30, 1997)

	<b>Proprietary Fund Types</b>		<b>Totals (Memorandum Only)</b>	
	<b>Enterprise</b>	<b>Internal Service</b>	<b>1998</b>	<b>1997</b>
<b>Operating revenues:</b>				
Equipment rentals	\$ -	\$ 24,246,642	\$ 24,246,642	\$ 23,294,346
Warehouse supply billings	-	56,555	56,555	13,992
Equipment sales	-	227,707	227,707	311,433
Magazine sales	6,041,695	-	6,041,695	6,032,128
Sales of related products	4,443,666	-	4,443,666	4,543,047
List rentals	73,258	-	73,258	67,189
Other	349,277	3,143,816	3,493,093	3,932,608
Total operating revenues	<u>10,907,896</u>	<u>27,674,720</u>	<u>38,582,616</u>	<u>38,194,743</u>
<b>Operating expenses:</b>				
Equipment operations	-	21,743,066	21,743,066	20,404,660
Warehouse operations	-	99,446	99,446	8,406
Cost of sales	9,664,662	-	9,664,662	9,760,534
General and administrative	1,251,233	-	1,251,233	1,500,278
Depreciation	164,547	6,584,576	6,749,123	6,394,408
Total operating expenses	<u>11,080,442</u>	<u>28,427,088</u>	<u>39,507,530</u>	<u>38,068,286</u>
Operating income <loss>	<172,546>	<752,368>	<924,914>	126,457
<b>Non-operating revenues &lt;expenses&gt;:</b>				
Interest	288,379	223,246	511,625	634,394
Loss on sale/disposal of fixed assets	<4,900>	<177,006>	<181,906>	<170,362>
Total non-operating revenues <expenses>	<u>283,479</u>	<u>46,240</u>	<u>329,719</u>	<u>464,032</u>
Income before charge related to change in the fixed asset capitalization threshold	110,933	<706,128>	<595,195>	590,489
Charge related to change in the fixed asset capitalization threshold (Note 1)	-	-	-	<1,510,599>
Net income <loss>	110,933	<706,128>	<595,195>	<920,110>
Retained earnings, July 1	4,148,189	37,971,974	42,120,163	43,040,273
<b>Retained earnings, June 30</b>	<b><u>\$ 4,259,122</u></b>	<b><u>\$ 37,265,846</u></b>	<b><u>\$ 41,524,968</u></b>	<b><u>\$ 42,120,163</u></b>

*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, 1998  
 (With comparative totals for the fiscal year ended June 30, 1997)

	<b>Proprietary Fund Types</b>		<b>Totals (Memorandum Only)</b>	
	<b>Enterprise</b>	<b>Internal Service</b>	<b>1998</b>	<b>1997</b>
<b>Cash flows from operating activities:</b>				
Operating income <loss>	\$ <172,546>	\$ <752,368>	\$ <924,914>	\$ 126,457
Adjustments to reconcile operating income <loss> to net cash provided by operating activities:				
Depreciation	164,547	6,584,576	6,749,123	6,394,408
Changes in assets and liabilities:				
Due from other Arizona Department of Transportation funds	-	<229,610>	<229,610>	405,280
Due from other state agencies	-	29,510	29,510	111,020
Other receivables	<117,659>	<35,906>	<153,565>	187,995
Inventories	<122,079>	<21,065>	<143,144>	143,597
Prepaid expenses	<44,670>	-	<44,670>	<19,464>
Accounts payable	<357,573>	305,204	<52,369>	291,444
Accrued payroll and other accrued expenses	21,742	29,377	51,119	65,302
Due to other Arizona Department of Transportation funds	<15,354>	<8,644>	<23,998>	<1,005>
Deferred revenue	2,306	-	2,306	<149,435>
Net cash provided by <used for> operating activities	<u>&lt;641,286&gt;</u>	<u>5,901,074</u>	<u>5,259,788</u>	<u>7,555,599</u>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of fixed assets	<934,081>	<7,538,697>	<8,472,778>	<10,323,771>
Proceeds from sale of fixed assets	-	437,129	437,129	390,329
Net cash used for capital and related financing activities	<u>&lt;934,081&gt;</u>	<u>&lt;7,101,568&gt;</u>	<u>&lt;8,035,649&gt;</u>	<u>&lt;9,933,442&gt;</u>
<b>Cash flows from investing activities:</b>				
Interest	<u>288,027</u>	<u>215,223</u>	<u>503,250</u>	<u>634,952</u>
Net cash provided by investing activities	<u>288,027</u>	<u>215,223</u>	<u>503,250</u>	<u>634,952</u>
Net decrease in cash and cash equivalents	<1,287,340>	<985,271>	<2,272,611>	<1,742,891>
Cash and cash equivalents, July 1	<u>5,767,414</u>	<u>4,352,066</u>	<u>10,119,480</u>	<u>11,862,371</u>
<b>Cash and cash equivalents, June 30</b>	<b><u>\$ 4,480,074</u></b>	<b><u>\$ 3,366,795</u></b>	<b><u>\$ 7,846,869</u></b>	<b><u>\$ 10,119,480</u></b>

*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 Division of Finance of the Arizona Department of Administration controls expenditures and adherence to annual budgets. The State Treasurer controls the cash balances of the Department.

The general purpose financial statements of the Department have been prepared in conformity with generally accepted accounting principles (GAAP) 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**

Special Revenue Funds - Special revenue funds, excluding the State Highway Fund, are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) 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, Abandoned Vehicle Fund, Dealer Enforcement Revolving Fund, Safety Enforcement and Transportation Infrastructure 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 Improvement Bond Principal Redemption and Interest Fund which accounts for the State of Arizona highway improvement bonds and revenue bonds, and the Maricopa Regional Area Road Bond Fund which accounts for the State of Arizona transportation excise tax revenue bonds.

Capital Projects Fund - The capital projects fund is 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 fund of the Department is 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.

**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.

Internal Service Funds - Internal service funds are 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. Internal service funds of the Department include the Equipment

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Revolving Fund and the Warehouse Revolving Fund.

for in the General Fixed Assets Account Group rather than in governmental funds.

**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. Expendable trust funds are accounted for using a current financial resources measurement focus.

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.

Trust and Agency Funds - These funds include expendable trust funds and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds and include the Bridge Construction Fund, the Davis-Monthan Runway Extension Fund and the Local Agency Deposits Fund.

*Basis of accounting*

The modified accrual basis of accounting is used for all governmental fund types, expendable trust funds 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.

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 Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Underground Storage Tank Fund, Highway Property Rentals 24 Percent Fund, Highway Trust Right-of-Way Fund, Economic Strength Project Fund, Privilege Tax Fund and the Special Organization Plates Clearing Fund. The Special Organization Plates Clearing Fund is not disclosed as there were no activities in the current fiscal year.

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.

**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.

Those revenues susceptible to accrual are Federal grants, 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.

General Fixed Assets - Fixed assets used in governmental fund type operations are accounted

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**

*Budgets and budgetary accounting*

Annual budgets for the operating expenditures and capital outlay - land, building and improvements of the State Highway Fund and the Aviation Fund and annual budgets for certain operating expenditures of the Abandoned Vehicle Fund, the Dealer Enforcement Revolving Fund and the Safety Enforcement and Transportation Infrastructure Fund 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 division level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures and other operating expenditures are specifically budgeted within most divisions. In certain divisions, other specific programs are budgeted in addition to these three categories.

Amendments to the approved appropriations require Legislative approval; however, budget transfers of personal services, employee related expenditures or other operating expenditures may be made between divisions, except for the Motor Vehicle Division. These budget transfers are requested by a division's budget staff and are approved by the Department's Budget Office. Expenditures may not legally exceed these budgeted appropriations. Revenue budgets are developed internally by the Department and are not a part of the appropriation process.

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. All other 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 appropriations.

A legal limitation is not adopted for capital outlay - highway construction, capital outlay - contracts payable and certain transportation operating expenditures of the State Highway Fund and the State Aviation Fund, the other special revenue funds, the debt service funds, capital projects fund, proprietary funds and fiduciary funds. The Department monitors expenditures for such items without legal limitations through an internal budgetary process and the five-year construction program developed by the Transportation Board.

*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)**

*Change in accounting policy*

Effective July 1, 1996, the State of Arizona changed its fixed asset capitalization threshold from \$1,000 to \$5,000. In order to be consistent with the State of Arizona, the Department also changed its fixed asset capitalization policy. All fixed assets must be capitalized if the cost is greater than or equal to \$5,000. The charge related to this change in capitalization threshold is recorded in the enterprise fund for \$113,222 and the internal service funds for \$1,397,377 in fiscal year 1997.

*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 market.

State statutes require the State Treasurer to maintain separate investment accounts for the portions of the Highway Improvement Bond Principal Redemption and Interest Fund relating to the highway revenue bond issues and the Maricopa Regional Area Road Bond Fund relating to the transportation excise tax

revenue bond issues. These funds may be invested in obligations of the U.S. Government.

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. Cost 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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Buildings	40 years
Building improvements	20 years
Furniture and fixtures	5 years
Mobile equipment	3-15 years
Shop tools, 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 revenue or loss.

*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 expenditures under Debt Service 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*

Employees are permitted to accumulate sick leave in accordance with the policies of the State of Arizona. This policy allows a retiring employee to be paid a total of \$750 for any accumulated unpaid sick leave in excess of 1,000 hours. An accrual for vested unpaid sick leave has been made and is included under the caption "Accrued payroll and other accrued expenditures/expenses." No accrual for the nonvested accumulated unpaid sick leave is reflected in the combined financial statements. As of June 30, 1998, employees had accumulated \$25,111,018 of nonvested unpaid sick leave.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 current rate of pay. An accrual for vacation leave has been made and the current portion is included under the caption "Accrued payroll and other accrued expenditures/expenses." For governmental funds, the portion of 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.

*Fund equity*

Reserves represent those portions of fund equity not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. There were no designated fund balances at June 30, 1998.

The Department has reserved \$9,985,210 of the Equipment Revolving Fund retained earnings. This reserve is comprised of \$7,829,167 for replacement of fleet equipment and \$2,156,043 for replacement of two airplanes.

*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 which 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 funds 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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

the Department. The internal service fund pay the costs of repairs and maintenance of those facilities, but no rental charges are made to the funds for the use thereof.

*Loan losses and revenue*

Each mortgage loan is analyzed on an individual basis to determine a reserve for loan losses based on delinquency. Interest revenue is recognized when received and is included under the caption "Interest revenue."

*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 1998 and 1997 included in the accompanying combined financial statements are captioned memorandum only to indicate they are presented only to facilitate financial analysis. The 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.

**NOTE 2. BUDGET BASIS OF ACCOUNTING**

The Department prepares its annual budget on a basis which 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, 1998

**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, 1998, on a GAAP basis to budget basis is as follows:

	Special Revenue <u>Funds</u>
<b>Excess &lt;deficiency&gt; of revenues and other financing sources over &lt;under&gt; expenditures and other financing uses — GAAP basis</b>	<b>\$ &lt;66,698,992&gt;</b>
 <b>Basis differences</b>	
Net increase in accounts payable, accrued payroll and other accruals not recognized as expenditures on budget basis	8,881,110
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	<u>&lt;35,503,307&gt;</u>
Total basis differences	<u>&lt;26,622,197&gt;</u>
 <b>Perspective differences</b>	
Revenues and other financing sources not recognized on budget basis:	
Motor vehicle tax	<222,144>
Motor vehicle registration	<32,384>
Motor vehicle driver's licenses	<8,832>
Other title certificates and permits	<2,298>
Reimbursements of construction expenditures - federal aid	<237,435,162>
Other federal grants and reimbursements	<8,285,562>
Reimbursements from Arizona counties, cities, and other state agencies	1,282,262
State appropriations	<615,900>
Interest	<18,231,397>
Other	<11,973,538>
Proceeds from contracts and capital leases payable	<537,526>
Operating transfers in	<11,346,000>
Expenditures and other financing uses not recognized on budget basis:	
Transportation - not appropriated by State legislature	11,294,362
Capital outlay - highway construction	490,890,429
Capital outlay - contracts and capital leases payable	537,526
Distributions to Arizona counties, cities and other state agencies	22,006,260
Other operating transfers out	<u>68,872,251</u>
Total perspective differences	<u>306,192,347</u>
 <b>Entity differences</b>	
Deficiency of revenues under expenditures for funds for which no annual budgets are prepared	<u>&lt;14,510,850&gt;</u>
<b>Excess of revenues over expenditures — budget basis</b>	<b>\$ <u>198,360,308</u></b>

Arizona Department of Transportation  
Notes to Financial Statements (Continued)  
June 30, 1998

**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	\$ 257,308,335
Cumulative Revisions	<u>15,598,615</u>
Revised Budget	<u>\$ 272,906,950</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, 1998, the Trustee held assignment on

securities aggregating \$9,736,642, \$6,063,693 and \$284,915 in lieu of contractor retentions for construction in the special revenue funds, capital projects funds, and expendable trust funds, respectively. Additional securities aggregating \$40,449 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, 1998, approximately \$36,500,000, including interest, of the fund balance was reserved representing such unspent monies.

Arizona Department of Transportation  
Notes to Financial Statements (Continued)  
June 30, 1998

**NOTE 5. NOTES RECEIVABLE**

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.

**NOTE 6. INTERFUND RECEIVABLES AND PAYABLES**

A summary of interfund receivables and payables at June 30, 1998, follows:

	Interfund Receivables	Interfund Payables
<b>Special Revenue Funds:</b>		
State Highway Fund:		
Due from Highway User Revenue Fund for taxes and fees	\$ 72,986,379	\$ -
Other	5,544,854	2,005,645
Total State Highway Fund	78,531,233	2,005,645
State Aviation Fund	155,999	8,505
Abandoned Vehicle Fund	12,230	388,464
Dealer Enforcement Revolving Fund	-	306,615
Safety Enforcement and Transportation Infrastructure Fund	125,646	5,523
Motor Carrier Safety Revolving Fund	<500>	-
Motor Vehicle Liability Insurance Enforcement Fund	119,580	-
Vehicle Inspection and Title Enforcement Fund	72,100	3,437
Total Special Revenue Funds	79,016,288	2,718,189
<b>Enterprise Fund</b>		
Arizona Highways Magazine Fund	-	2,311
<b>Internal Service Fund</b>		
Equipment Revolving Fund	1,963,009	-
<b>Agency Funds:</b>		
Motor Vehicle Division Clearing Fund	-	38,921,501
Highway User Revenue Fund	31,294,446	72,986,379
Underground Storage Tank Fund	2,354,637	-
Total Agency Funds	33,649,083	111,907,880
<b>Total All Funds</b>	<b>\$114,628,380</b>	<b>\$114,628,380</b>

Arizona Department of Transportation  
Notes to Financial Statements (Continued)  
June 30, 1998

<b>NOTE 7. FIXED ASSETS</b>
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A summary of changes in general fixed assets follows:

	<b>Balance July 1, 1997</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 1998</b>
Land	\$ 8,512,113	\$ 273,572	\$ 128,000	\$ 8,657,685
Buildings and improvements	94,167,234	8,078,918	132,759	102,113,393
Improvements other than buildings	20,433,741	9,826,513	116,980	30,143,274
Machinery and equipment	40,348,385	4,513,740	3,271,421	41,590,704
<b>Total General Fixed Assets</b>	<b>\$ 163,461,473</b>	<b>\$ 22,692,743</b>	<b>\$ 3,649,160</b>	<b>\$ 182,505,056</b>

A summary of proprietary fund fixed assets at June 30, 1998, follows:

	<b>Enterprise Fund</b>	<b>Internal Service Funds</b>
Land	\$ 7,900	\$ -
Buildings	981,157	-
Furniture and fixtures	333,020	-
Shop tools, office and computer equipment and software	1,835,244	2,053,856
Mobile equipment	10,059	94,575,796
Construction in progress	1,843,918	-
	5,011,298	96,629,652
Less accumulated depreciation	<2,176,864>	<59,628,475>
<b>Total Proprietary Fund Fixed Assets</b>	<b>\$ 2,834,434</b>	<b>\$ 37,001,177</b>

Arizona Department of Transportation  
Notes to Financial Statements (Continued)  
June 30, 1998

<b>NOTE 8. FUND EQUITY</b>
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Fund equity for the proprietary funds consists of the following:

**Enterprise Fund:**

	Arizona Highways Magazine Fund			
	Contributed	Retained	Totals	
	Capital	Earnings	1998	1997
Balance, July 1, 1997	\$ 2,038,698	\$ 4,148,189	\$ 6,186,887	\$ 6,261,627
Net income <loss>	-	110,933	110,933	<74,740>
Balance, June 30, 1998	<u>\$ 2,038,698</u>	<u>\$ 4,259,122</u>	<u>\$ 6,297,820</u>	<u>\$ 6,186,887</u>

Arizona Department of Transportation  
Notes to Financial Statements (Continued)  
June 30, 1998

<b>NOTE 8. FUND EQUITY (Continued)</b>
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**Internal Service Funds:**

	Equipment Revolving Fund			Total Fund Equity
	Contributed Capital	Reserved Retained Earnings	Unreserved Retained Earnings	
Balance, July 1, 1997	\$ 5,793,237	\$ 9,985,210	\$ 28,029,650	\$ 43,808,097
Net loss	-	-	<679,108>	<679,108>
Balance, June 30, 1998	<u>\$ 5,793,237</u>	<u>\$ 9,985,210</u>	<u>\$ 27,350,542</u>	<u>\$ 43,128,989</u>

	Warehouse Revolving Fund		
	Contributed Capital	Retained Earnings	Total Fund Equity
Balance, July 1, 1997	\$ 313,403	\$ <42,886>	\$ 270,517
Net loss	-	<27,020>	<27,020>
Balance, June 30, 1998	<u>\$ 313,403</u>	<u>\$ &lt;69,906&gt;</u>	<u>\$ 243,497</u>

	Totals Internal Service Funds	
	1998	1997
Balance, July 1, 1997	\$ 44,078,614	\$ 44,923,984
Net loss	<706,128>	<845,370>
Balance, June 30, 1998	<u>\$ 43,372,486</u>	<u>\$ 44,078,614</u>

Arizona Revised Statutes, 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. 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.

Arizona Department of Transportation  
Notes to Financial Statements (Continued)  
June 30, 1998

**NOTE 9. GENERAL LONG-TERM DEBT**

The following is a summary of changes in general long-term debt for the fiscal year ended June 30, 1998:

	Balance July 1, 1997	Additions	Retirements	Amortization of Discount	Balance June 30, 1998
Bonds:					
Highway Revenue Bonds:					
1987	\$ 8,785,000	\$ -	\$ 8,785,000	\$ -	\$ -
1990	30,790,000	-	4,805,000	-	25,985,000
1991 Series A, Subordinated	21,905,000	-	-	-	21,905,000
1992 Series A, Subordinated, Refunding	72,300,000	-	905,000	-	71,395,000
1992 Series B, Subordinated	36,560,000	-	-	-	36,560,000
1993 Series, Refunding	164,160,000	-	26,880,000	-	137,280,000
1993 Series A, Subordinated, Refunding	242,055,000	-	2,030,000	-	240,025,000
1993 Series B, Subordinated, Refunding	35,000,000	-	-	-	35,000,000
Transportation Excise Tax Revenue Bonds					
1987 Series A	18,270,000	-	18,270,000	-	-
1988 Series A, Capital Appreciation	46,645,799	-	-	3,489,906	50,135,705
1989 Series A, Subordinated	98,895,000	-	22,185,000	-	76,710,000
1991 Series A	16,955,000	-	3,855,000	-	13,100,000
1992 Series A, Refunding	183,645,000	-	1,945,000	-	181,700,000
1992 Series B	20,760,000	-	2,160,000	-	18,600,000
1993 Series, Subordinated	146,695,000	-	7,900,000	-	138,795,000
1995 Series A, Subordinated	115,420,000	-	12,135,000	-	103,285,000
1995 Series B, Subordinated, Refunding	<u>120,995,000</u>	<u>-</u>	<u>14,315,000</u>	<u>-</u>	<u>106,680,000</u>
Total Bonds Payable	1,379,835,799	-	126,170,000	3,489,906	1,257,155,705
Other long-term liabilities:					
Contracts and capital leases payable	2,310,454	537,526	939,315	-	1,908,665
Long-term accrued vacation leave	<u>7,541,838</u>	<u>362,607</u>	<u>-</u>	<u>-</u>	<u>7,904,445</u>
<b>Total General Long-Term Debt</b>	<b><u>\$1,389,688,091</u></b>	<b><u>\$ 900,133</u></b>	<b><u>\$ 127,109,315</u></b>	<b><u>\$3,489,906</u></b>	<b><u>\$1,266,968,815</u></b>

Arizona Department of Transportation  
Notes to Financial Statements (Continued)  
June 30, 1998

**NOTE 9. GENERAL LONG-TERM DEBT (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, 1998, are comprised of the following individual issues:

<u>Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Balance at June 30, 1998</u>
<b>State of Arizona Highway Revenue Bonds:</b>			
1990	6.8%	7/1/01	\$ 25,985,000
1991 Series A, Subordinated	6.3% - 8.8%	7/1/04	21,905,000
1992 Series A, Subordinated, Refunding	5.9% - 6.1%	7/1/01	71,395,000
1992 Series B, Subordinated	6.1% - 8.0%	7/1/06	36,560,000
1993 Series, Refunding	4.5% - 5.3%	7/1/09	137,280,000
1993 Series A, Subordinated, Refunding	4.1% - 6.0%	7/1/11	240,025,000
1993 Series B, Subordinated, Refunding	5.1% - 6.0%	7/1/11	<u>35,000,000</u>
Total Highway Revenue Bonds			<u>568,150,000</u>
<b>State of Arizona Transportation Excise Tax Revenue Bonds:</b>			
1988 Series A Capital Appreciation Bonds (maturity value of \$73,000,000)	7.3% - 7.5%	7/1/05	50,135,705
1989 Series A, Subordinated	6.9% - 7.0%	7/1/01	76,710,000
1991 Series A	6.0% - 6.1%	7/1/01	13,100,000
1992 Series A, Refunding	5.0% - 5.8%	7/1/05	181,700,000
1992 Series B	5.0% - 5.8%	7/1/05	18,600,000
1993 Series, Subordinated	4.0% - 5.6%	7/1/05	138,795,000
1995 Series A, Subordinated	4.4% - 6.5%	7/1/05	103,285,000
1995 Series B, Subordinated, Refunding	4.4% - 6.5%	7/1/05	<u>106,680,000</u>
Total Transportation Excise Tax Revenue Bonds			<u>689,005,705</u>
<b>Total Bonds Payable</b>			<b><u>\$ 1,257,155,705.00</u></b>

The Highway Revenue Bonds are secured by a prior lien on and a first 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, to exceed \$800,000,000 unless the additional amount is authorized by the Legislature.

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 1989 Series A Bonds, the 1993 Series Bonds and the 1995 Series A and B Bonds are subordinate to the other senior Transportation Excise Tax Revenue Bonds. The Transportation Board may issue additional subordinated Transportation Excise Tax Revenue Bonds as long as the amount of transportation excise tax (plus any other monies deposited during the period) deposited with the Maricopa Regional Area Road Fund in any 12 consecutive months out of the 18 months prior to the issuance date of the proposed bonds is not less than 120 percent of the greatest

**NOTE 9. GENERAL LONG-TERM DEBT (Continued)**

Combined adjusted aggregate debt service for all senior and subordinated bonds in the current or future bond year, including any proposed bonds.

The Transportation Board may issue additional senior Transportation Excise Tax Bonds if the above condition is met and also if the amount of transportation excise tax (plus any other monies deposited during the period) deposited for the same period is not less than 200 percent of the greatest adjusted aggregate debt service for all senior bonds.

Bonds aggregating approximately \$441,390,000 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 approximately \$838,630,000 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, 1998) were issued by Financial Guaranty Insurance Company, except for the 1989 Series A Subordinated Bonds and the 1993 Series Subordinated Bonds policies, which were issued by Municipal Bond Investors Assurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies which were issued by AMBAC Indemnity 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, 1998, the carrying basis was \$50,135,705. At maturity on July 1, 2005, the carrying basis will equal the maturity amount of \$73,000,000.

Arizona Department of Transportation  
Notes to Financial Statements (Continued)  
June 30, 1998

**NOTE 9. GENERAL LONG-TERM DEBT (Continued)**

Future debt service requirements of bonds outstanding at June 30, 1998, are as follows:

Fiscal Year	Highway Revenue Bonds		Transportation Excise Tax Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
1999	\$ 43,805,000	\$ 31,090,116	\$ 87,665,000	\$ 35,625,180	\$ 131,470,000	\$ 66,715,296
2000	45,730,000	28,672,710	92,500,000	30,812,511	138,230,000	59,485,221
2001	47,665,000	26,049,996	97,770,000	25,554,193	145,435,000	51,604,189
2002	33,340,000	23,279,078	102,820,000	20,019,253	136,160,000	43,298,331
2003	34,950,000	21,656,768	104,270,000	15,349,893	139,220,000	37,006,661
2004	37,090,000	19,516,190	110,060,000	11,083,160	147,150,000	30,599,350
2005	39,305,000	17,306,544	116,785,000	6,147,226	156,090,000	23,453,770
2006	41,505,000	15,102,204	-	-	41,505,000	15,102,204
2007	43,840,000	12,770,796	-	-	43,840,000	12,770,796
2008	46,035,000	10,575,076	-	-	46,035,000	10,575,076
2009	48,680,000	7,936,164	-	-	48,680,000	7,936,164
2010	51,685,000	5,458,950	-	-	51,685,000	5,458,950
2011	<u>54,520,000</u>	<u>2,624,700</u>	-	-	<u>54,520,000</u>	<u>2,624,700</u>
	<u>\$ 568,150,000</u>	<u>\$ 222,039,292</u>	<u>\$ 711,870,000</u>	<u>\$ 144,591,416</u>	<u>\$ 1,280,020,000</u>	<u>\$ 366,630,708</u>

*Refunding 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.

Arizona Department of Transportation  
Notes to Financial Statements (Continued)  
June 30, 1998

**NOTE 9. GENERAL LONG-TERM DEBT (Continued)**

Refunded bonds of the Department outstanding at June 30, 1998, are as follows:

Original Issue Date	Type	Balance Outstanding
1986	Highway Revenue Bonds	\$ 94,360,000
1987	Highway Revenue Bonds	41,545,000
1990	Highway Revenue Bonds	141,260,000
1991 Series A, Subordinated	Highway Revenue Bonds	149,235,000
1992 Series B, Subordinated	Highway Revenue Bonds	52,350,000
1986 Series A	Transportation Excise Tax Revenue Bonds	60,220,000
1987 Series A	Transportation Excise Tax Revenue Bonds	62,915,000
1988 Series A:		
Current Interest	Transportation Excise Tax Revenue Bonds	96,290,000
Capital Appreciation	Transportation Excise Tax Revenue Bonds	7,764,354
1989 Series A, Subordinated	Transportation Excise Tax Revenue Bonds	126,465,000
1991 Series A	Transportation Excise Tax Revenue Bonds	19,645,000
<b>Total refunded bonds outstanding</b>		<b><u>\$ 852,049,354</u></b>

*Contracts and capital leases payable*

Data processing and other equipment totaling \$624,758 acquired through purchase contracts are recorded in the General Fixed Assets Account Group. Payments are due in monthly installments through February 2003 with interest rates ranging from 5.19 percent to 12.41 percent.

three year lease with a two year lease extension. The lease obligation is recorded at the present value of minimum lease payments and is reduced by the principal portion of the monthly installments paid. At June 30, 1998, remaining annual fiscal payments for the contracts and capital lease payable were as follows:

In November 1995, the Department entered into a capital lease to acquire a new central processing unit for \$4.1 million. The terms of the lease provide for a

1999	\$ 974,933
2000	681,520
2001	266,978
2002	53,138
2003	<u>36,985</u>
Total payments	2,013,554
Less interest	<u>&lt;104,889&gt;</u>
<b>Total outstanding</b>	<b><u>\$ 1,908,665</u></b>

**NOTE 10. OPERATING LEASES**

The Department leases data processing and other equipment and certain facilities from various lessors. The principal leases are for a one-year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the year ended June 30, 1998, approximated \$2,418,000.

Various funds also rent mobile equipment from the Equipment Revolving Fund on an as-needed basis. Rental expense/expenditure for mobile equipment for the year ended June 30, 1998, is as follows:

State Highway Fund	\$ 24,113,127
Arizona Highways Magazine Fund	28,298
Other	<u>105,217</u>
<b>Total operating leases</b>	<b><u>\$ 24,246,642</u></b>

**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.

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

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

Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the year ended June 30, 1998, was computed to be 3.54 percent of covered payroll by an actuarial valuation performed at June 30, 1996. Contributions for the years ended June 30, 1996, 1997 and 1998 were \$4,550,515, \$4,600,690 and \$4,668,911, 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 Financial 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.

Certain customers have made claims with respect to claiming refunds for prior year taxes paid. The Department is in the process of determining the nature and extent of these claims. No litigation has commenced at this time, however, if the Department does not prevail, the amount of refunds could be significant.

Additionally, an outside contractor has sued the State for \$3.5 million in unpaid billings plus future profits related to services provided in connection with the Enterprise project. The State has filed a counterclaim for \$100 million, most of which represents increased tax revenue that was expected to result from the Enterprise project.

*Commitments under construction contracts*

The Department's outstanding commitments under construction contracts were approximately \$462,205,000 at June 30, 1998.

**NOTE 13. Year 2000 (Unaudited)**

The Department is working to resolve the potential impact of the Year 2000 issue as it relates to the ability of the Department's computerized information systems to accurately process information that may be date-sensitive. Any of the Department's programs that recognize a date using "00" as the year 1900 rather than the year 2000 could result in errors or system failures. The Department utilizes a number of computer programs across its entire operations. To address its Year 2000 issue, the Department has determined the following stages are necessary to complete its Year 2000 project: awareness, assessment, remediation, and validation/testing. The Department has completed the awareness and assessment stages and is close to completing the remediation stage. Most of the financial systems have completed the validation/testing stage. The Department presently believes that, with

modifications to existing software and conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems.

The Department currently estimates the costs of becoming Year 2000 compliant will not be material and will not have a material adverse financial risk. To assure that this does not occur, the Department plans to devote all resources required to resolve any significant Year 2000 issue in a timely manner. The costs of the project and the timing of the Department's completion of its Year 2000 project are based on management's best estimates, which are derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be

**NOTE 13. Year 2000 (Unaudited – Continued)**

no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to,

the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and similar uncertainties

**NOTE 14. SUBSEQUENT EVENT**

On July 16, 1998, the Department issued \$174,545,000 in Transportation Excise Tax Revenue Bonds (1998 Series A) to (i) advance refund portions of the Transportation Board's outstanding Subordinated Bonds, (ii) finance the acquisition of land and the design and construction of certain controlled access highways within Maricopa County, Arizona and (iii) pay costs of issuing the 1998 Series Bonds. The 1998 Series A Bonds are due July 1, 1999 through 2005.

Net proceeds totaled \$177,826,259 (after receipt of \$4,359,207 of reoffering premium and payment of \$1,077,948 in underwriting fees). Net proceeds of \$28,713,866 were used to advance refund \$27,390,000 of the 1989 Series A, Subordinated

Transportation Excise Tax Revenue Bonds (Refunded Bonds). State and Local Government securities were purchased with these proceeds and were deposited in an irrevocable trust with an escrow agent to provide for the partial future debt service payments on the above-referenced bonds. As a result, the Refunded Bonds will be considered defeased and the liability for these bonds will be removed from the General Long-Term Debt Account Group. The Department advance refunded the Refunded Bonds to reduce its total debt service payments over the next three years by \$737,678 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$711,337.

## *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. Reimbursement for certain construction expenditures are received from the federal government, Arizona cities and counties, and other state agencies. The fund also receives interest income 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 Abandoned Vehicle Fund** receives fees collected from individuals who have abandoned their vehicles on state roads or highways, which are used to cover the cost of removing these vehicles from state roads or highways.

**The Dealer Enforcement Revolving Fund** is supported from license fees collected from the motor vehicle brokers, which are used to administer issuance of broker licenses.

**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 Maricopa Regional Area Road Construction Fund** receives Maricopa County transportation excise tax monies collected by the Department of Revenue. These 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.

**The Motor Vehicle Liability Insurance Enforcement Fund** receives fees and interest to administer the State's Mandatory Liability Insurance Program. license plates no longer readable.

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

Arizona Department of Transportation  
Special Revenue Funds  
Combining Balance Sheet  
For the fiscal year ended June 30, 1998  
(With comparative totals at June 30, 1997)

	<b>Budgeted</b>					
	<b>State Highway Fund</b>	<b>State Aviation Fund</b>	<b>Abandoned Vehicle Fund</b>	<b>Dealer Enforcing Revolving Fund</b>	<b>Safety Enforcement and Transportation Infrastructure Fund</b>	<b>Maricopa Regional Area Road Construction Fund</b>
<b>Assets</b>						
Cash and cash equivalents on deposit with the State Treasurer	\$ 245,057,568	\$ 32,883,209	\$ 416,581	\$ 339,446	\$ 1,578,472	\$ 131,980,027
Receivables:						
Notes	-	7,545,549	-	-	-	7,790,195
Accrued interest	3,914,892	620,843	-	-	13,621	993,921
Other	5,251,647	74,941	-	-	-	759,473
Due from U.S. Government for reimbursable construction costs	28,609,364	-	-	-	-	147,611
Due from other Arizona Department of Transportation funds	78,531,233	155,999	12,230	-	125,646	-
Due from Arizona counties, cities and other state agencies	131,136	-	-	-	-	17,976,091
Inventories	4,249,661	-	-	-	-	-
Land held for future highway use	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 365,745,501</b>	<b>\$ 41,280,541</b>	<b>\$ 428,811</b>	<b>\$ 339,446</b>	<b>\$ 1,717,739</b>	<b>\$ 159,647,318</b>
<b>Liabilities and fund balances</b>						
<b>Liabilities:</b>						
Construction contracts payable	\$ 36,142,407	\$ -	\$ -	\$ -	\$ -	\$ 8,730,907
Accounts payable	16,105,991	73,976	28,683	23,453	127,160	4,706,332
Accrued payroll and other accrued expenditures	8,243,886	47,762	11,664	9,378	24,194	3,565
Due to other Arizona Department of Transportation funds	2,005,645	8,505	388,464	306,615	5,523	-
Due to Arizona counties, cities and other state agencies	685,504	1,163,570	-	-	-	-
<b>Total liabilities</b>	<b>63,183,433</b>	<b>1,293,813</b>	<b>428,811</b>	<b>339,446</b>	<b>156,877</b>	<b>13,440,804</b>
<b>Fund balances:</b>						
Reserved for highway construction	36,455,326	-	-	-	-	-
Reserved for inventories	4,249,661	-	-	-	-	-
Reserved for land held for future highway use	-	-	-	-	-	-
Unreserved, undesignated	261,857,081	39,986,728	-	-	1,560,862	146,206,514
<b>Total fund balances</b>	<b>302,562,068</b>	<b>39,986,728</b>	<b>-</b>	<b>-</b>	<b>1,560,862</b>	<b>146,206,514</b>
<b>Total liabilities and fund balances</b>	<b>\$ 365,745,501</b>	<b>\$ 41,280,541</b>	<b>\$ 428,811</b>	<b>\$ 339,446</b>	<b>\$ 1,717,739</b>	<b>\$ 159,647,318</b>

Motor Carrier Safety Revolving Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund	Totals	
			1998	1997
\$ 76,507	\$ 876,839	\$ 384,504	\$ 413,593,153	\$ 457,629,572
-	-	-	15,335,744	15,577,217
-	-	-	5,543,277	4,829,065
-	-	-	6,086,061	5,603,934
-	-	-	28,756,975	19,088,864
<500>	119,580	72,100	79,016,288	83,338,642
-	-	-	18,107,227	36,469,590
-	-	-	4,249,661	4,828,964
-	-	-	-	151,131
<b>\$ 76,007</b>	<b>\$ 996,419</b>	<b>\$ 456,604</b>	<b>\$ 570,688,386</b>	<b>\$ 627,516,979</b>
\$ -	\$ -	\$ -	\$ 44,873,314	\$ 37,662,932
-	127,106	1,327	21,194,028	11,398,335
-	<96,353>	<110,062>	8,134,034	9,170,842
-	-	3,437	2,718,189	7,786,860
-	-	-	1,849,074	2,879,271
-	30,753	<105,298>	78,768,639	68,898,240
-	-	-	36,455,326	106,145,136
-	-	-	4,249,661	4,828,964
-	-	-	-	151,131
76,007	965,666	561,902	451,214,760	447,493,508
76,007	965,666	561,902	491,919,747	558,618,739
<b>\$ 76,007</b>	<b>\$ 996,419</b>	<b>\$ 456,604</b>	<b>\$ 570,688,386</b>	<b>\$ 627,516,979</b>

Arizona Department of Transportation  
Special Revenue Funds  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the fiscal year ended June 30, 1998  
(With comparative totals for the fiscal year ended June 30, 1997)

	Budgeted				
	State Highway Fund	State Aviation Fund	Abandoned Vehicle Fund	Dealer Enforcement Revolving Fund	Safety Enforcement and Transportation Infrastructure Fund
<b>Revenues:</b>					
Transportation excise tax	\$ -	\$ -	\$ -	\$ -	\$ -
Vehicle registration, title, license and related fees	202,922,683	2,003,996	-	294,575	3,354,262
Fuel and motor carrier taxes and fees	273,324,962	480,935	-	-	-
Reimbursement of construction expenditures - federal aid	237,435,162	-	-	-	-
Other federal grants and reimbursements	5,906,042	2,379,520	-	-	-
Reimbursements from Arizona counties, cities and other state agencies	<1,282,262>	-	-	-	110,156
State appropriations	615,900	-	-	-	-
Distributions from agency funds	-	-	-	-	-
Interest	18,231,397	2,599,137	-	17,285	29,068
Flight property tax	-	7,582,939	-	-	-
Grand Canyon Airport	-	1,348,951	-	-	-
Application fees	-	-	-	-	-
Other	18,252,104	77,932	646,320	-	2,831
Total revenues	<u>755,405,988</u>	<u>16,473,410</u>	<u>646,320</u>	<u>311,860</u>	<u>3,496,317</u>
<b>Expenditures:</b>					
Current:					
Transportation - appropriated by					
State legislature:					
Administration	43,913,778	-	-	-	-
Highway	41,381,128	-	-	-	-
Highway Maintenance	76,596,858	-	-	-	-
Motor Vehicle Division	59,615,121	-	444,207	304,992	1,693,809
Aeronautics Division	-	9,409,728	-	-	-
Other	1,213,926	-	-	-	-
Total Transportation - appropriated by State legislature	<u>222,720,811</u>	<u>9,409,728</u>	<u>444,207</u>	<u>304,992</u>	<u>1,693,809</u>
Transportation - not appropriated by					
State legislature					
Highway construction	11,294,362	-	-	-	-
Capital outlay:					
Highway construction	486,532,116	-	-	-	-
Land, buildings and					
improvements - appropriated by					
State legislature					
Contracts and capital	12,741,927	68,396	-	-	-
leases payable	537,526	-	-	-	-
Arizona Department of Public Safety					
distributions - appropriated by					
State legislature					
	15,000,000	-	-	-	-

Maricopa Regional Area Road Construction Fund	Motor Carrier Safety Revolving Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund	Totals	
				1998	1997
\$ 192,518,877	\$ -	\$ -	\$ -	\$ 192,518,877	\$ 193,755,881
-	46,883	941,863	805,229	210,369,491	198,001,560
-	-	-	-	273,805,897	288,878,476
-	-	-	-	237,435,162	232,953,274
11,850,232	-	-	-	20,135,794	37,198,464
4,048,459	-	-	-	2,876,353	6,165,551
-	-	-	-	615,900	2,435,800
-	-	-	-	-	770,150
6,687,250	-	-	-	27,564,137	23,056,675
-	-	-	-	7,582,939	17,679,764
-	-	-	-	1,348,951	1,515,414
-	-	-	-	-	188,033
3,004,853	-	-	-	21,984,040	17,882,957
<u>218,109,671</u>	<u>46,883</u>	<u>941,863</u>	<u>805,229</u>	<u>996,237,541</u>	<u>1,020,481,999</u>
-	-	-	-	43,913,778	43,980,838
-	-	-	-	41,381,128	40,230,216
-	-	-	-	76,596,858	70,336,393
-	11,514	550,913	435,771	63,056,327	30,147,164
-	-	-	-	9,409,728	1,425,298
-	-	-	-	1,213,926	1,554,354
<u>-</u>	<u>11,514</u>	<u>550,913</u>	<u>435,771</u>	<u>235,571,745</u>	<u>187,674,263</u>
-	-	-	-	11,294,362	43,145,597
79,862,150	-	-	-	566,394,266	403,485,720
-	-	-	-	12,810,323	7,875,823
-	-	-	-	537,526	169,596
-	-	-	-	15,000,000	19,600,000

(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, 1998  
(With comparative totals for the fiscal year ended June 30, 1997)

	<b>Budgeted</b>				
	<b>State Highway Fund</b>	<b>State Aviation Fund</b>	<b>Abandoned Vehicle Fund</b>	<b>Dealer Enforcement Revolving Fund</b>	<b>Safety Enforcement and Transportation Infrastructure Fund</b>
Arizona Department of Emergency and Military Affairs distributions - appropriated by State Legislature	800,000	-	-	-	-
Year 2000 computer projects	6,364,000	-	-	-	-
Principal	-	-	-	-	-
Distributions to Arizona counties, cities and other state agencies	-	21,256,260	-	-	750,000
Distributions to agency funds	-	-	-	-	-
Total expenditures	<u>755,990,742</u>	<u>30,734,384</u>	<u>444,207</u>	<u>304,992</u>	<u>2,443,809</u>
Excess <deficiency> of revenues over <under> expenditures	<584,754>	<14,260,974>	202,113	6,868	1,052,508
<b>Other financing sources &lt;uses&gt;:</b>					
Proceeds from contracts and capital leases payable	537,526	-	-	-	-
Operating transfers in	5,067,434	-	-	-	-
Operating transfers out:					
Debt service	<72,535,839>	-	-	-	-
Other	488	<2,254>	<388,252>	<304,706>	-
Total other financing sources <uses>	<u>&lt;66,930,391&gt;</u>	<u>&lt;2,254&gt;</u>	<u>&lt;388,252&gt;</u>	<u>&lt;304,706&gt;</u>	<u>-</u>
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	<67,515,145>	<14,263,228>	<186,139>	<297,838>	1,052,508
Fund balances, July 1	<u>370,077,213</u>	<u>54,249,956</u>	<u>186,139</u>	<u>297,838</u>	<u>508,354</u>
<b>Fund balances, June 30</b>	<b><u>\$ 302,562,068</u></b>	<b><u>\$ 39,986,728</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,560,862</u></b>

Maricopa Regional Area Road Construction Fund	Motor Carrier Safety Revolving Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund	Totals	
				1998	1997
-	-	-	-	800,000	574,000
-	-	-	-	6,364,000	-
-	-	-	-	-	10,065,373
6,883,299	20,300	-	107,736	29,017,595	23,965,275
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,358,530</u>
<u>86,745,449</u>	<u>31,814</u>	<u>550,913</u>	<u>543,507</u>	<u>877,789,817</u>	<u>700,914,177</u>
131,364,222	15,069	390,950	261,722	118,447,724	319,567,822
-	-	-	-	537,526	169,596
3,497,520	-	-	-	8,564,954	3,893,629
<118,881,569>	-	-	-	<191,417,408>	<202,013,657>
<2,137,064>	-	-	-	<2,831,788>	<2,864,264>
<u>&lt;117,521,113&gt;</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>&lt;185,146,716&gt;</u>	<u>&lt;200,814,696&gt;</u>
13,843,109	15,069	390,950	261,722	<66,698,992>	118,753,126
<u>132,363,405</u>	<u>60,938</u>	<u>574,716</u>	<u>300,180</u>	<u>558,618,739</u>	<u>439,865,613</u>
<b><u>\$ 146,206,514</u></b>	<b><u>\$ 76,007</u></b>	<b><u>\$ 965,666</u></b>	<b><u>\$ 561,902</u></b>	<b><u>\$ 491,919,747</u></b>	<b><u>\$ 558,618,739</u></b>

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, 1998

	State Highway Func			State Aviation Func		
	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
<b>Revenues:</b>						
Vehicle registration, title, license and related fees	\$ 168,540,500	\$ 185,036,412	\$ 16,495,912	\$ 2,073,000	\$ 2,051,541	\$ <21,459>
Fuel and motor carrier taxes and fees	297,780,500	256,167,727	<41,612,773>	575,000	485,333	<89,667>
Interest	-	-	-	2,115,000	2,648,305	533,305
Flight property tax	-	-	-	8,900,000	7,582,939	<1,317,061>
Grand Canyon Airport	-	-	-	1,661,000	1,345,633	<315,367>
Other	-	-	-	6,000	84,896	78,896
Total revenues	<u>466,321,000</u>	<u>441,204,139</u>	<u>&lt;25,116,861&gt;</u>	<u>15,330,000</u>	<u>14,198,647</u>	<u>&lt;1,131,353&gt;</u>
<b>Expenditures appropriated by State legislature in 1998 budget:</b>						
Administration:						
Personal services	17,158,400	17,155,751	2,649	-	-	-
Employee related expenditures	3,740,800	3,740,447	353	-	-	-
Other operating expenditures	14,380,900	14,034,374	346,526	-	-	-
Risk management premiums	8,266,000	8,266,000	-	-	-	-
Total Administration	<u>43,546,100</u>	<u>43,196,572</u>	<u>349,528</u>	<u>-</u>	<u>-</u>	<u>-</u>
Highway:						
Personal services	27,633,600	27,633,011	589	-	-	-
Employee related expenditures	6,105,900	6,105,898	2	-	-	-
Other operating expenditures	6,808,600	6,633,736	174,864	-	-	-
Radio communication	405,900	403,572	2,328	-	-	-
Total Highway	<u>40,954,000</u>	<u>40,776,217</u>	<u>177,783</u>	<u>-</u>	<u>-</u>	<u>-</u>
Highway Maintenance:						
Personal services	23,982,500	24,011,451	<28,951>	-	-	-
Employee related expenditures	6,213,600	6,235,145	<21,545>	-	-	-
Other operating expenditures	46,366,600	44,490,056	1,876,544	-	-	-
Highway Maintenance (nonreverting balance forward)	1,926,476	1,861,433	65,043	-	-	-
Total Highway Maintenance	<u>78,489,176</u>	<u>76,598,085</u>	<u>1,891,091</u>	<u>-</u>	<u>-</u>	<u>-</u>
Motor Vehicle Division:						
Personal services	32,985,300	32,980,367	4,933	-	-	-
Employee related expenditures	8,514,500	8,514,327	173	-	-	-
Other operating expenditures	16,334,100	15,799,604	534,496	-	-	-
License plates and tabs	1,275,300	1,262,212	13,088	-	-	-
Medical advisory board	1,020,000	989,969	30,031	-	-	-
Traffic ticket enforcement assistance (nonreverting balance forward)	50,000	-	50,000	-	-	-
Abandoned Vehicle	-	-	-	-	-	-
Total Motor Vehicle Division	<u>60,179,200</u>	<u>59,546,479</u>	<u>632,721</u>	<u>-</u>	<u>-</u>	<u>-</u>
Air Quality Program:						
Personal services	28,600	29,876	<1,276>	-	-	-
Employee related expenditures	8,700	7,399	1,301	-	-	-
Other operating expenditures	600	600	-	-	-	-
Total Air Quality Program	<u>37,900</u>	<u>37,875</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>

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, 1998

	State Highway Fund			State Aviation Fund		
	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
State General Fund Program:						
Public transit:						
Personal services	46,200	44,027	2,173	-	-	-
Employee related expenditures	12,800	12,301	499	-	-	-
Other operating expenditures	2,200	3,513	<1,313>	-	-	-
Other transit planning	16,800	16,727	73	-	-	-
Total State General Fund Program	<u>78,000</u>	<u>76,568</u>	<u>1,432</u>	<u>-</u>	<u>-</u>	<u>-</u>
Aeronautics Division:						
Personal services	-	-	-	789,200	784,477	4,723
Employee related expenditures	-	-	-	192,800	186,320	6,480
Other operating expenditures	-	-	-	666,100	641,266	24,834
Reimbursement to State						
Highway Fund	-	-	-	10,000	2,254	7,746
Total Aeronautics Division	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,658,100</u>	<u>1,614,317</u>	<u>43,783</u>
Capital outlay - land, buildings and improvements	21,290,934	12,796,632	8,494,302	68,869	68,396	473
Arizona Department of Public Safety transfers	15,000,000	15,000,000	-	-	-	-
Arizona Department of Emergency and Military Affairs transfers	800,000	800,000	-	-	-	-
Year 2000 computer projects	6,364,000	6,364,000	-	-	-	-
Expenditures appropriated by State legislature by carryover of previous years' unexpended budgets	<u>1,128,401</u>	<u>601,787</u>	<u>526,614</u>	<u>172,382</u>	<u>206</u>	<u>172,176</u>
Total expenditures	<u>267,867,711</u>	<u>255,794,215</u>	<u>12,073,496</u>	<u>1,899,351</u>	<u>1,682,919</u>	<u>216,432</u>
<b>Excess &lt;deficiency&gt; of revenues over &lt;under&gt; expenditures:</b>	<b><u>\$ 198,453,289</u></b>	<b><u>\$ 185,409,924</u></b>	<b><u>\$ &lt;13,043,365&gt;</u></b>	<b><u>\$ 13,430,649</u></b>	<b><u>\$ 12,515,728</u></b>	<b><u>\$ &lt;914,921&gt;</u></b>

	Abandoned Vehicle Func			Dealer Enforcement Revolving Fun		
	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
<b>Revenues:</b>						
Vehicle registration, title, license and related fees	\$ 761,000	\$ -	\$ <761,000>	\$ 247,300	\$ 297,752	\$ 50,452
Fuel and motor carrier taxes and fees	-	-	-	-	-	-
Interest	-	-	-	17,800	18,963	1,163
Flight property tax	-	-	-	-	-	-
Grand Canyon Airport	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	<u>761,000</u>	<u>-</u>	<u>&lt;761,000&gt;</u>	<u>265,100</u>	<u>316,715</u>	<u>51,615</u>
<b>Expenditures appropriated by State legislature in 1998 budget:</b>						
Administration:						
Personal services	-	-	-	-	-	-
Employee related expenditures	-	-	-	-	-	-
Other operating expenditures	-	-	-	-	-	-
Risk management premiums	-	-	-	-	-	-
Total Administration	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Highway:						
Personal services	-	-	-	-	-	-
Employee related expenditures	-	-	-	-	-	-
Other operating expenditures	-	-	-	-	-	-
Radio communication	-	-	-	-	-	-
Total Highway	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Highway Maintenance:						
Personal services	-	-	-	-	-	-
Employee related expenditures	-	-	-	-	-	-
Other operating expenditures	-	-	-	-	-	-
Highway Maintenance (nonreverting balance forward)	-	-	-	-	-	-
Total Highway Maintenance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Motor Vehicle Division:						
Personal services	-	-	-	154,400	150,908	3,492
Employee related expenditures	-	-	-	33,400	32,802	598
Other operating expenditures	-	-	-	92,900	82,750	10,150
License plates and tabs	-	-	-	-	-	-
Medical advisory board	-	-	-	-	-	-
Traffic ticket enforcement assistance (nonreverting balance forward)	-	-	-	-	-	-
Abandoned Vehicle	<u>463,800</u>	<u>446,838</u>	<u>16,962</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Motor Vehicle Division	<u>463,800</u>	<u>446,838</u>	<u>16,962</u>	<u>280,700</u>	<u>266,460</u>	<u>14,240</u>
Air Quality Program:						
Personal services	-	-	-	-	-	-
Employee related expenditures	-	-	-	-	-	-
Other operating expenditures	-	-	-	-	-	-
Total Air Quality Program	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Safety Enforcement and Transportatio Infrastructure Fund			Totals		
Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
\$ 2,550,000	\$ 3,281,771	\$ 731,771	\$ 174,171,800	\$ 190,667,476	\$ 16,495,676
-	-	-	298,355,500	256,653,060	<41,702,440>
-	22,965	22,965	2,132,800	2,690,233	557,433
-	-	-	8,900,000	7,582,939	<1,317,061>
-	-	-	1,661,000	1,345,633	<315,367>
-	2,831	2,831	6,000	87,727	81,727
<u>2,550,000</u>	<u>3,307,567</u>	<u>757,567</u>	<u>485,227,100</u>	<u>459,027,068</u>	<u>&lt;26,200,032&gt;</u>
-	-	-	17,158,400	17,155,751	2,649
-	-	-	3,740,800	3,740,447	353
-	-	-	14,380,900	14,034,374	346,526
-	-	-	8,266,000	8,266,000	-
-	-	-	43,546,100	43,196,572	349,528
-	-	-	27,633,600	27,633,011	589
-	-	-	6,105,900	6,105,898	2
-	-	-	6,808,600	6,633,736	174,864
-	-	-	405,900	403,572	2,328
-	-	-	40,954,000	40,776,217	177,783
-	-	-	23,982,500	24,011,451	<28,951>
-	-	-	6,213,600	6,235,145	<21,545>
-	-	-	46,366,600	44,490,056	1,876,544
-	-	-	1,926,476	1,861,433	65,043
-	-	-	78,489,176	76,598,085	1,891,091
272,300	271,532	768	33,412,000	33,402,807	9,193
75,200	74,695	505	8,623,100	8,621,824	1,276
1,411,500	1,691,815	<280,315>	17,838,500	17,574,169	264,331
-	-	-	1,275,300	1,262,212	13,088
-	-	-	1,020,000	989,969	30,031
-	-	-	50,000	-	50,000
-	-	-	463,800	446,838	16,962
<u>1,759,000</u>	<u>2,038,042</u>	<u>&lt;279,042&gt;</u>	<u>62,682,700</u>	<u>62,297,819</u>	<u>384,881</u>
-	-	-	28,600	29,876	<1,276>
-	-	-	8,700	7,399	1,301
-	-	-	600	600	-
-	-	-	37,900	37,875	25

(Continued)

	<u>Abandoned Vehicle Fund</u>			<u>Dealer Enforcement Revolving Fund</u>		
	<u>Budget</u>	<u>Actual Non-GAAP</u>	<u>Variance - Favorable &lt;Unfavorable&gt;</u>	<u>Budget</u>	<u>Actual Non-GAAP</u>	<u>Variance - Favorable &lt;Unfavorable&gt;</u>
State General Fund Program:						
Public transit:						
Personal services	-	-	-	-	-	-
Employee related expenditures	-	-	-	-	-	-
Other operating expenditures	-	-	-	-	-	-
Other transit planning	-	-	-	-	-	-
Total State General Fund Program	-	-	-	-	-	-
Aeronautics Division:						
Personal services	-	-	-	-	-	-
Employee related expenditures	-	-	-	-	-	-
Other operating expenditures	-	-	-	-	-	-
Reimbursement to State Highway Fund	-	-	-	-	-	-
Total Aeronautics Division	-	-	-	-	-	-
Capital outlay - land, buildings and improvements	-	-	-	-	-	-
Arizona Department of Public Safety transfers	-	-	-	-	-	-
Arizona Department of Emergency and Military Affairs transfers	-	-	-	-	-	-
Year 2000 computer projects	-	-	-	-	-	-
Expenditures appropriated by State legislature by carryover of previous years' unexpended budgets	2,766	-	2,766	42,925	38,286	4,639
Total expenditures	466,566	446,838	19,728	323,625	304,746	18,879
<b>Excess &lt;deficiency&gt; of revenues over &lt;under&gt; expenditure:</b>	<b>\$ 294,434</b>	<b>\$ &lt;446,838&gt;</b>	<b>\$ &lt;741,272&gt;</b>	<b>\$ &lt;58,525&gt;</b>	<b>\$ 11,969</b>	<b>\$ 70,494</b>

Safety Enforcement and Transportatio Infrastructure Fund			Totals		
Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>	Budget	Actual Non-GAAP	Variance - Favorable <Unfavorable>
-	-	-	46,200	44,027	2,173
-	-	-	12,800	12,301	499
-	-	-	2,200	3,513	<1,313>
-	-	-	16,800	16,727	73
-	-	-	78,000	76,568	1,432
-	-	-	789,200	784,477	4,723
-	-	-	192,800	186,320	6,480
-	-	-	666,100	641,266	24,834
-	-	-	10,000	2,254	7,746
-	-	-	1,658,100	1,614,317	43,783
-	-	-	21,359,803	12,865,028	8,494,775
-	-	-	15,000,000	15,000,000	-
-	-	-	800,000	800,000	-
-	-	-	6,364,000	6,364,000	-
590,697	400,000	190,697	1,937,171	1,040,279	896,892
2,349,697	2,438,042	<88,345>	272,906,950	260,666,760	12,240,190
<b>\$ 200,303</b>	<b>\$ 869,525</b>	<b>\$ 669,222</b>	<b>\$ 212,320,150</b>	<b>\$ 198,360,308</b>	<b>\$ &lt;13,959,842&gt;</b>

## ***Debt Service Funds***

**The Highway Improvement Bond Principal Redemption and Interest Fund** administers the payment of principal and interest on the 1986 Series, 1987 Series and 1990 Series State of Arizona Highway Revenue Bond issues, the 1991 Series A and 1992 Series B State of Arizona Subordinated Highway Revenue Bond issues, the 1993 Series State of Arizona Highway Revenue Refunding Bond issue and the 1992 Series A, 1993 Series A and 1993 Series B State of Arizona Subordinated Highway Revenue Refunding Bond issues.

**The Maricopa Regional Area Road Bond Fund** administers the payment of principal and interest on the 1986 Series A, 1987 Series A, 1988 Series A, 1991 Series A, 1992 Series A Refunding and 1992 Series B Transportation Board of the State of Arizona Transportation Excise Tax Revenue Bond issues, the 1989 Series A Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Bond issue, the 1993 Series and 1995 Series A Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Bond issues and the 1995 Series B Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Refunding Bond issue.

Arizona Department of Transportation  
Debt Service Funds  
Combining Balance Sheet  
June 30, 1998  
(With comparative totals at June 30, 1997)

	<b>Highway Improvement Bond Principal Redemption and Interest Fund</b>	<b>Maricopa Regional Area Road Bond Fund</b>	<b>Totals</b>	
			<b>1998</b>	<b>1997</b>
<b>Assets</b>				
Cash and cash equivalents on deposit with the State Treasurer	\$ 490,408	\$ 24,822,471	\$ 25,312,879	\$ 32,863,123
Accrued interest receivable	885,394	1,766,996	2,652,390	2,211,464
<b>Total assets</b>	<b>\$ 1,375,802</b>	<b>\$ 26,589,467</b>	<b>\$ 27,965,269</b>	<b>\$ 35,074,587</b>
<b>Fund balances</b>				
Unreserved, undesignated	1,375,802	26,589,467	27,965,269	35,074,587
<b>Total fund balances</b>	<b>\$ 1,375,802</b>	<b>\$ 26,589,467</b>	<b>\$ 27,965,269</b>	<b>\$ 35,074,587</b>

Arizona Department of Transportation  
Debt Service Funds  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the fiscal year ended June 30, 1998  
(With comparative totals for the fiscal year ended June 30, 1997)

	Highway Improvement Bond Principal Redemption and Interest Fund	Maricopa Regional Area Road Bond Fund	Totals	
			1998	1997
<b>Revenues:</b>				
Interest	\$ 2,094,165	\$ 4,723,334	\$ 6,817,499	\$ 6,375,889
<b>Expenditures:</b>				
Debt service:				
Principal	43,405,000	82,765,000	126,170,000	118,985,000
Interest	33,265,949	40,511,525	73,777,474	81,395,372
Other	35,006	75,837	110,843	113,003
Total expenditures	<u>76,705,955</u>	<u>123,352,362</u>	<u>200,058,317</u>	<u>200,493,375</u>
Deficiency of revenues under expenditures	<74,611,790>	<118,629,028>	<193,240,818>	<194,117,486>
<b>Other financing sources &lt;uses&gt;:</b>				
Operating transfers in	72,535,839	118,881,569	191,417,408	202,013,657
Operating transfers out	<1,867,507>	<3,418,401>	<5,285,908>	-
Total other financing sources <uses>	<u>70,668,332</u>	<u>115,463,168</u>	<u>186,131,500</u>	<u>202,013,657</u>
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	<3,943,458>	<3,165,860>	<7,109,318>	7,896,171
Fund balances, July 1	<u>5,319,260</u>	<u>29,755,327</u>	<u>35,074,587</u>	<u>27,178,416</u>
<b>Fund balances, June 30</b>	<b><u>\$ 1,375,802</u></b>	<b><u>\$ 26,589,467</u></b>	<b><u>\$ 27,965,269</u></b>	<b><u>\$ 35,074,587</u></b>

## ***Capital Project Fund***

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**The Maricopa Regional Area Road Bond Proceeds Funds** is used to administer bond proceeds from the 1992 Series B and the 1993 Series Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Bond issue. These monies are spent on the construction of state highways within Maricopa County.

Arizona Department of Transportation  
 Maricopa Regional Area Road Bond Proceeds Fund  
 Capital Projects Fund  
 Comparative Balance Sheets  
 June 30, 1998 and 1997

	1998	1997
<b>Assets</b>		
Cash and cash equivalents on deposit with the State Treasurer	\$ -	\$ 3,662,512
Accrued interest receivable	-	211,082
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 3,873,594</b>
<b>Liabilities and fund balances</b>		
Liabilities:		
Accounts payable	\$ -	\$ 21
Due to other Arizona Department of Transportation funds	-	239
Total liabilities	-	260
Fund balances - unreserved, undesignated	-	3,873,334
<b>Total liabilities and fund balances</b>	<b>\$ -</b>	<b>\$ 3,873,594</b>

Arizona Department of Transportation  
 Maricopa Regional Area Road Bond Proceeds Fund  
 Capital Projects Fund  
 Comparative Statements of Revenues, Expenditures and Changes in Fund Balances  
 For the fiscal years ended June 30, 1998 and 1997

	<u>1998</u>	<u>1997</u>
<b>Revenues:</b>		
Interest	\$ -	\$ 3,805,934
<b>Expenditures:</b>		
Capital outlay - highway construction	3,792,977	95,832,292
Other	<u>821</u>	<u>77,483</u>
Total expenditures	<u>3,793,798</u>	<u>95,909,775</u>
Deficiency of revenues under expenditures	<3,793,798>	<92,103,841>
<b>Other financing sources &lt;uses&gt;:</b>		
Operating transfers out	<u>&lt;79,536&gt;</u>	<u>&lt;864,898&gt;</u>
Total other financing sources <uses>	<u>&lt;79,536&gt;</u>	<u>&lt;864,898&gt;</u>
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	<3,873,334>	<92,968,739>
Fund balances, July 1	<u>3,873,334</u>	<u>96,842,073</u>
<b>Fund balances, June 30</b>	<u><u>\$ -</u></u>	<u><u>\$ 3,873,334</u></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, 1998 and 1997

	<u>1998</u>	<u>1997</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents on deposit with the State Treasurer	\$ 4,480,074	\$ 5,767,414
Subscriptions receivable, less allowance for doubtful accounts of \$7,300 in 1998 and 1997	185,854	174,041
Accrued interest receivable	86,042	85,690
Accounts receivable - retail/commercial, less allowance for returns of \$10,000 in 1998 and 1997	410,549	304,703
Inventories	2,771,895	2,649,816
Prepaid expenses	321,228	276,558
Total current assets	<u>8,255,642</u>	<u>9,258,222</u>
Fixed assets, net of accumulated depreciation	<u>2,834,434</u>	<u>2,069,800</u>
<b>Total assets</b>	<b><u>\$ 11,090,076</u></b>	<b><u>\$ 11,328,022</u></b>
<b>Liabilities and fund equity</b>		
Current liabilities:		
Accounts payable	\$ 187,687	\$ 545,260
Accrued payroll and other accrued expenses	235,381	213,639
Due to other Arizona Department of Transportation funds	2,311	17,665
Deferred revenue - unearned subscription revenue	4,366,877	4,364,571
Total current liabilities	<u>4,792,256</u>	<u>5,141,135</u>
Fund equity:		
Contributed capital	2,038,698	2,038,698
Retained earnings	4,259,122	4,148,189
Total fund equity	<u>6,297,820</u>	<u>6,186,887</u>
<b>Total liabilities and fund equity</b>	<b><u>\$ 11,090,076</u></b>	<b><u>\$ 11,328,022</u></b>

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, 1998 and 1997

	<u>1998</u>	<u>1997</u>
<b>Operating revenues:</b>		
Magazine sales	\$ 6,041,695	\$ 6,032,128
Sales of related products	4,443,666	4,543,047
List rentals	73,258	67,189
Other	<u>349,277</u>	<u>503,998</u>
Total operating revenues	<u>10,907,896</u>	<u>11,146,362</u>
<b>Operating expenses:</b>		
Publication and promotional costs	5,520,288	5,724,650
Salaries and wages	1,893,191	1,716,751
Employee benefits	438,237	436,345
Shipping and postage	1,812,946	1,882,788
Supplies	120,699	262,808
Equipment rental	89,585	90,747
Temporary help, professional and outside services	537,018	638,878
Repairs and maintenance	76,228	63,709
Travel	26,324	28,909
Write-off of uncollectible accounts	31,919	53,308
Other	369,460	361,919
Depreciation	<u>164,547</u>	<u>191,235</u>
Total operating expenses	<u>11,080,442</u>	<u>11,452,047</u>
Operating loss	<172,546>	<305,685>
<b>Non-operating revenues &lt;expenses&gt;:</b>		
Interest	288,379	347,652
Loss on disposal of fixed assets	<u>&lt;4,900&gt;</u>	<u>&lt;3,485&gt;</u>
Total non-operating revenues <expenses>	<u>283,479</u>	<u>344,167</u>
Income before charge related to change in the fixed asset capitalization threshold	110,933	38,482
Charge related to change in the fixed asset capitalization threshold	<u>-</u>	<u>&lt;113,222&gt;</u>
Net income <loss>	110,933	<74,740>
Retained earnings, July 1	<u>4,148,189</u>	<u>4,222,929</u>
<b>Retained earnings, June 30</b>	<b><u>\$ 4,259,122</u></b>	<b><u>\$ 4,148,189</u></b>

Arizona Department of Transportation  
Arizona Highways Magazine Fund  
Comparative Statements of Cash Flows  
For the fiscal years ended June 30, 1998 and 1997

	<b>1998</b>	<b>1997</b>
<b>Cash flows from operating activities:</b>		
Operating loss	\$ <172,546>	\$ <305,685>
Adjustments to reconcile operating loss to net cash provided by <used for> operating activities:		
Depreciation	164,547	191,235
Changes in current assets and liabilities:		
Accounts receivable	<117,659>	219,325
Inventories	<122,079>	69,923
Prepaid expenses	<44,670>	<19,464>
Accounts payable	<357,573>	372,847
Accrued payroll and other accrued expenses	21,742	12,753
Due to other Arizona Department of Transportation funds	<15,354>	661
Deferred revenue	2,306	<149,435>
Total adjustments	<468,740>	697,845
Net cash provided by <used for> operating activities	<641,286>	392,160
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of fixed assets	<934,081>	<983,842>
Net cash used for capital and related financing activities	<934,081>	<983,842>
<b>Cash flows from investing activities:</b>		
Interest	288,027	331,011
Net cash provided by investing activities	288,027	331,011
Net increase <decrease> in cash and cash equivalents	<1,287,340>	<260,671>
Cash and cash equivalents, July 1	5,767,414	6,028,085
<b>Cash and cash equivalents, June 30</b>	<b>\$ 4,480,074</b>	<b>\$ 5,767,414</b>

## *Internal Service Funds*

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

**The Warehouse Revolving Fund** administers the purchase, storage and distribution of forms and computer parts for other funds.

Arizona Department of Transportation  
Internal Service Funds  
Combining Balance Sheet  
June 30, 1998  
(With comparative totals at June 30, 1997)

	<u>Equipment Revolving Fund</u>	<u>Warehouse Revolving Fund</u>	<u>Totals</u>	
			<u>1998</u>	<u>1997</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents on deposit with the State Treasurer	\$ 3,097,003	\$ 269,792	\$ 3,366,795	\$ 4,352,066
Receivables:				
Accrued interest	56,335	2,754	59,089	51,066
Other	127,022	-	127,022	91,116
Due from other Arizona Department of Transportation funds	1,963,009	-	1,963,009	1,733,399
Due from other state agencies	114,164	-	114,164	143,674
Inventories	<u>2,369,068</u>	<u>2,151</u>	<u>2,371,219</u>	<u>2,350,154</u>
Total current assets	<u>7,726,601</u>	<u>274,697</u>	<u>8,001,298</u>	<u>8,721,475</u>
Fixed assets, net of accumulated depreciation	<u>37,001,177</u>	<u>-</u>	<u>37,001,177</u>	<u>36,661,191</u>
<b>Total assets</b>	<b><u>\$ 44,727,778</u></b>	<b><u>\$ 274,697</u></b>	<b><u>\$ 45,002,475</u></b>	<b><u>\$ 45,382,666</u></b>
<b>Liabilities and fund equity</b>				
Liabilities:				
Accounts payable	\$ 770,888	\$ 31,200	\$ 802,088	\$ 496,884
Accrued payroll and other accrued expenses	827,901	-	827,901	798,524
Due to other Arizona Department of Transportation funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,644</u>
Total liabilities	<u>1,598,789</u>	<u>31,200</u>	<u>1,629,989</u>	<u>1,304,052</u>
Fund equity:				
Contributed capital	5,793,237	313,403	6,106,640	6,106,640
Retained earnings <deficit>:				
Reserved for replacement of equipment	9,985,210	-	9,985,210	9,985,210
Unreserved	<u>27,350,542</u>	<u>&lt;69,906&gt;</u>	<u>27,280,636</u>	<u>27,986,764</u>
Total fund equity	<u>43,128,989</u>	<u>243,497</u>	<u>43,372,486</u>	<u>44,078,614</u>
<b>Total liabilities and fund equity</b>	<b><u>\$ 44,727,778</u></b>	<b><u>\$ 274,697</u></b>	<b><u>\$ 45,002,475</u></b>	<b><u>\$ 45,382,666</u></b>

Arizona Department of Transportation  
Internal Service Funds  
Combining Statement of Revenues, Expenses and Changes in Retained Earnings <Deficit>  
For the fiscal year ended June 30, 1998  
(With comparative totals for the fiscal year ended June 30, 1997)

	Equipment	Warehouse	Totals	
	Revolving Fund	Revolving Fund	1998	1997
<b>Operating revenues:</b>				
Equipment rentals	\$ 24,246,642	\$ -	\$ 24,246,642	\$ 23,294,346
Warehouse supply billings	-	56,555	56,555	13,992
Equipment sales	227,707	-	227,707	311,433
Other	3,143,816	-	3,143,816	3,428,610
Total operating revenues	<u>27,618,165</u>	<u>56,555</u>	<u>27,674,720</u>	<u>27,048,381</u>
<b>Operating expenses:</b>				
Equipment maintenance	6,632,791	-	6,632,791	6,030,436
Fuel and lubricants	3,915,320	-	3,915,320	3,577,537
Salaries and related benefits	8,560,062	-	8,560,062	8,112,514
Supplies	193,767	-	193,767	187,348
Professional and outside services	518,214	207	518,421	341,547
Equipment rental	29,801	-	29,801	77,621
Insurance	780,347	-	780,347	889,264
Travel	119,389	-	119,389	101,642
Other	993,375	-	993,375	1,086,941
Materials issued	-	99,239	99,239	8,216
Depreciation	6,584,576	-	6,584,576	6,203,173
Total operating expenses	<u>28,327,642</u>	<u>99,446</u>	<u>28,427,088</u>	<u>26,616,239</u>
Operating income <loss>	<709,477>	<42,891>	<752,368>	432,142
<b>Non-operating revenues &lt;expenses&gt;:</b>				
Interest	207,375	15,871	223,246	286,742
Loss on disposal of fixed assets	<177,006>	-	<177,006>	<166,877>
Total non-operating revenues <expenses>	<u>30,369</u>	<u>15,871</u>	<u>46,240</u>	<u>119,865</u>
Income <loss> before charge related to change in the fixed asset capitalization threshold	<679,108>	<27,020>	<706,128>	552,007
Charge related to change in the fixed asset capitalization threshold	-	-	-	<1,397,377>
Net income <loss>	<679,108>	<27,020>	<706,128>	<845,370>
Retained earnings <deficit>, July 1	38,014,860	<42,886>	37,971,974	38,817,344
<b>Retained earnings &lt;deficit&gt;, June 30</b>	<u>\$ 37,335,752</u>	<u>\$ &lt;69,906&gt;</u>	<u>\$ 37,265,846</u>	<u>\$ 37,971,974</u>

Arizona Department of Transportation  
Internal Service Funds  
Combining Statement of Cash Flows  
For the fiscal year ended June 30, 1998  
(With comparative totals for the fiscal year ended June 30, 1997)

	<b>Equipment</b>	<b>Warehouse</b>	<b>Totals</b>	
	<b>Revolving Fund</b>	<b>Revolving Fund</b>	<b>1998</b>	<b>1997</b>
<b>Cash flows from operating activities:</b>				
Operating income <loss>	\$ <709,477>	\$ <42,891>	\$ <752,368>	\$ 432,142
Adjustments to reconcile operating income <loss> to net cash provided by <used for> operating activities				
Depreciation	6,584,576	-	6,584,576	6,203,173
Changes in assets and liabilities:				
Due from other Arizona Department of Transportation funds	<229,610>	-	<229,610>	405,280
Due from other state agencies	29,510	-	29,510	111,020
Other receivables	<40,368>	4,462	<35,906>	<31,330>
Inventories	<23,664>	2,599	<21,065>	73,674
Accounts payable	274,004	31,200	305,204	<81,403>
Accrued payroll and other accrued expenses	29,377	-	29,377	52,549
Due to other Arizona Department of Transportation funds	<8,644>	-	<8,644>	<1,666>
Total adjustments	<u>6,615,181</u>	<u>38,261</u>	<u>6,653,442</u>	<u>6,731,297</u>
Net cash provided by <used for> operating activities	<u>5,905,704</u>	<u>&lt;4,630&gt;</u>	<u>5,901,074</u>	<u>7,163,439</u>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of fixed assets	<7,538,697>	-	<7,538,697>	<9,339,929>
Proceeds from sale of fixed assets	<u>437,129</u>	<u>-</u>	<u>437,129</u>	<u>390,329</u>
Net cash used for capital and related financing activities	<u>&lt;7,101,568&gt;</u>	<u>-</u>	<u>&lt;7,101,568&gt;</u>	<u>&lt;8,949,600&gt;</u>
<b>Cash flows from investing activities:</b>				
Interest	<u>200,494</u>	<u>14,729</u>	<u>215,223</u>	<u>303,941</u>
Net cash provided by investing activities	<u>200,494</u>	<u>14,729</u>	<u>215,223</u>	<u>303,941</u>
Net increase <decrease> in cash and cash equivalents	<995,370>	10,099	<985,271>	<1,482,220>
Cash and cash equivalents, July 1	4,092,373	259,693	4,352,066	5,834,286
<b>Cash and cash equivalents, June 30</b>	<b><u>\$ 3,097,003</u></b>	<b><u>\$ 269,792</u></b>	<b><u>\$ 3,366,795</u></b>	<b><u>\$ 4,352,066</u></b>

## ***Fiduciary Funds***

### ***Expendable Trust Funds***

**The Bridge Construction Fund** is used to disburse State General Fund appropriations to county flood districts for the construction and repair of bridges.

**The Davis-Monthan Runway Extension Fund** is used to disburse State General Fund appropriations to assist in land acquisition and clearance and in roadway relocation for extension of the Davis-Monthan air force base runway.

**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.

### ***Agency Funds***

**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 Border Patrol, 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 Property Rentals 24 Percent Fund** collects 24 percent of the Department's rental income from condemned properties for distribution to the local county.

**The Highway Trust Right-of-Way Fund** is used to administer federal monies to acquire right-of-way access for future federal construction projects.

**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.

**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.

Arizona Department of Transportation  
Trust and Agency Funds  
Combining Balance Sheet  
June 30, 1998  
(With comparative totals at June 30, 1997)

	<u>Expendable Trust Funds</u>			<u>Agency Funds</u>	
	<u>Bridge Construction</u>	<u>Davis-Monthan Runway Extension</u>	<u>Local Agency Deposits</u>	<u>Motor Vehicle Division Clearing</u>	<u>Highway User Revenue</u>
<b>Assets</b>					
Cash and cash equivalents on deposit with the State Treasurer:					
Restricted	\$ 1,737,431	\$ -	\$ 2,818,644	\$ -	\$ -
Unrestricted	-	-	-	20,985,937	44,310,175
Receivables:					
Accrued interest	-	-	-	-	518,670
Taxes and fees	-	-	-	65,105,510	71,198,868
Other	-	-	615,391	-	-
Due from U.S. Government for reimbursable construction costs	-	-	2,290,938	-	-
Due from other Arizona Department of Transportation funds	-	-	-	-	31,294,446
Due from Arizona counties, cities and other state agencies	-	-	376,534	-	112,982
<b>Total assets</b>	<b><u>\$ 1,737,431</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 6,101,507</u></b>	<b><u>\$ 86,091,447</u></b>	<b><u>\$ 147,435,141</u></b>
<b>Liabilities and fund balances</b>					
<b>Liabilities:</b>					
Construction contracts payable	\$ -	\$ -	\$ 2,749,215	\$ -	\$ -
Accounts payable	1,737,431	-	453,449	3,780,322	-
Due to U.S. Government	-	-	-	-	-
Due to other Arizona Department of Transportation funds	-	-	-	38,921,501	72,986,379
Due to Arizona Department of Public Safety	-	-	-	-	1,562,500
Due to Arizona counties, cities and other state agencies	-	-	-	41,101,983	72,886,262
Surety and rental deposits	-	-	-	2,287,641	-
<b>Total liabilities</b>	<b><u>1,737,431</u></b>	<b><u>-</u></b>	<b><u>3,202,664</u></b>	<b><u>86,091,447</u></b>	<b><u>147,435,141</u></b>
<b>Fund balances:</b>					
Reserved for bridge construction	-	-	-	-	-
Reserved for airport runway extension	-	-	-	-	-
Reserved for highway construction	-	-	2,898,843	-	-
<b>Total fund balances</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>2,898,843</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 1,737,431</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 6,101,507</u></b>	<b><u>\$ 86,091,447</u></b>	<b><u>\$ 147,435,141</u></b>

Underground Storage Tank	Highway Property Rentals - 24%	Agency Funds			Totals	
		Highway Trust Right-of-Way	Economic Strength Project	Privilege Tax	1998	1997
\$ 260,888	\$ -	\$ -	\$ 1,907,121	\$ 74,133	\$ 6,798,217	\$ 17,151,625
-	2,509,439	-	-	-	67,805,551	91,581,152
7,833	-	-	18,356	-	544,859	459,267
-	-	-	-	82	136,304,460	118,064,264
-	25,066	-	-	-	640,457	47,272
-	-	-	-	-	2,290,938	5,306,594
2,354,637	-	-	-	-	33,649,083	38,808,508
-	-	-	-	-	489,516	326,527
<b>\$ 2,623,358</b>	<b>\$ 2,534,505</b>	<b>\$ -</b>	<b>\$ 1,925,477</b>	<b>\$ 74,215</b>	<b>\$ 248,523,081</b>	<b>\$ 271,745,209</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,749,215	\$ 5,336,255
60,995	-	-	-	-	6,032,197	1,885,965
-	-	-	-	-	-	4,358,530
-	-	-	-	-	111,907,880	116,067,141
-	-	-	-	-	1,562,500	1,875,000
2,562,363	2,534,505	-	1,925,477	74,215	121,084,805	125,419,493
-	-	-	-	-	2,287,641	2,444,174
2,623,358	2,534,505	-	1,925,477	74,215	245,624,238	257,386,558
-	-	-	-	-	-	1,737,431
-	-	-	-	-	-	6,600,000
-	-	-	-	-	2,898,843	6,021,220
-	-	-	-	-	2,898,843	14,358,651
<b>\$ 2,623,358</b>	<b>\$ 2,534,505</b>	<b>\$ -</b>	<b>\$ 1,925,477</b>	<b>\$ 74,215</b>	<b>\$ 248,523,081</b>	<b>\$ 271,745,209</b>

Arizona Department of Transportation  
Expendable Trust Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
For the fiscal year ended June 30, 1998  
(With comparative totals for the fiscal year ended June 30, 1997)

	Bridge Construction Fund	Davis-Monthan Runway Extension Fund	Local Agency Deposits Fund	Totals	
				1998	1997
<b>Revenues:</b>					
Reimbursements of construction expenditures - federal aid	\$ -	\$ -	\$ 26,411,442	\$ 26,411,442	\$ 35,285,889
Reimbursements from Arizona counties, cities and other state agencies	-	-	1,812,709	1,812,709	2,181,572
State appropriations	-	3,200,000	-	3,200,000	4,300,000
Other	-	-	51,660	51,660	-
Total revenues	<u>-</u>	<u>3,200,000</u>	<u>28,275,811</u>	<u>31,475,811</u>	<u>41,767,461</u>
<b>Expenditures:</b>					
Capital outlay - highway construction	1,737,431	-	31,030,466	32,767,897	40,885,153
Distributions to other state agencies	-	9,800,000	-	9,800,000	548,402
Total expenditures	<u>1,737,431</u>	<u>9,800,000</u>	<u>31,030,466</u>	<u>9,800,000</u>	<u>548,402</u>
Excess <deficiency> of revenues over <under> expenditures	<1,737,431>	<6,600,000>	<2,754,655>	<11,092,086>	41,219,059
<b>Other financing sources &lt;uses&gt;:</b>					
Operating transfers in	-	-	<71>	<71>	25
Operating transfers out	-	-	<367,651>	<367,651>	<164,492>
Total other financing sources <uses>	<u>-</u>	<u>-</u>	<u>&lt;367,722&gt;</u>	<u>&lt;367,722&gt;</u>	<u>&lt;164,467&gt;</u>
Excess <deficiency> of revenues over <under> expenditures and other financing sources <uses>	<1,737,431>	<6,600,000>	<3,122,377>	<11,459,808>	41,054,592
Fund balances, July 1	<u>1,737,431</u>	<u>6,600,000</u>	<u>6,021,220</u>	<u>14,358,651</u>	<u>14,189,212</u>
<b>Fund balances, June 30</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,898,843</u>	<u>\$ 2,898,843</u>	<u>\$ 55,243,804</u>

Arizona Department of Transportation  
Agency Funds  
Combining Statement of Changes in Assets and Liabilities  
For the fiscal year ended June 30, 1998

	<u>Balance July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1998</u>
<b>Motor Vehicle Division Clearing Fund</b>				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, unrestricted	\$ 9,964,657	\$ 829,267,956	\$ 818,246,676	\$ 20,985,937
Taxes and fees receivable	68,678,157	825,637,096	829,209,743	65,105,510
Due from Arizona counties, cities and other state agencies	-	58,212	58,212	-
<b>Total assets</b>	<b><u>\$ 78,642,814</u></b>	<b><u>\$ 1,654,963,264</u></b>	<b><u>\$ 1,647,514,631</u></b>	<b><u>\$ 86,091,447</u></b>
<u>Liabilities:</u>				
Accounts payable	\$ 1,765,276	\$ 33,635,052	\$ 31,620,006	\$ 3,780,322
Due to other Arizona Department of Transportation funds	36,954,832	391,351,514	389,384,845	38,921,501
Due to Arizona counties, cities and other state agencies	37,478,532	400,698,586	397,075,135	41,101,983
Surety and rental deposits	2,444,174	10,156	166,689	2,287,641
<b>Total liabilities</b>	<b><u>\$ 78,642,814</u></b>	<b><u>\$ 825,695,308</u></b>	<b><u>\$ 818,246,675</u></b>	<b><u>\$ 86,091,447</u></b>
<b>Highway User Revenue Fund</b>				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, unrestricted	\$ 79,127,466	\$ 864,952,693	\$ 899,769,984	\$ 44,310,175
Accrued interest receivable	441,044	1,959,597	1,881,971	518,670
Taxes and fees receivable	49,385,863	567,132,380	545,319,375	71,198,868
Due from other Arizona Department of Transportation funds	30,853,468	318,075,594	317,634,616	31,294,446
Due from Arizona counties, cities and other state agencies	115,348	114,364	116,730	112,982
<b>Total assets</b>	<b><u>\$ 159,923,189</u></b>	<b><u>\$ 1,752,234,628</u></b>	<b><u>\$ 1,764,722,676</u></b>	<b><u>\$ 147,435,141</u></b>
<u>Liabilities:</u>				
Due to other Arizona Department of Transportation funds	\$ 79,112,142	\$ 436,882,352	\$ 443,008,115	\$ 72,986,379
Due to Arizona Department of Public Safety	1,875,000	14,687,500	15,000,000	1,562,500
Due to Arizona counties, cities and other state agencies	78,936,047	435,712,083	441,761,868	72,886,262
<b>Total liabilities</b>	<b><u>\$ 159,923,189</u></b>	<b><u>\$ 887,281,935</u></b>	<b><u>\$ 899,769,983</u></b>	<b><u>\$ 147,435,141</u></b>

(Continued)

Arizona Department of Transportation  
Agency Funds  
Combining Statement of Changes in Assets and Liabilities  
For the fiscal year ended June 30, 1998

	<u>Balance July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1998</u>
<b>Underground Storage Tank Fund</b>				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, restricted	\$ 1,068,973	\$ 25,905,167	\$ 26,713,252	\$ 260,888
Accrued interest receivable	5,946	34,531	32,644	7,833
Due from other Arizona Department of Transportation funds	3,596,510	24,630,650	25,872,523	2,354,637
<b>Total assets</b>	<b><u>\$ 4,671,429</u></b>	<b><u>\$ 50,570,348</u></b>	<b><u>\$ 52,618,419</u></b>	<b><u>\$ 2,623,358</u></b>
<u>Liabilities:</u>				
Accounts payable	\$ 109,305	\$ 928,733	\$ 977,043	\$ 60,995
Due to Arizona counties, cities and other state agencies	4,562,124	23,736,448	25,736,209	2,562,363
<b>Total liabilities</b>	<b><u>\$ 4,671,429</u></b>	<b><u>\$ 24,665,181</u></b>	<b><u>\$ 26,713,252</u></b>	<b><u>\$ 2,623,358</u></b>
<b>Highway Property Rentals - 24% Fund</b>				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, unrestricted	\$ 2,489,029	\$ 508,672	\$ 488,262	\$ 2,509,439
Accounts receivable	36,371	497,367	508,672	25,066
<b>Total assets</b>	<b><u>\$ 2,525,400</u></b>	<b><u>\$ 1,006,039</u></b>	<b><u>\$ 996,934</u></b>	<b><u>\$ 2,534,505</u></b>
<u>Liabilities:</u>				
Accounts payable	\$ -	\$ 1,475	\$ 1,475	\$ -
Due to Arizona counties, cities and other state agencies	2,525,400	495,893	486,788	2,534,505
<b>Total liabilities</b>	<b><u>\$ 2,525,400</u></b>	<b><u>\$ 497,368</u></b>	<b><u>\$ 488,263</u></b>	<b><u>\$ 2,534,505</u></b>
<b>Highway Trust Right-of-Way Fund</b>				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, restricted	\$ -	\$ -	\$ -	\$ -
Due from U. S. Government for reimbursable construction costs	-	-	-	-
Due from other Arizona Department of Transportation funds	4,358,530	-	4,358,530	-
<b>Total assets</b>	<b><u>\$ 4,358,530</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,358,530</u></b>	<b><u>\$ -</u></b>
<u>Liabilities:</u>				
Due to U.S. Government	\$ 4,358,530	\$ -	\$ 4,358,530	\$ -
Due to other Arizona Department of Transportation funds	-	-	-	-
<b>Total liabilities</b>	<b><u>\$ 4,358,530</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,358,530</u></b>	<b><u>\$ -</u></b>

(Continued)

Arizona Department of Transportation  
Agency Funds  
Combining Statement of Changes in Assets and Liabilities  
For the fiscal year ended June 30, 1998

	<u>Balance July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1998</u>
<b>Economic Strength Project Fund</b>				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, restricted	\$ 1,829,108	\$ 1,106,065	\$ 1,028,052	\$ 1,907,121
Accrued interest receivable	12,277	112,144	106,065	18,356
Due from other Arizona Department of Transportation funds	-	1,000,000	1,000,000	-
<b>Total assets</b>	<b><u>\$ 1,841,385</u></b>	<b><u>\$ 2,218,209</u></b>	<b><u>\$ 2,134,117</u></b>	<b><u>\$ 1,925,477</u></b>
<u>Liabilities:</u>				
Due to Arizona counties, cities and other state agencies	\$ 1,841,385	\$ 1,112,144	\$ 1,028,052	\$ 1,925,477
<b>Total liabilities</b>	<b><u>\$ 1,841,385</u></b>	<b><u>\$ 1,112,144</u></b>	<b><u>\$ 1,028,052</u></b>	<b><u>\$ 1,925,477</u></b>
<b>Privilege Tax Fund</b>				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer, restricted	\$ 75,761	\$ 424	\$ 2,052	\$ 74,133
Taxes and fees receivable	244	<1,722>	<1,560>	82
<b>Total assets</b>	<b><u>\$ 76,005</u></b>	<b><u>\$ &lt;1,298&gt;</u></b>	<b><u>\$ 492</u></b>	<b><u>\$ 74,215</u></b>
<u>Liabilities:</u>				
Accounts payable	\$ -	\$ 1	\$ 1	\$ -
Due to Arizona counties, cities and other state agencies	76,005	<1,723>	67	74,215
<b>Total liabilities</b>	<b><u>\$ 76,005</u></b>	<b><u>\$ &lt;1,722&gt;</u></b>	<b><u>\$ 68</u></b>	<b><u>\$ 74,215</u></b>

(Continued)

Arizona Department of Transportation  
Agency Funds  
Combining Statement of Changes in Assets and Liabilities  
For the fiscal year ended June 30, 1998

	<b>Balance July 1, 1997</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 1998</b>
<b>Total - All Agency Funds</b>				
<u>Assets:</u>				
Cash and cash equivalents on deposit with the State Treasurer:				
Restricted	\$ 2,973,842	\$ 27,011,656	\$ 27,743,356	\$ 2,242,142
Unrestricted	91,581,152	1,694,729,321	1,718,504,922	67,805,551
Receivables:				
Accrued interest	459,267	2,106,272	2,020,680	544,859
Taxes and fees	118,064,264	1,392,767,754	1,374,527,558	136,304,460
Other	36,371	497,367	508,672	25,066
Due from U.S. Government for reimbursable construction costs	-	-	-	-
Due from other Arizona Department of Transportation funds	38,808,508	343,706,244	348,865,669	33,649,083
Due from Arizona counties, cities and other state agencies	115,348	172,576	174,942	112,982
<b>Total assets</b>	<b><u>\$ 252,038,752</u></b>	<b><u>\$ 3,460,991,190</u></b>	<b><u>\$ 3,472,345,799</u></b>	<b><u>\$ 240,684,143</u></b>
<u>Liabilities:</u>				
Accounts payable	\$ 1,874,581	\$ 34,565,261	\$ 32,598,525	\$ 3,841,317
Due to U.S. Government	4,358,530	-	4,358,530	-
Due to other Arizona Department of Transportation funds	116,066,974	828,233,866	832,392,960	111,907,880
Due to Arizona Department of Public Safety	1,875,000	14,687,500	15,000,000	1,562,500
Due to Arizona counties, cities and other state agencies	125,419,493	861,753,431	866,088,119	121,084,805
Surety and rental deposits	2,444,174	10,156	166,689	2,287,641
<b>Total liabilities</b>	<b><u>\$ 252,038,752</u></b>	<b><u>\$ 1,739,250,214</u></b>	<b><u>\$ 1,750,604,823</u></b>	<b><u>\$ 240,684,143</u></b>

## ***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, 1998 and 1997

	<u>1998</u>	<u>1997</u>
<b>General fixed assets</b>		
Land	\$ 8,657,685	\$ 8,512,113
Buildings and improvements	102,113,393	94,167,234
Improvements other than buildings	30,143,274	20,433,741
Machinery and equipment	41,590,704	40,348,385
<b>Total general fixed assets</b>	<b><u>\$ 182,505,056</u></b>	<b><u>\$ 163,461,473</u></b>
<b>Investment in general fixed assets by source</b>		
Assets acquired prior to fiscal year 1992 (1)	\$ 81,167,572	\$ 83,056,490
Assets acquired subsequent to fiscal year 1990		
Special revenue funds	93,906,117	72,680,497
Proprietary funds	1,118,755	833,265
Third-party financing	6,312,612	6,891,221
<b>Total investment in general fixed assets</b>	<b><u>\$ 182,505,056</u></b>	<b><u>\$ 163,461,473</u></b>

(1) Breakdown of assets by source is not available prior to fiscal year 1992.

Arizona Department of Transportation  
 Schedule of General Fixed Assets - By Function and Activity  
 June 30, 1998

Function and Activity	Land	Buildings and Improvements	Improvements Other Than Buildings	Machinery and Equipment	Total
Beginning balance of assets acquired prior to fiscal year 1991 at July 1, 1991	\$ 5,894,839	\$ 57,116,541	\$ 14,031,551	\$ 6,013,559	\$ 83,056,490
Disposal of assets acquired prior to fiscal year 1991 (1)	<u>&lt;128,000&gt;</u>	<u>&lt;132,759&gt;</u>	<u>&lt;84,000&gt;</u>	<u>&lt;1,544,159&gt;</u>	<u>&lt;1,888,918&gt;</u>
Remaining assets acquired prior to fiscal year 1991	<u>5,766,839</u>	<u>56,983,782</u>	<u>13,947,551</u>	<u>4,469,400</u>	<u>81,167,572</u>
Net assets acquired subsequent to fiscal year 1990:					
Administration	-	6,474,304	1,037,549	13,260,264	20,772,117
Aeronautics Division	-	170,101	5,411,371	734,959	6,316,431
Motor Vehicle Division	1,735,923	19,487,755	1,903,706	8,484,242	31,611,626
Highway:					
Highway development	-	175,085	-	2,358,911	2,533,996
Highway construction	-	697,911	239,843	4,146,030	5,083,784
Transportation planning and research	-	24,968	121,106	1,109,674	1,255,748
Materials engineering	-	3,494,128	25,550	1,188,286	4,707,964
Traffic engineering	-	1,126,965	37,242	2,431,460	3,595,667
Administrative and other services	-	7,270,579	510,991	1,302,653	9,084,223
Highway Maintenance	<u>1,154,923</u>	<u>6,207,815</u>	<u>6,908,365</u>	<u>2,104,825</u>	<u>16,375,928</u>
<b>Total general fixed assets</b>	<b><u>\$ 8,657,685</u></b>	<b><u>\$ 102,113,393</u></b>	<b><u>\$ 30,143,274</u></b>	<b><u>\$ 41,590,704</u></b>	<b><u>\$ 182,505,056</u></b>

(1) Breakdown of assets by function and activity is not available prior to fiscal year 1991.

Arizona Department of Transportation  
 Schedule of Changes in General Fixed Assets - By Function and Activity  
 For the fiscal year ended June 30, 1998

<u>Function and Activity</u>	<u>General Fixed Assets July 1, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>General Fixed Assets June 30, 1998</u>
Assets acquired prior to fiscal year 1991 (1)	\$ 83,056,490	\$ -	\$ <1,888,918>	\$ 81,167,572
Administration	19,935,629	2,337,549	<1,501,061>	20,772,117
Aeronautics Division	821,708	5,505,462	<10,739>	6,316,431
Motor Vehicle Division	24,880,371	6,773,230	<41,975>	31,611,626
Highway:				
Highway development	2,299,707	285,398	<51,109>	2,533,996
Highway construction	4,665,006	430,828	<12,050>	5,083,784
Transportation planning and research	1,046,195	224,883	<15,330>	1,255,748
Materials engineering	4,051,388	656,576	-	4,707,964
Traffic engineering	3,626,210	58,683	<89,226>	3,595,667
Administrative and other services	7,564,092	1,525,380	<5,249>	9,084,223
Highway Maintenance	11,514,677	4,894,754	<33,503>	16,375,928
<b>Total general fixed assets</b>	<b><u>\$ 163,461,473</u></b>	<b><u>\$ 22,692,743</u></b>	<b><u>\$ &lt;3,649,160&gt;</u></b>	<b><u>\$ 182,505,056</u></b>

(1) Breakdown of assets by function and activity is not available prior to fiscal year 1991.

## ***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 represents the noncurrent debt obligation of the Department.

Arizona Department of Transportation  
 Schedule of Debt Service Requirements  
 June 30, 1998

Fiscal Year	Highway Revenue Bonds	
	1990 Bonds	
	Principal	Interest
1999	\$ 8,425,000	\$ 1,753,988
2000	8,495,000	1,185,300
2001	9,065,000	611,888
	<u>\$ 25,985,000</u>	<u>\$ 3,551,176</u>

Fiscal Year	Subordinated Highway Revenue Bonds					
	1991 Series A Bonds		1992 Series A Refunding Bonds		1992 Series B Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
1999	\$ -	\$ 1,631,438	\$ 22,430,000	\$ 4,286,476	\$ -	\$ 2,687,330
2000	-	1,631,438	23,760,000	2,963,106	-	2,687,330
2001	-	1,631,438	25,205,000	1,537,506	-	2,687,330
2002	-	1,631,438	-	-	5,990,000	2,687,330
2003	10,495,000	1,631,438	-	-	6,870,000	2,321,940
2004	11,410,000	713,126	-	-	7,300,000	1,896,000
2005	-	-	-	-	7,885,000	1,312,000
2006	-	-	-	-	8,515,000	681,200
	<u>\$ 21,905,000</u>	<u>\$ 8,870,316</u>	<u>\$ 71,395,000</u>	<u>\$ 8,787,088</u>	<u>\$ 36,560,000</u>	<u>\$ 16,960,460</u>

Fiscal Year	Highway Revenue Bonds					
	1993 Series Refunding Bonds		1993 Series A and B Subordinated, Refunding Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
1999	\$ 1,470,000	\$ 6,965,422	\$ 11,480,000	\$ 13,765,462	\$ 43,805,000	\$ 31,090,116
2000	11,550,000	6,899,274	1,925,000	13,306,262	45,730,000	28,672,710
2001	11,385,000	6,356,422	2,010,000	13,225,412	47,665,000	26,049,996
2002	13,380,000	5,821,328	13,970,000	13,138,982	33,340,000	23,279,078
2003	1,000,000	5,179,088	16,585,000	12,524,302	34,950,000	21,656,768
2004	16,760,000	5,129,088	1,620,000	11,777,976	37,090,000	19,516,190
2005	17,600,000	4,291,088	13,820,000	11,703,456	39,305,000	17,306,544
2006	14,820,000	3,367,088	18,170,000	11,053,916	41,505,000	15,102,204
2007	15,605,000	2,589,038	28,235,000	10,181,758	43,840,000	12,770,796
2008	16,425,000	1,769,776	29,610,000	8,805,300	46,035,000	10,575,076
2009	17,285,000	907,464	31,395,000	7,028,700	48,680,000	7,936,164
2010	-	-	51,685,000	5,458,950	51,685,000	5,458,950
2011	-	-	54,520,000	2,624,700	54,520,000	2,624,700
	<u>\$ 137,280,000</u>	<u>\$ 49,275,076</u>	<u>\$ 275,025,000</u>	<u>\$ 134,595,176</u>	<u>\$ 568,150,000</u>	<u>\$ 222,039,292</u>

(Continued)

Arizona Department of Transportation  
 Schedule of Debt Service Requirements  
 June 30, 1998

<b>Transportation Excise Tax Revenue Bonds</b>						
<b>Fiscal Year</b>	<b>1988 Series A Capital Appreciation Bonds</b>		<b>1989 Series A Subordinated Bonds</b>		<b>1991 Series A Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
1999	\$ -	\$ -	\$ 23,700,000	\$ 5,346,000	\$ 4,100,000	\$ 789,750
2000	-	-	25,620,000	3,710,700	4,360,000	545,800
2001	-	-	27,390,000	1,917,300	4,640,000	284,200
2002	21,500,000	-	-	-	-	-
2003	21,500,000	-	-	-	-	-
2004	21,500,000	-	-	-	-	-
2005	8,500,000	-	-	-	-	-
	<b>\$ 73,000,000</b>	<b>\$ -</b>	<b>\$ 76,710,000</b>	<b>\$ 10,974,000</b>	<b>\$ 13,100,000</b>	<b>\$ 1,619,750</b>

<b>Transportation Excise Tax Revenue Bonds</b>						
<b>Fiscal Year</b>	<b>1992 Series A Refunding Bonds</b>		<b>1992 Series B Bonds</b>		<b>1993 Series Subordinated Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
1999	\$ 16,515,000	\$ 9,938,250	\$ 2,265,000	\$ 1,019,915	\$ 8,200,000	\$ 6,579,465
2000	38,165,000	9,112,500	2,380,000	906,665	8,530,000	6,251,465
2001	40,170,000	7,127,920	2,500,000	782,905	8,890,000	5,893,205
2002	110,000	4,958,740	2,635,000	647,905	30,835,000	5,502,045
2003	23,240,000	4,952,690	2,780,000	502,980	31,180,000	3,775,285
2004	24,545,000	3,651,250	2,935,000	347,300	32,335,000	2,372,185
2005	38,955,000	2,239,913	3,105,000	178,538	18,825,000	884,775
	<b>\$ 181,700,000</b>	<b>\$ 41,981,263</b>	<b>\$ 18,600,000</b>	<b>\$ 4,386,208</b>	<b>\$ 138,795,000</b>	<b>\$ 31,258,425</b>

<b>Transportation Excise Tax Revenue Bonds</b>						
<b>Fiscal Year</b>	<b>1995 Series A Subordinated Bonds</b>		<b>1995 Series B Subordinated Refunding Bonds</b>		<b>Total</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
1999	\$ 12,645,000	\$ 5,725,344	\$ 20,240,000	\$ 6,226,456	\$ 87,665,000	\$ 35,625,180
2000	13,200,000	5,172,125	245,000	5,113,256	92,500,000	30,812,511
2001	13,925,000	4,446,125	255,000	5,102,538	97,770,000	25,554,193
2002	14,555,000	3,819,500	33,185,000	5,091,063	102,820,000	20,019,253
2003	15,355,000	3,018,975	10,215,000	3,099,963	104,270,000	15,349,893
2004	16,275,000	2,097,675	12,470,000	2,614,750	110,060,000	11,083,160
2005	17,330,000	1,039,800	30,070,000	1,804,200	116,785,000	6,147,226
	<b>\$ 103,285,000</b>	<b>\$ 25,319,544</b>	<b>\$ 106,680,000</b>	<b>\$ 29,052,226</b>	<b>\$ 711,870,000</b>	<b>\$ 144,591,416</b>

(Continued)

Arizona Department of Transportation  
 Schedule of Debt Service Requirements  
 June 30, 1998

<b>Fiscal Year</b>	<b>Total Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
1999	\$ 131,470,000	\$ 66,715,296	\$ 198,185,296
2000	138,230,000	59,485,221	197,715,221
2001	145,435,000	51,604,189	197,039,189
2002	136,160,000	43,298,331	179,458,331
2003	139,220,000	37,006,661	176,226,661
2004	147,150,000	30,599,350	177,749,350
2005	156,090,000	23,453,770	179,543,770
2006	41,505,000	15,102,204	56,607,204
2007	43,840,000	12,770,796	56,610,796
2008	46,035,000	10,575,076	56,610,076
2009	48,680,000	7,936,164	56,616,164
2010	51,685,000	5,458,950	57,143,950
2011	54,520,000	2,624,700	57,144,700
	<b><u>\$ 1,280,020,000</u></b>	<b><u>\$ 366,630,708</u></b>	<b><u>\$ 1,646,650,708</u></b>

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

Fiscal Year			Motor	Highway	Highway	Aviation	Debt	Other /6	Total
	Administration /4	Highway /5	Vehicle Division	Maintenance	Construction		Service		
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

			Motor	Transportation	Highway	Aviation	Debt	Other /3	Total
	Administrative Services /1	Highway Division /2	Vehicle Division	Planning	Construction		Service		
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
1991	32,685	107,434	29,312	3,717	569,343	12,046	149,049	66,778	970,364
1990	31,117	100,226	29,865	3,426	843,711	6,069	134,658	35,978	1,185,050
1989	29,409	97,543	26,862	3,561	653,730	3,596	97,956	18,610	931,267

SOURCE: General Purpose Financial Statements - fiscal years 1989 through 1998

NOTES: /1 Includes the Department's Risk Management Premium.

/2 Includes Highway Maintenance.

/3 Includes Reimbursements, Transfers, Director's Office, Highway Safety Office, and Land, Buildings & Improvements.

/4 Includes the Director's Office, Financial Management (formerly Administrative) Services, Transportation Support Services and the Department's Risk Management Premium.

/5 Includes Transportation Planning.

/6 Includes Transportation not appropriated, Land, Building & Improvements, Leases Payable and Transfers.

**Total Expenditures**

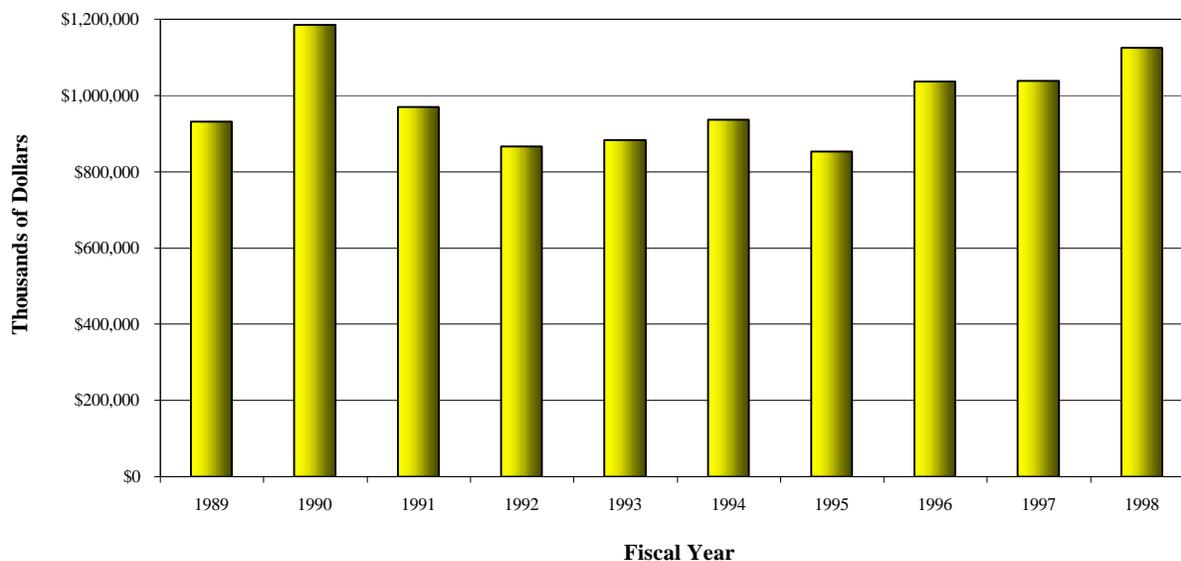


Table II

Arizona Department of Transportation  
 Governmental and Expendable Trust 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	Investment Earnings	Other	Reimbursements	Total	
1998	\$ 273,806	\$210,370	\$ 283,982	\$ 34,382	\$223,486	\$ 8,505	\$ 1,034,531	/1
1997	288,878	198,002	305,438	33,238	231,792	15,083	1,072,431	/1
1996	291,000	171,823	268,605	29,603	228,698	32,711	1,022,440	/1
1995	293,870	133,689	225,607	22,340	190,498	17,808	883,812	/1
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	
1991	256,521	99,389	191,899	31,799	132,707	12,632	724,947	
1990	225,737	109,159	189,955	51,651	125,970	20,485	722,957	
1989	230,575	101,218	181,072	47,729	139,821	4,030	704,445	

SOURCE: General Purpose Financial Statements - Fiscal Years 1989 through 1998

NOTE: /1 Method of accounting for taxpayer assessed revenues has been changed due to the adoption of GASB Statement No. 22 during fiscal year 1995.

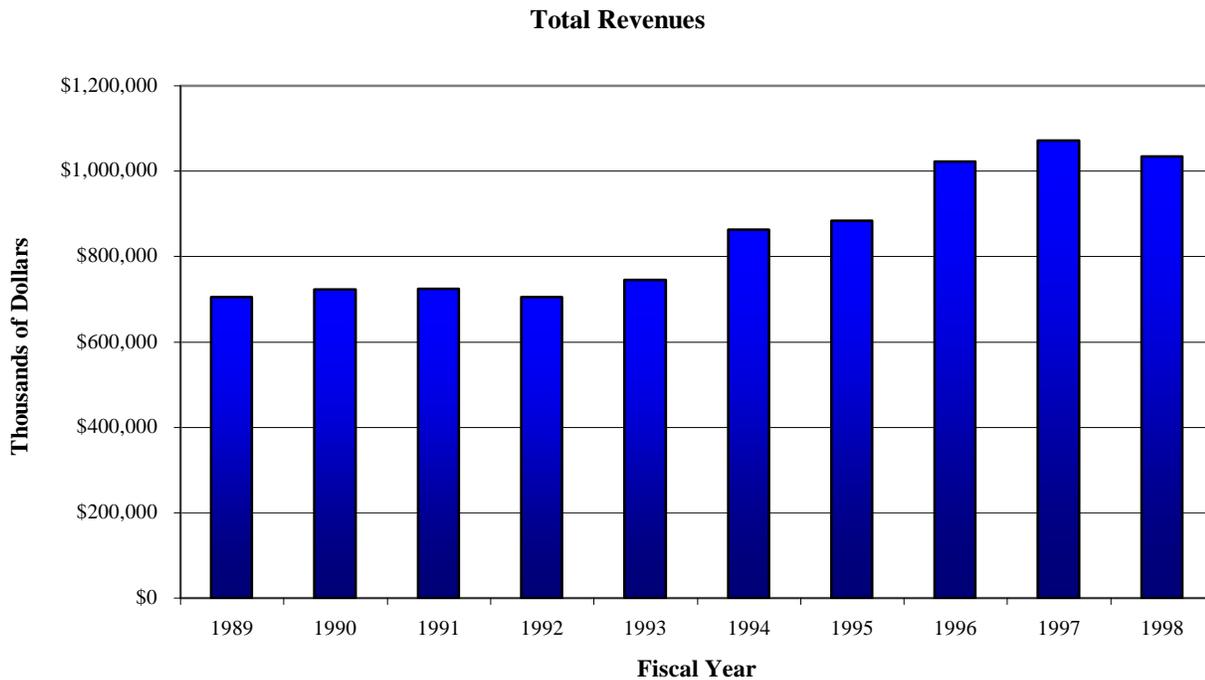


Table III

Arizona Department of Transportation  
Expenditures of Federal Awards /2  
For the fiscal year ended June 30  
(Thousands of Dollars)

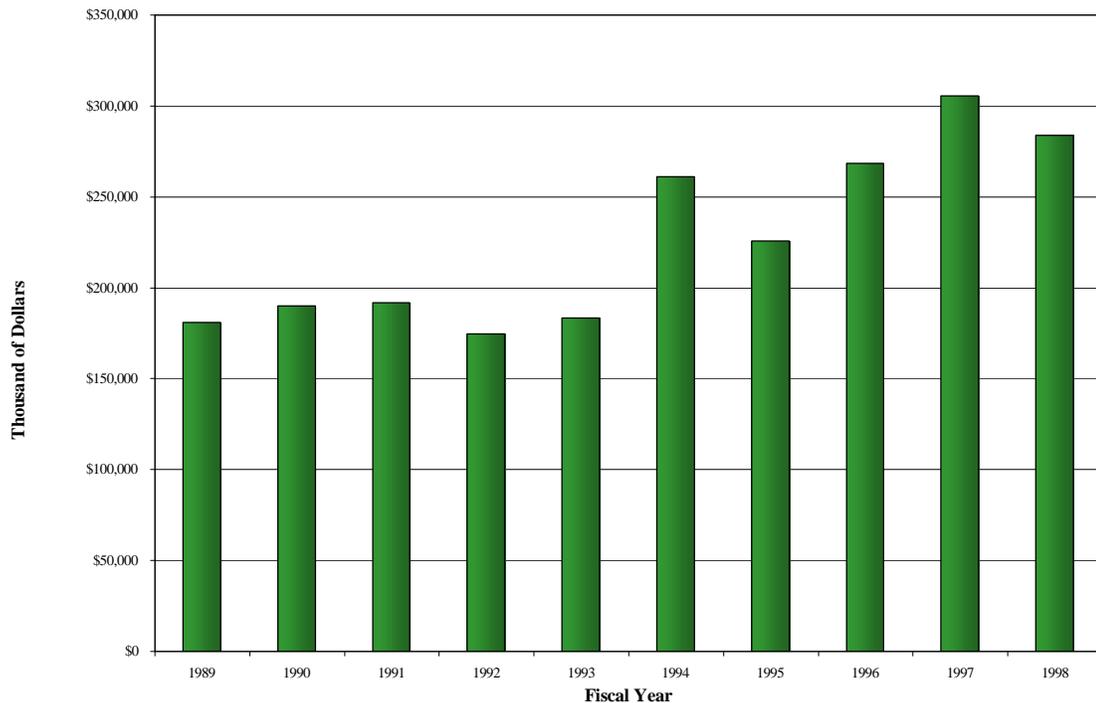
Fiscal Year	FAA	FRA	FTA	NHTSA	FHWA	BLM	BIA	Total
1998	\$ 2,379	\$ 14	\$ 3,392	\$ 49	\$ 278,148	\$ -	\$ -	\$ 283,982
1997	91	130	2,508	-	302,633	-	76	305,438
1996	506	499	3,552	-	261,820	-	2,228	268,605
1995	849	475	1,687	-	221,818	28	750	225,607
1994	129	437	3,448	-	256,986	-	-	261,000
1993	3,208	441	1,715	55	177,968	20	-	183,407
1992	4,369	12	1,097	54	169,151	-	-	174,683
1991	1,642	-	559	-	189,698	-	-	191,899
1990	164	59	1,563	39	188,130	-	-	189,955
1989	7	55	821	50	180,139	-	-	181,072

SOURCE: Single Audit Reports - fiscal years 1989 through 1998

NOTES: /1 Includes all governmental and expendable trust funds.

/2 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); and Bureau of Indian Affairs (BIA).

**Total Expenditures of Federal Awards**



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

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Fiscal Year	Effective Date	Gasoline Tax	Use Fuel Tax
1998	12/31/97	18	27
1997	-	18	18
1996	-	18	18
1995	-	18	18
1994	-	18	18
1993	-	18	18
1992	-	18	18
1991	10/1/90	18	18
1990	-	17	17
1989	9/1/88	17	17

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.

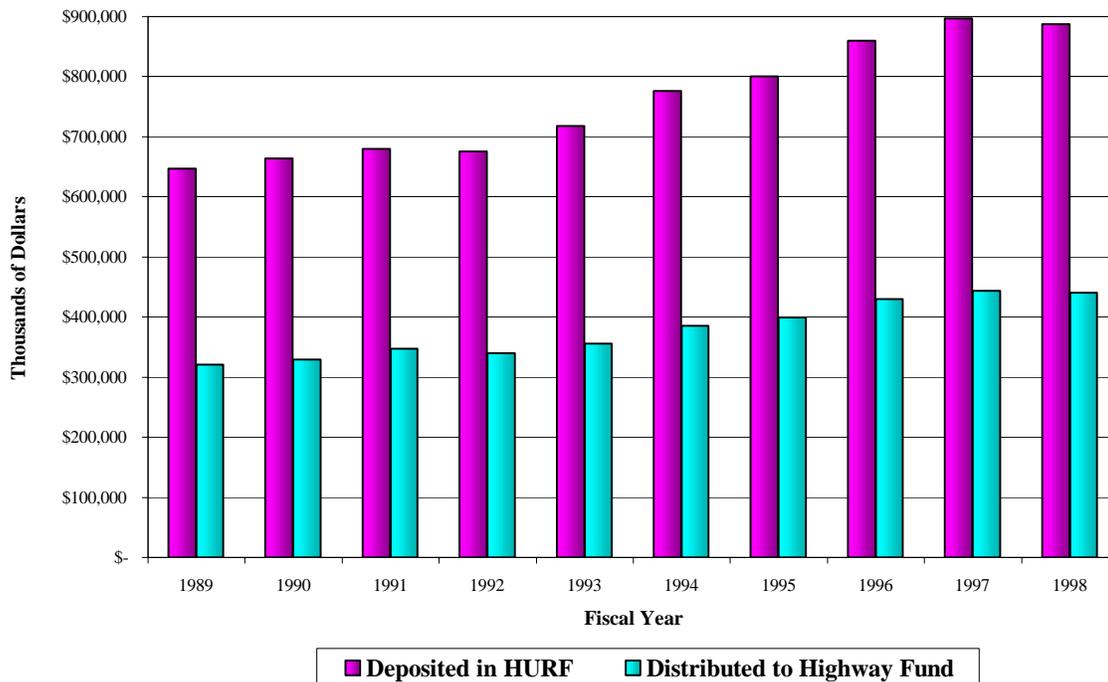
Arizona Department of Transportation  
Highway User Revenue Fund Collections  
For the fiscal year ended June 30  
(Thousands of Dollars)

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	Excess License and Sales Tax Revenues	Total Deposited To Arizona Hwy. User Rev. Fund	Total Distributed To Arizona Hwy. Fund
1998	\$ 508,544	\$ 109,445	\$ 56,123	\$ 36,426	\$ 176,950	\$ -	\$ 887,488	\$ 440,101
1997	488,701	101,528	90,186	41,294	175,253	-	896,962	443,623
1996	473,741	97,601	85,433	42,654	160,145	-	859,574	429,826
1995	451,089	86,159	92,103	39,238	131,562	-	800,151	399,605
1994	422,556	83,826	118,530	37,161	113,990	-	776,063	385,844
1993	387,235	80,717	120,303	24,161	105,027	-	717,443	355,304
1992	369,789	74,180	109,573	25,507	96,146	-	675,195	339,807
1991	362,018	75,657	108,655	24,033	92,826	16,632	679,821	346,867
1990	339,116	88,536	104,343	25,474	91,390	15,198	664,057	329,698
1989	336,898	80,338	104,709	23,402	80,125	13,789	646,485	/1 320,821

SOURCES: Highway User Revenue Fund Schedule 1 Summary For Revenue Collected Monthly Reports MV675577-1 and MV 675580-01 fiscal years 1993 through 1998; Highway User Revenue Fund Report (Budgetary Basis) - fiscal years 1989 through 1998.

NOTE: Total for fiscal year 1989 includes a legal settlement of \$7,224.

**Highway User Revenue Fund Collections**



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

Fiscal Year	Arizona Highway Fund /3	Cities and Towns	Counties	Department of Public Safety /1	Economic Strength Project Fund	Other /2	Total
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
1991	346,867	208,708	123,746	-	500	-	679,821
1990	329,698	209,767	124,092	-	500	-	664,057
1989	320,821	204,112	121,052	-	500	-	646,485

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: Highway User Revenue Fund Schedule 1 Summary for Revenue Collected Monthly Reports MV675580-01 fiscal years 1993 through 1998 (adjusted for accrual basis in years 1994 through 1998); Highway User Revenue Fund Report (Budgetary Basis) - fiscal years 1988 through 1992.

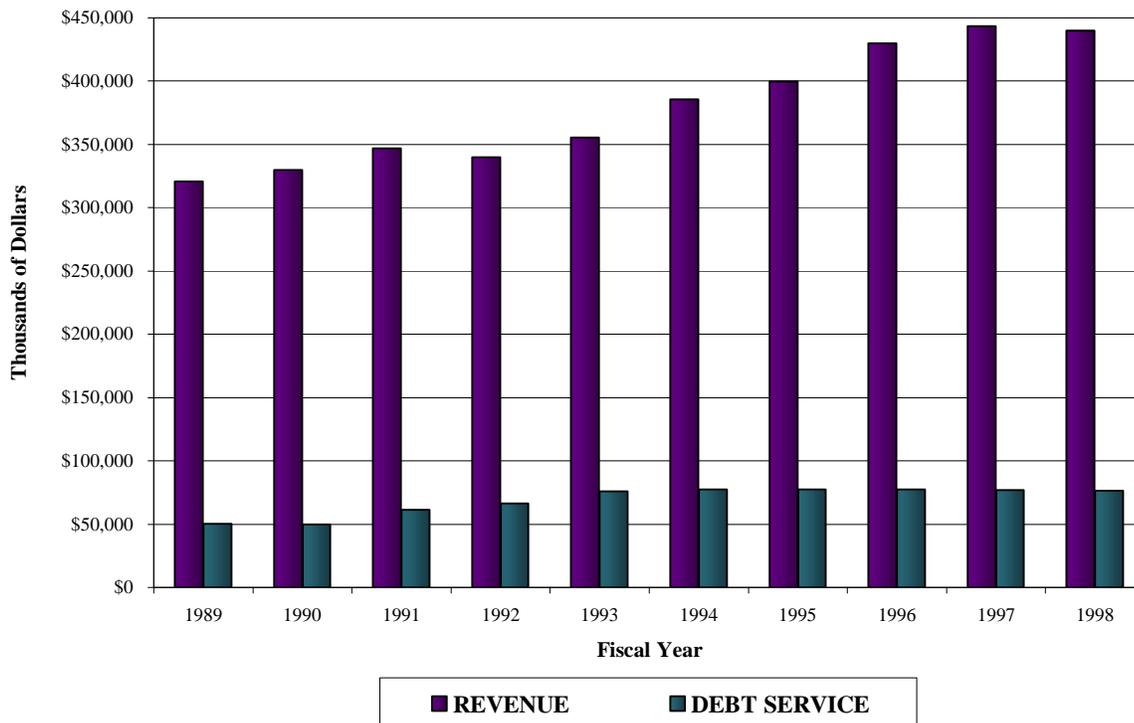
NOTES: /1 DPS did not receive funding from HURF in fiscal years 1988 through 1991 in accordance with ARS 28-6537.  
/2 Appropriation to the Motor Vehicle Division for funding of mandatory insurance enforcement administration for fiscal years 1992 through 1994. In fiscal years 1995 through 1998, an appropriation for Arizona State Parks is included.  
/3 In fiscal year 1995, HB 2431 authorized the transfer of \$1 million for border transportation projects.

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	Revenue	Coverage
1998	\$ 43,405	\$33,266	\$76,671	\$440,101	5.7
1997	40,970	36,148	77,118	443,623	5.8
1996	38,430	38,770	77,200	429,826	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
1991	24,690	36,743	61,433	346,867	5.6
1990	23,340	26,609	49,949	329,698	6.6
1989	22,120	27,993	50,113	320,821	6.4

SOURCES: Highway User Revenue Fund Schedule 1 Summary For Revenue Collected Monthly Reports MV675577-1 fiscal years 1993 through 1998; Highway User Revenue Fund Report (Budgetary Basis) - fiscal years 1989 through 1992; Debt Service Funds - fiscal years 1989 through 1998

**Highway User Revenue Fund Series Bond Coverage**



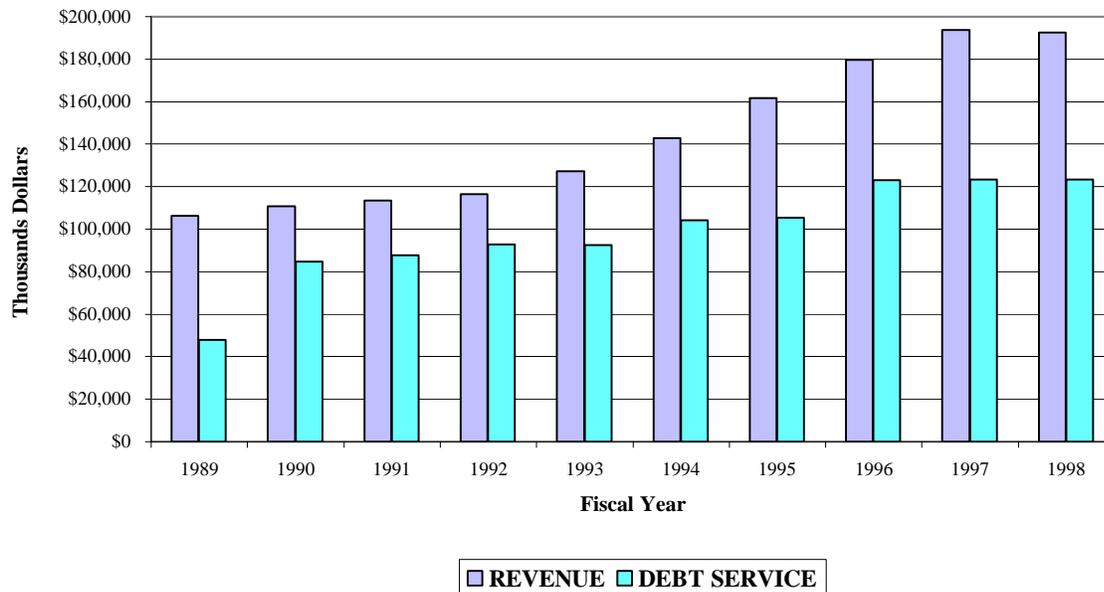
Arizona Department of Transportation  
 Bond Coverage  
 Regional Area Road Fund Series  
 For the fiscal year ended June 30  
 (Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Revenue	Coverage
1998	\$ 82,765	\$40,512	\$123,277	\$192,519	1.6
1997	78,015	45,248	123,263	193,756	1.6
1996	76,955	46,209	123,164	179,533	1.5
1995	57,930	47,320	105,250	161,761	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
1991	34,480	53,136	87,616	113,335	1.3
1990	34,485	50,224	84,709	110,801	1.3
1989	18,240	29,604	47,844	106,250	2.2

SOURCES: Taxable Sales and Collections By Class Within County Monthly SR2712-04 Report - fiscal years 1993 through 1998; Maricopa County Regional Area Road Fund Report (RARF Revenue), Regional Area Road Fund Bond Payment Schedule (Bond Payments), and Debt Service Funds - fiscal years 1988 through 1998.

NOTE: Bond coverage ratio is based upon total Maricopa Transportation Excise Tax collections. RARF bonds were first issued in fiscal year 1987.

**Regional Area Road Fund Series Bond Coverage**



Arizona Department of Transportation  
 Total Public Road Mileages By Highway Class and Governmental Ownership  
 For the calendar year ended December 31, 1997  
 (With comparative totals for the calendar year ended December 31, 1996)  
 (In Miles)

<u>FUNCTIONAL CLASSIFICATION</u>	<u>STATE</u>	<u>COUNTY</u>	<u>MUNICIPAL</u>	<u>FEDERAL</u>	<u>TOTAL</u>	
					<u>1997</u>	<u>1996</u>
<b>RURAL:</b>						
Interstate Freeway	996	-	-	-	996	996
Principal Arterial	1,118	45	14	9	1,186	1,185
Minor Arterial	1,134	100	23	-	1,257	1,258
Major Collector	1,861	1,587	216	841	4,505	4,506
Minor Collector	374	1,118	52	756	2,300	2,301
Local	9	14,209	1,510	12,446	28,174	28,415
<b>TOTAL RURAL</b>	<b>5,492</b>	<b>17,059</b>	<b>1,815</b>	<b>14,052</b>	<b>38,418</b>	<b>38,661</b>
<b>URBAN:</b>						
Interstate Freeway	173	-	-	-	173	172
Urban Expressway	86	1	9	-	96	91
Principal Arterial	271	105	652	-	1,028	1,028
Minor Arterial	129	277	864	5	1,275	1,275
Urban Collector	5	508	1,220	16	1,749	1,749
Local	-	963	11,981	30	12,974	11,920
<b>TOTAL URBAN</b>	<b>664</b>	<b>1,854</b>	<b>14,726</b>	<b>51</b>	<b>17,295</b>	<b>16,235</b>
<b>STATEWIDE COMPOSITE:</b>						
Freeways and Expressways	1,255	1	9	-	1,265	1,258
Arterials	2,652	527	1,553	14	4,746	4,746
Collectors	2,240	3,213	1,488	1,613	8,554	8,556
Locals	9	15,172	13,491	12,476	41,148	40,335
<b>TOTAL STATEWIDE</b>	<b>6,156</b>	<b>18,913</b>	<b>16,541</b>	<b>14,103</b>	<b>55,713</b>	<b>54,895</b>

Source: Arizona's Highway Performance Monitoring System (HPMS); 1997 & 1996 Data

## ACKNOWLEDGMENTS

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

Craig Rudolphy, MBA, CGFM, CPA  
Theresa Simms, MBA, CGFM, CPA  
Patricia Markiw, CPA  
Janet Gafford  
Janet E. Hastings  
Richard Gromoll  
Lawrence H. Ehrke. Jr.

Special acknowledgment goes to:

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