OFFICIAL STATEMENT

NEW ISSUE – BOOK ENTRY ONLY

Ratings: Standard & Poor's: "AAA"
Moody's: "Aa1"
See "Ratings" herein

$193,950,000
ARIZONA TRANSPORTATION BOARD
HIGHWAY REVENUE BONDS
SERIES 2008A

Dated: Date of Initial Delivery **Due: July 1, as shown on the inside cover page hereof**

The Highway Revenue Bonds, Series 2008A (the "Series 2008A Bonds") are being issued by the Arizona Transportation Board (the "Board") as a separate series of fully registered bonds in denominations of $5,000 or any integral multiple thereof.

Interest on the Series 2008A Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2009, by check mailed on each Interest Payment Date by the paying agent, initially U.S. Bank National Association (the "Paying Agent"), to the registered owners thereof as of the 15th day of the month next preceding such Interest Payment Date. Principal and interest may be paid by wire transfer upon request of registered owners of $1,000,000 or more in aggregate principal amount, as described herein. Principal of the Series 2008A Bonds is payable upon presentation and surrender at the designated corporate trust office of the Paying Agent.

The maturities, interest rates, yields and CUSIP numbers of the Series 2008A Bonds are shown on the reverse side of this cover page.

The Series 2008A Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2008A Bonds. Purchases of beneficial interests in such Series 2008A Bonds will be made in book-entry only form. Purchasers will not receive certificates representing their ownership interests in the Series 2008A Bonds. So long as the Series 2008A Bonds are registered in the name of Cede & Co., as nominee of DTC, payments of the principal, interest and premium, if any, on the Series 2008A Bonds will be made directly by the Paying Agent to Cede & Co., as nominee of DTC. See "THE SERIES 2008A BONDS – General Description" and "APPENDIX D – BOOK-ENTRY-ONLY SYSTEM" herein.

The Series 2008A Bonds are issued pursuant to the Board's senior bond resolution, as supplemented (the "Senior Bond Resolution"), on a parity as to security and source of payment with the previously issued Series 2006 Bonds, Series 2005B Bonds, Series 2005A Bonds, Series 2003 Bonds, Series 2002B Bonds, Series 2002A Bonds, Series 2002 Bonds, Series 2001 Bonds and Series 1999 Bonds (as defined herein) of the Board to be outstanding after issuance of the Series 2008A Bonds in the aggregate principal amount of $1,187,090,000, and any additional Senior Bonds subsequently issued on a parity therewith.

Proceeds of the Series 2008A Bonds are intended to be used for the purposes of (i) financing portions of the Board's Five-Year Capital Program and (ii) paying costs of issuing the Series 2008A Bonds. See "PLAN OF FINANCE " herein.

The Series 2008A Bonds are subject to redemption prior to maturity as more fully described herein.

The Series 2008A Bonds and all other Senior Bonds are special obligations of the Board payable from and secured solely by a first lien on and pledge of the Pledged Revenues (as defined herein), which consist of a portion of the moneys derived from fees, excises, or license taxes relating to registration, operation or use of vehicles on the public highways of the State of Arizona (the "State"), and from motor vehicle fuel taxes that are deposited into the State Highway Fund, all as described herein. The Series 2008A Bonds are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State, and are not enforceable against the State.

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Series 2008A Bonds is exempt from Arizona state income tax. Interest on the Series 2008A Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

This cover page contains only a brief description of the Series 2008A Bonds and the security therefor. It is not a summary of material information with respect to the Series 2008A Bonds. Investors should read this entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 2008A Bonds are offered when, as and if issued and received by the Underwriters identified below, subject to the approval of legality by Squire, Sanders & Dempsey L.L.P., Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Ballard Spahr Andrews & Ingersoll, LLP. It is expected that the Series 2008A Bonds, in book-entry form, will be available for delivery to DTC in New York, New York, on or about May 21, 2008.

Citi

JPMorgan **Goldman, Sachs & Co.**

UBS Securities LLC **Peacock, Hislop, Staley & Given, Inc.**

May 6, 2008

$193,950,000
ARIZONA TRANSPORTATION BOARD
HIGHWAY REVENUE BONDS
SERIES 2008A

MATURITY SCHEDULE

Year (July 1)	Amount	Interest Rate	Yield	CUSIP[(a)]
2023	$6,265,000	4.125%	4.260%	040654QV0
2023	7,440,000	5.000	4.260*	040654QW8
2024	14,335,000	5.000	4.310*	040654QX6
2025	15,050,000	5.000	4.360*	040654QY4
2026	15,805,000	5.000	4.410*	040654QZ1
2027	16,595,000	5.000	4.450*	040654RA5
2028	1,550,000	4.375	4.490	040654RB3
2028	15,875,000	5.000	4.490*	040654RC1
2029	18,285,000	5.000	4.550*	040654RD9
2030	19,200,000	5.000	4.600*	040654RE7
2031	20,160,000	5.000	4.620*	040654RF4
2032	21,165,000	5.000	4.630*	040654RG2
2033	22,225,000	5.000	4.640*	040654RH0

* Yield to July 1, 2018, the first optional redemption date.

STATE OF ARIZONA

Janet Napolitano
Governor

ARIZONA TRANSPORTATION BOARD

Si Schorr
Chair

Delbert Householder
Vice Chair

Robert Montoya
Member

Felipe Andres Zubia
Member

Bill Feldmeier
Member

Barbara Lundstrom
Member

Victor Flores
Member

STATE OF ARIZONA DEPARTMENT OF TRANSPORTATION

Victor Mendez
Director

Richard Travis
Deputy Director

Sam Elters
State Engineer

John Bogert
Chief of Staff

Rakesh Tripathi
Division Director
Transportation Planning Division

Stacey Stanton
Division Director
Motor Vehicle Division

Barclay Dick
Division Director
Aeronautics Division

Vacant
Division Director
Public Transportation Division

John McGee
Chief Financial Officer

FINANCIAL ADVISOR

RBC Capital Markets Corporation
Phoenix, Arizona

BOND COUNSEL

Squire, Sanders & Dempsey L.L.P.
Phoenix, Arizona

CONTACT PERSONS CONCERNING THIS OFFERING:

John McGee
John Fink
(602) 712-7441

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State of Arizona, the Arizona Transportation Board (the "Board"), or the State of Arizona Department of Transportation (the "Department"). This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the securities offered hereby or an offer to sell or solicitation of offers to buy, nor shall there be any sale of the Board's Highway Revenue Bonds, Series 2008A (the "Series 2008A Bonds"), by any person in any jurisdiction where such offer or solicitation or sale would be unlawful.

The information contained in this Official Statement has been obtained from the Board, the Department and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a promise by, any of the foregoing. The presentation of such information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends. No representation is made that the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. **This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representations of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. This Official Statement contains projections and forecasts which are forward looking statements concerning facts which may or may not occur in the future. All such forward looking statements may not be realized and must be viewed with an abundance of caution.** The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Arizona, the Board, or the Department since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS, AND THE UNDERWRITERS MAY OVERALLOT OR ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICES OF THE SERIES 2008A BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET IN ORDER TO FACILITATE THEIR DISTRIBUTION. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2008A Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency has passed upon the accuracy of this Official Statement.

The Board and the Department have undertaken to provide continuing disclosure with respect to the Series 2008A Bonds as required by Rule 15c2-12 of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE UNDERTAKING" and "APPENDIX C – Form of Continuing Disclosure Undertaking" herein.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The CUSIP (Committee on Uniform Securities Identification Procedures) numbers set forth on the inside front cover of this Official Statement have been assigned by an organization not affiliated with the Board, the Department, the Underwriters or the Paying Agent, and such parties are not responsible for the selection or use of the CUSIP numbers. CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of the CUSIP numbers listed herein. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. None of the Board, the Department, the Underwriters or U.S. Bank National Association, as paying agent, has agreed to, nor is there any duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers listed on the inside front cover of this Official Statement. CUSIP is a registered trademark of the American Bankers Association.

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OFFICIAL STATEMENT

relating to

$193,950,000

Arizona Transportation Board
Highway Revenue Bonds
Series 2008A

INTRODUCTION

This Official Statement (including the cover page and Appendices attached hereto) provides certain information in connection with the issuance by the Arizona Transportation Board (the "Board") of its Highway Revenue Bonds, Series 2008A (the "Series 2008A Bonds").

The Series 2008A Bonds are issued pursuant to the State Highway Bonding Authorization Law, Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the "Act"), and under and pursuant to a resolution adopted by the Board on May 1, 1980, as supplemented to date, including by a supplemental resolution adopted on March 21, 2008 (the "2008A Resolution") authorizing the Series 2008A Bonds (collectively, the "Senior Bond Resolution").

Proceeds of the Series 2008A Bonds are intended to be used for the purposes of (i) financing portions of the Board's Five-Year Capital Program and (ii) paying costs of issuing the Series 2008A Bonds (see "PLAN OF FINANCE").

The Series 2008A Bonds are special obligations of the Board. The principal of, premium, if any, and interest (collectively, "Debt Service") on the Series 2008A Bonds, together with the outstanding Senior Bonds, are payable from and secured solely by a first pledge of and lien on Pledged Revenues as provided in the Senior Bond Resolution, as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008A BONDS". Additional bonds may be issued on a parity with the Board's outstanding Senior Bonds ("Additional Senior Bonds") under the conditions and in the manner provided in the Senior Bond Resolution and in the hereinafter described Subordinated Bond Resolution. The Series 2008A Bonds, the outstanding Senior Bonds and Additional Senior Bonds are collectively referred to as the "Senior Bonds."

The Series 2008A Bonds are not obligations, general, special or otherwise, of the State of Arizona (the "State"), do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any funds of the State, the Board, or the State of Arizona Department of Transportation (the "Department") other than the money pledged and otherwise available for the benefit of the registered owners ("Owners") of the Senior Bonds pursuant to the Act and the Senior Bond Resolution.

The Series 2008A Bonds are issued on a parity as to security and source of payment with the Board's outstanding Highway Revenue Bonds, Series 2006 (the "Series 2006 Bonds"), Highway Revenue Bonds, Series 2005B (the "Series 2005B Bonds"), Highway Revenue Refunding Bonds, Series 2005A (the "Series 2005A Bonds"), Highway Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), Highway Revenue Bonds, Series 2002B (the "Series 2002B Bonds"), Highway Revenue Refunding Bonds, Series 2002A (the "Series 2002A Bonds"), Highway Revenue Bonds, Series 2002 (the "Series 2002 Bonds"), Highway Revenue Bonds, Series 2001 (the "Series 2001 Bonds") and Highway Revenue Bonds, Series 1999 (the "Series 1999 Bonds").

The aggregate principal amount of Senior Bonds that will be outstanding immediately after delivery of the Series 2008A Bonds will be $1,187,090,000.

In addition, the Board has outstanding bonds payable from and secured solely by a subordinated and junior pledge of Pledged Revenues (the "Subordinated Bonds"), which were issued under and pursuant to the Act and a resolution adopted by the Board on September 27, 1991, as supplemented (the "Subordinated Bond Resolution"). Subordinated Bonds are payable from and secured solely by a lien on and pledge of the Pledged Revenues subordinate in all respects to payments required for the benefit of the Owners of the Senior Bonds. The aggregate principal amount of Subordinated Bonds that is currently outstanding is $497,460,000.

The Board may finance highway projects in whole or in part by the issuance of bonds under the Act. The aggregate amount of Senior Bonds and Subordinated Bonds that will be outstanding immediately after the delivery of the Series 2008A Bonds will be $1,684,550,000.

Payments on the Series 2008A Bonds are not subject to annual appropriation by the Legislature of the State nor are payments on the Series 2008A Bonds subject to any constitutional or statutory limitation on expenditures.

The Arizona Legislature has previously and may in the future amend the Act and other statutes that govern Pledged Revenues. However, any such amendments would be subject to the covenants of the Board in the Bond Resolutions (as defined below) that the State will not limit or alter the rights vested in the Board to collect such fees and taxes as may be necessary to produce sufficient revenues to fulfill the terms of such Bond Resolutions or any agreement made with the Owners of the Senior Bonds and Subordinated Bonds or in any way impair the rights and remedies of such Owners until all Senior Bonds and Subordinated Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Owners, are fully met and discharged. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008A BONDS – Pledged Revenues."

This Official Statement describes the terms of and security for the Series 2008A Bonds and the use of proceeds of the Series 2008A Bonds. These descriptions do not purport to be comprehensive or definitive. All references herein to the Senior Bond Resolution and Subordinated Bond Resolution (collectively, the "Bond Resolutions") are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto contained in the Bond Resolutions and is further qualified in its entirety by reference to laws and principles of equity relating to or affecting the enforceability of creditors' rights. Capitalized terms not defined herein shall have the meanings set forth in the Bond Resolutions. Copies of the Bond Resolutions may be obtained as set forth under "MISCELLANEOUS."

THE SERIES 2008A BONDS

General Description

The Series 2008A Bonds are issuable as fully registered bonds. The Series 2008A Bonds will bear interest from their date of initial delivery, at the rates, and will mature on the dates and in the amounts, all as set forth on the inside cover page hereof. As described within "Appendix D – BOOK-ENTRY-ONLY SYSTEM", the Series 2008A Bonds will be registered in the name of Cede & Co., as registered Owner and nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, Cede & Co., is registered Owner of all of the Series 2008A Bonds, all payments on the Series 2008A Bonds will be made directly to DTC.

So long as Cede & Co. is the registered Owner of the Series 2008A Bonds, as nominee for DTC, references herein to "Owners" or registered owners of the Series 2008A Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of such Series 2008A Bonds (the "Beneficial Owners"). When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Board or U.S. Bank National Association and its successors, as initial paying agent (the "Paying Agent") to DTC only, as registered Owner.

The Series 2008A Bonds initially will be dated as shown on the cover page, and will be issued in denominations of $5,000 or any integral multiple thereof. Interest on the Series 2008A Bonds will be payable on each January 1 and July 1 (each such date is referred to herein as an "Interest Payment Date"), commencing January 1, 2009, and will accrue from their dated date. Interest on the Series 2008A Bonds will be payable by check or draft mailed on the Interest Payment Date by the Paying Agent to the Owners thereof as shown on the registration books maintained by the bond registrar, initially U.S. Bank National Association and its successors (the "Bond Registrar"), at the address appearing therein, at the close of business of the Bond Registrar on June 15 and December 15 of each year (the "Regular Record Date"). The principal of the Series 2008A Bonds will be payable upon presentation and surrender thereof at the designated office of the Paying Agent. However, at the written request of the Owners of $1,000,000 or more in aggregate principal amount of Series 2008A Bonds, delivered to the Bond Registrar prior to a Regular Record Date, interest, and principal may be paid by wire transfer at the Owner's expense to a bank account in the continental United States.

Redemption Provisions

Optional Redemption.

The Series 2008A Bonds are subject to optional redemption, prior to maturity, at the election of the Board, in whole or in part, at any time, on or after July 1, 2018, at a redemption price equal to the principal amount of the Series 2008A Bonds to be redeemed plus accrued interest to the date fixed for redemption, but without premium.

Purchase in Lieu of Redemption.

If any Series 2008A Bond is called for optional redemption in whole or in part, the Board may elect to have such Series 2008A Bond purchased in lieu of redemption as follows:

The Authorized Board Representative may direct the Paying Agent, or another agent appointed by the Authorized Board Representative to make such purchase, to purchase all or such lesser portion of the Series 2008A Bonds called for optional redemption. Any such direction must be in writing; if less than all of the Series 2008A Bonds called for redemption are to be purchased, identify those Series 2008A Bonds to be purchased by maturity date and outstanding principal amount in authorized denominations; and be received by the Paying Agent no later than 12:00 noon one Business Day prior to the scheduled redemption date thereof. If so directed, the Paying Agent shall purchase such Series 2008A Bonds on the date which otherwise would be the redemption date of such Series 2008A Bonds. Any of the Series 2008A Bonds called for redemption that are not purchased in lieu of redemption shall be redeemed as otherwise required on such redemption date. On or prior to the scheduled redemption date, any such direction to the Paying Agent may be withdrawn by the Authorized Board Representative by written notice to the Paying Agent and the scheduled redemption of such Series 2008A Bonds shall occur.

If the purchase is directed by the Authorized Board Representative, the purchase shall be made for the account of the Board or its designee. The purchase price of the Series 2008A Bonds shall be equal to the outstanding principal of, accrued and unpaid interest on and the redemption premium, if any, which would have been payable on such Series 2008A Bonds on the scheduled redemption date for such redemption. The Paying Agent shall not purchase the Series 2008A Bonds if by no later than the redemption date, sufficient moneys have not been deposited with the Paying Agent or such moneys are deposited, but are not available.

No notice of the purchase in lieu of redemption shall be required to be given to the Owner other than the required notice of redemption as described below.

Notice of Redemption.

The Bond Registrar shall give notice by mail of the redemption of the Series 2008A Bonds, not less than 30 days prior to the redemption date, to the registered Owners (Cede & Co., so long as the book-entry-only system is in effect) of any Series 2008A Bonds or portions thereof to be redeemed at their last address appearing on the bond register of the Board. Such notice shall specify the maturities of the Series 2008A Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Series 2008A Bonds of a maturity are to be redeemed, the particular Series 2008A Bonds or portions thereof to be redeemed. Any defect in the notice to the Owner of any Series 2008A Bond which is to be redeemed shall not affect the validity of the proceedings for the redemption of any other Series 2008A Bond. Any notice of redemption which is mailed shall be presumed to be given, whether or not such notice is received. Any failure on the part of a nominee of a Beneficial Owner of a Series 2008A Bond to notify the Beneficial Owner shall not affect the validity of the redemption of such Series 2008A Bond.

So long as the Series 2008A Bonds are held under the Book-Entry-Only System (See "Appendix D –BOOK-ENTRY-ONLY SYSTEM"), notice of redemption shall be sent to Cede & Co., as the registered Owner. If on the redemption date, money for the redemption of the Series 2008A Bonds or portions thereof to be redeemed, together with accrued interest thereon to the redemption date, is held by the Paying Agent and is available to pay the redemption price of the Series 2008A Bonds or portions thereof to be redeemed on the redemption date, and if notice of redemption has been given as described in the preceding paragraph, then, from and after the redemption date, interest on the Series 2008A Bonds or portions thereof so called for redemption shall cease to accrue.

If at the time of mailing of notice of an optional redemption of the Series 2008A Bonds there has not been deposited with the State Treasurer in a subaccount in the Senior Bond Fund moneys or Defeasance Securities (as defined below) sufficient to redeem all the Series 2008A Bonds called for optional redemption, then such notice shall state that the optional redemption is conditional upon the deposit of moneys or Defeasance Obligations sufficient for the redemption with the State Treasurer not later than the opening of business on the redemption date, and such notice will be of no effect and such Series 2008A Bonds shall not be optionally redeemed unless such moneys or Defeasance Obligations are so deposited.

Exchange and Transfer

If the Series 2008A Bonds are not in book-entry-only form, the following paragraph will be applicable.

The registration of any Series 2008A Bond may be transferred upon the bond register of the Board by the Owner thereof, in person or by his or her duly authorized attorney, upon surrender of such Series 2008A Bond at the designated office of the Bond Registrar accompanied by a written instrument of transfer satisfactory to the Bond Registrar and duly executed by the Owner or by his or her duly authorized attorney. Any Series 2008A Bond may be exchanged at the designated office of the Bond Registrar for new Series 2008A Bonds of any authorized denomination, aggregate principal amount and maturity as the surrendered Series 2008A Bond. The Bond Registrar will not charge an administrative fee for any new Series 2008A Bond issued upon any exchange or transfer, but may require the Owner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Bond Registrar is not required to exchange or transfer any Series 2008A Bond during the period commencing on June 15 and December 15 of each year and ending on the subsequent July 1 or January 1, respectively.

Defeasance

If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all outstanding Series 2008A Bonds or Series 2008A Bonds of a particular maturity or a particular Series 2008A Bond within a maturity, the principal, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Senior Bond Resolution, such Series 2008A Bonds will cease to be entitled to any lien, benefit or security under the Senior Bond Resolution, and all covenants, agreements and obligations of the Board to the Owners of such Series 2008A Bonds will thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the Senior Bond Resolution, any outstanding Series 2008A Bonds will be deemed to have been paid within the meaning and with the effect expressed in the foregoing paragraph if there has been deposited with the State Treasurer or with an escrow agent appointed for such purpose, moneys or Defeasance Securities or both. The maturing principal and interest income on such Defeasance Securities, if any, shall be sufficient without reinvestment, together with any cash (as evidenced by a report of an independent nationally recognized certified public accounting firm or financial consulting firm), to pay the principal of, and interest on such Series 2008A Bonds to their maturity or to their prior redemption dates as may be specified by the Board. The moneys and Defeasance Securities shall be held irrevocably in trust for the Owners of such Series 2008A Bonds, for the purpose of paying the principal of, and interest on such Series 2008A Bonds, as the same shall mature, come due or become payable upon prior redemption. Upon such deposit, the Series 2008A Bonds so provided for shall no longer be outstanding under the Senior Bond Resolution. *Defeasance Securities* are: (i) direct obligations of, or obligations fully guaranteed by, the United States of America; (ii) certain certificates evidencing ownership of the right to principal or interest on obligations described in (i); and (iii) certain advance refunded municipal obligations which are rated at the time of purchase “AAA/Aaa” by Standard & Poor’s Rating Services and Moody’s Investors Service, respectively.

PLAN OF FINANCE

Approximately $200,000,000 of the proceeds received from the sale of the Series 2008A Bonds are intended to be used to finance portions of the Board’s Five-Year Capital Program discussed under “PROGRAM RESPONSIBILITY AND MANAGEMENT – Arizona Department of Transportation – Funding the Department.” Such proceeds may, but are not intended to, also be used to pay interest on any bonds of the Board issued for highway purposes. The remaining portion of the proceeds received from the sale of the Series 2008A Bonds will be used for paying costs of issuing the Series 2008A Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008A BONDS

Legal Authority

The Series 2008A Bonds are special obligations of the Board and are being issued by the Board pursuant to the Act and the Senior Bond Resolution. Under the terms and provisions of the Act, the Board is authorized to issue bonds for the payment of highway obligations; the costs of construction, reconstruction, maintenance and repair of public highways and bridges; county, city and town roads and streets; acquisition of real properties for future highway needs; other related highway purposes; and for the refunding of any bonds previously issued.

The Series 2008A Bonds, the outstanding Senior Bonds and any Additional Senior Bonds that may subsequently be issued by the Board on a parity therewith pursuant to the Senior Bond Resolution, are issued on a parity as to security and source of payment. Immediately after the delivery of the Series 2008A Bonds, there will be $1,187,090,000 of Senior Bonds outstanding. Additionally, there are currently $497,460,000 of Subordinated Bonds outstanding.

General

Payments of principal and interest on the Series 2008A Bonds and all other Senior Bonds are payable from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. The lien on and pledge of Pledged Revenues for Senior Bonds is in all respects senior and prior to the lien on and pledge of Pledged Revenues for Subordinated Bonds. Pledged Revenues are the moneys deposited by the State Treasurer into the State Highway Fund that are derived from a portion of specified sources. Generally, such sources are: motor vehicle fuel taxes, the motor vehicle registration fees, motor carrier fees, motor vehicle license (in lieu) taxes, and motor vehicle operators’ license fees and certain miscellaneous fees and revenues collected by the State. For a discussion of the sources of the Pledged Revenues, see “Pledged Revenues” and “SOURCES AND APPLICATION OF PLEDGED REVENUES” herein.

As provided in the Act, all Pledged Revenues deposited into the State Highway Fund shall be immediately subject to the lien of the first pledge granted in the Senior Bond Resolution for the Senior Bonds without any future physical delivery or further act.

In addition to Pledged Revenues, the Series 2008A Bonds and all other Senior Bonds and Subordinated Bonds are also payable from, but are not secured by a pledge of, all moneys to be deposited into the Arizona Highway User Revenue Fund. Arizona statutes currently require that if there are defaults in amounts required by the Senior Bond Resolution and the Subordinated Bond Resolution to be deposited into the Bond Funds (as defined below), then the Department shall deduct from the revenues that otherwise would be deposited into the Arizona Highway User Revenue Fund, prior to their deposit, an amount sufficient to avoid such default. For a discussion of the revenues that are deposited to the Arizona Highway User Revenue Fund, see "SOURCES AND APPLICATION OF PLEDGED REVENUES - Arizona Highway User Revenue Fund" herein.

The Senior Bonds and the Subordinated Bonds are not subject to acceleration under any circumstances.

The Board may issue Additional Senior Bonds on a parity with the Series 2008A Bonds and the other outstanding Senior Bonds as described under "Additional Bonds - *Additional Senior Bonds*" herein. The Board may also issue Additional Subordinated Bonds as described under "Additional Bonds - *Additional Subordinated Bonds*" herein.

Special Obligations

The Series 2008A Bonds are special obligations of the Board and are payable solely from the sources specified in the Act and the Senior Bond Resolution. The Series 2008A Bonds are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any funds of the State, the Board, or the Department other than the money pledged and otherwise available for the benefit of the Owners of the Senior Bonds pursuant to the Act and the Senior Bond Resolution.

Pledged Revenues

The Series 2008A Bonds, together with the outstanding Senior Bonds and any Additional Senior Bonds that may be subsequently issued, are payable from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. The State Highway Fund is the operating fund of the Department from which the Department pays debt service on highway revenue bonds or other evidences of indebtedness, operational expenses of the Department and expenditures for highway construction and improvement and acquisition of rights of way. The State Highway Fund contains money derived from many sources. Only the money in the State Highway Fund derived from certain sources specified in the Bond Resolutions and the Act (described below and relating generally to motor vehicles) constitutes Pledged Revenues.

Certain specified revenues are deposited into the Arizona Highway User Revenue Fund. See "SOURCES AND APPLICATION OF PLEDGED REVENUES-Arizona Highway User Revenue Fund." Each month, according to statutory allocations, 50.5% of moneys in the Arizona Highway User Revenue Fund (after certain statutory distributions) are transferred to the State Highway Fund. In addition to the distribution from the Arizona Highway User Revenue Fund, certain other moneys are distributed to and deposited in the State Highway Fund. Only moneys from specified sources that are paid into and are on deposit in the State Highway Fund constitute "Pledged Revenues." See "SOURCES AND APPLICATION OF PLEDGED REVENUES-Arizona Highway User Revenues" herein for a more detailed discussion of such revenues.

The Arizona Legislature has previously altered and may in the future alter (1) the type and/or rate of the taxes, fees and charges relating to motor vehicles which are deposited into the Arizona Highway User Revenue Fund; (2) the allocation of such moneys between (a) deposits into the State Highway Fund, which upon such deposit become Pledged Revenues and (b) distributions to cities, towns and counties (or to other state funds); or (3) the type and/or rate of the taxes, fees and charges which are deposited directly into the State Highway Fund. For a discussion of certain recent changes made by the Arizona Legislature, see "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" below. The authority of the Arizona Legislature to make changes in use of moneys deposited into the Arizona Highway User Revenue Fund is subject to the requirement of the Arizona Constitution that revenues derived from fees or taxes related to the registration, operation or use of motor vehicles, excluding the State's motor vehicle license (in lieu) tax, may only be used for highway-related purposes including, but not limited to, paying debt service on bonds issued under the Act. The Legislature's right to make such changes is further restricted by the Bond Resolutions in which the Board, as agent for the State and pursuant to the Act, has pledged and agreed with the Owners of the outstanding Senior Bonds and Subordinated Bonds that the State will not limit or alter the rights vested in the Board to collect such fees and taxes as may be necessary to produce sufficient revenues to fulfill the terms of the Bond Resolutions or any agreement made with the Owners of such Senior Bonds and Subordinated Bonds or in any way impair the rights and remedies of the Owners until all Senior Bonds and Subordinated Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Owners are fully met and discharged.

There is no requirement in the Bond Resolutions that amounts be deposited into the State Highway Fund in excess of the amounts necessary to make transfers to the Bond Funds, as described under "SOURCES AND APPLICATION OF PLEDGED REVENUES—Funds and Accounts and Application of Pledged Revenues."

Additional Bonds

The Board currently estimates that it may issue additional bonds under the Bond Resolutions in the aggregate principal amount of up to approximately $625 million over the remainder of the current Five-Year Capital Program (ending fiscal year 2012) to fund additional highway projects. Such additional bonds may be issued as either Additional Senior Bonds, Additional Subordinated Bonds, Second Subordinated Bonds (all as described below), or any combination thereof. The actual amount of additional bonds to be issued will depend upon, among other considerations, market conditions, cash flow requirements of the Board for construction, any change in statutory limits on the principal amount of bonds that may be outstanding and other sources of funding available to meet such requirements.

Additional Senior Bonds. Pursuant to the Senior Bond Resolution, the Board has previously issued and there are outstanding Senior Bonds in the aggregate principal amount of $1,187,090,000 after giving effect to the issuance of the 2008A Bonds. The Bond Resolutions provide that any outstanding Senior Bonds enjoy a pledge of and a claim upon Pledged Revenues prior to the claim in favor of any Subordinated Bonds.

Under the 2008 Resolution, Additional Senior Bonds may be issued on a parity with the outstanding Series 2008A Bonds only when the Board certifies that:

(a) all the payments of the principal of and interest on the then outstanding Senior Bonds are current; and

(b) the Pledged Revenues deposited by the State Treasurer into the State Highway Fund for the preceding 12-month period were not less than 400% of the highest annual principal and interest payments on all outstanding Senior Bonds for the highest aggregate one-year period during the life of the outstanding Senior Bonds, including the principal and interest payments on the Additional Senior Bonds proposed to be issued, but excluding the principal and interest on any Senior Bonds to be refunded that shall not be outstanding immediately after the issuance of such proposed Additional Senior Bonds; and

(c) subject to (e) below, the Additional Senior Bonds to be issued shall be payable as to principal and interest on such date or dates as the Board shall designate; and

(d) the proceeds from the sale of the Additional Senior Bonds are to be used for any lawful highway purpose, including refunding any bonds; and

(e) all other requirements of law existing on the date such Additional Senior Bonds are issued have been met.

Under the Subordinated Bond Resolution, the Board has agreed for the benefit of the Owners of Subordinated Bonds that the Board will not issue Additional Senior Bonds on parity with the outstanding Senior Bonds unless the Pledged Revenues deposited by the State Treasurer into the State Highway Fund in any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted in the Subordinated Bond Resolution) were not less than 300% of the maximum aggregate Adjusted Debt Service Requirements (as defined in the Subordinated Bond Resolution) on all outstanding Senior Bonds and outstanding Subordinated Bonds, including the Senior Bonds to be issued but excluding any Senior Bonds or Subordinated Bonds to be refunded that shall not be outstanding immediately after the issuance of such Additional Senior Bonds, in the then current or any future Bond Year (as defined in the Subordinated Bond Resolution), during the life of the outstanding Senior Bonds, including the proposed Senior Bonds to be issued.

Under the Subordinated Bond Resolution, the Board has agreed for the benefit of the Owners of Subordinated Bonds that the Board will not issue Additional Senior Bonds for refunding purposes unless either the requirements described in the immediately preceding paragraph are met or unless the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Senior Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Senior Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements by Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Senior Bonds.

In addition to the requirements of the Senior Bond Resolution and the Subordinated Bond Resolution, certain additional statutory requirements, described below under the subheading *"Statutory Limitation on Issuance of Additional Bonds,"* must be met in order for the Board to issue Additional Senior Bonds.

Additional Subordinated Bonds. Pursuant to the Subordinated Bond Resolution, the Board has previously issued and there are outstanding Subordinated Bonds in the aggregate principal amount of $497,460,000. Under the Subordinated Bond Resolution, Additional Subordinated Bonds may be issued on a parity with the outstanding Subordinated Series 2004B Bonds, Series 2004A Bonds, Series 2003A Bonds, Series 1993A Bonds and Series 1993B Bonds (collectively the "Subordinated Bonds") only when the requirements of the Subordinated Bond Resolution have been met, including the requirement that the amount of Pledged Revenues deposited by the State Treasurer into the State Highway Fund during any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted under the Subordinated Bond Resolution) was not less than 300% of the maximum aggregate Adjusted Debt Service Requirements in the then current or any future Bond Year on the outstanding Senior Bonds and the outstanding Subordinated Bonds, including the proposed series of Additional Subordinated Bonds but excluding any Senior Bonds or Subordinated Bonds to be refunded that shall not be outstanding immediately after the issuance of the Additional Subordinated Bonds.

Additional Subordinated Bonds may be issued at any time to refund in whole or in part any outstanding Subordinated Bonds, Senior Bonds or Second Subordinated Bonds, provided that the Board certifies that the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Subordinated Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Subordinated Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements by Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Subordinated Bonds. If the Board cannot satisfy the requirement of the preceding sentence, the Board may nevertheless issue Subordinated Bonds for the purpose of refunding in whole or in part any outstanding Subordinated Bonds, Senior Bonds or Second Subordinated Bonds upon compliance with the test described in the preceding paragraph.

In addition to the requirements of the Subordinated Bond Resolution, certain additional statutory requirements, described below under the subheading *"Statutory Limitation on Issuance of Additional Bonds,"* must be met in order for the Board to issue Additional Subordinated Bonds.

Second Subordinated Bonds. The Board may, at any time, or from time to time, in accordance with the Bond Resolutions, issue or incur Second Subordinated Bonds for any of its lawful purposes, which shall be payable out of, and which may be secured by a pledge of and lien on, amounts of Pledged Revenues remaining after all deposits to the funds established for the Senior Bonds and Subordinated Bonds required by the Bond Resolutions have been made; provided, however, that such pledge of and lien on Pledged Revenues shall be, and shall be expressed to be, subordinate and junior in all respects to the lien and pledge created by the Senior Bond Resolution as security for the Senior Bonds and shall also be subordinate and junior in all respects to the lien and pledge created by the Subordinated Bond Resolution as security for the Subordinated Bonds (such bonds being referred to herein as "Second Subordinated Bonds"). There are currently no Second Subordinated Bonds outstanding nor any current plans to issue Second Subordinated Bonds.

In addition to the requirements of the Bond Resolutions, certain additional statutory requirements, described below under the subheading *"Statutory Limitation on Issuance of Additional Bonds,"* must be met in order for the Board to issue Second Subordinated Bonds.

Statutory Limitation on Issuance of Additional Bonds. The aggregate principal amount of Senior Bonds and Subordinated Bonds that will be outstanding immediately after the delivery of the Series 2008A Bonds, will be $1,684,550,000. The Act presently provides that the Board may issue additional bonds, which may be Senior Bonds, Subordinated Bonds or Second Subordinated Bonds, if the moneys pledged to the payment of such bonds for the preceding 12 month period exceed by three times the highest annual principal and interest payments on all the outstanding bonds and the bonds to be issued for the highest one-year period during the life of both the outstanding bonds and the bonds to be issued. In addition, for any additional bonds to be issued, the requirements of the applicable Bond Resolutions described above must also be met. For a discussion of recent changes to the statutory limitation on the issuance of Additional Bonds, see "SOURCES AND APPLICATION OF PLEDGED REVENUES -Recent Legislation" below.

Amendments to 2008A Resolution

The Board may amend the 2008A Resolution pursuant to which the Series 2008A Bonds are issued or other existing Senior Bond Resolutions without notice to or consent of the Owners for any of the following purposes: (1) to cure any ambiguity, inconsistency, formal defect or omission in the 2008A Resolution or other existing Senior Bond Resolutions; (2) to grant to or confer upon the Owners of the Series 2008A Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon them; or (3) to amend or supplement the 2008A Resolution or other existing Senior Bond Resolutions in any other respect, provided such amendment or supplement is not materially adverse to the interests of the Owners of the Series 2008A Bonds.

Exclusive of the amendments described above, the 2008A Resolution or other existing Senior Bond Resolutions, and the rights and obligations of the Board and of the Owners of the Series 2008A Bonds thereunder, may be amended by the Board only with consent of Owners of at least a majority in aggregate principal amount of the Outstanding Series 2008A Bonds; provided, however, that no such modification or amendment shall, without the express written consent of the Owner of each Series 2008A Bond affected, reduce the principal amount of or the interest rate payable thereon, advance the earliest redemption date, extend its maturity or the times for paying interest, nor shall any such modification or amendment reduce the percentage of consent required for amendment or modification.

Any act done pursuant to an amendment consented to as provided in the 2008A Resolution shall be binding upon the Owners of all of the Series 2008A Bonds.

To obtain any such consent, the Board shall cause the Bond Registrar to mail a notice, first-class postage prepaid, to the registered Owners (Cede & Co., so long as the book-entry-only system is in effect) of the Series 2008A Bonds at their addresses appearing on the registration books, briefly describing the proposed amendment.

SOURCES AND APPLICATION OF PLEDGED REVENUES

The Series 2008A Bonds and all other Senior Bonds are payable from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. Moneys in the State Highway Fund that constitute Pledged Revenues consist primarily of certain moneys distributed from the Arizona Highway User Revenue Fund. The distribution of moneys to the State Highway Fund that constitute Pledged Revenues is more fully discussed below.

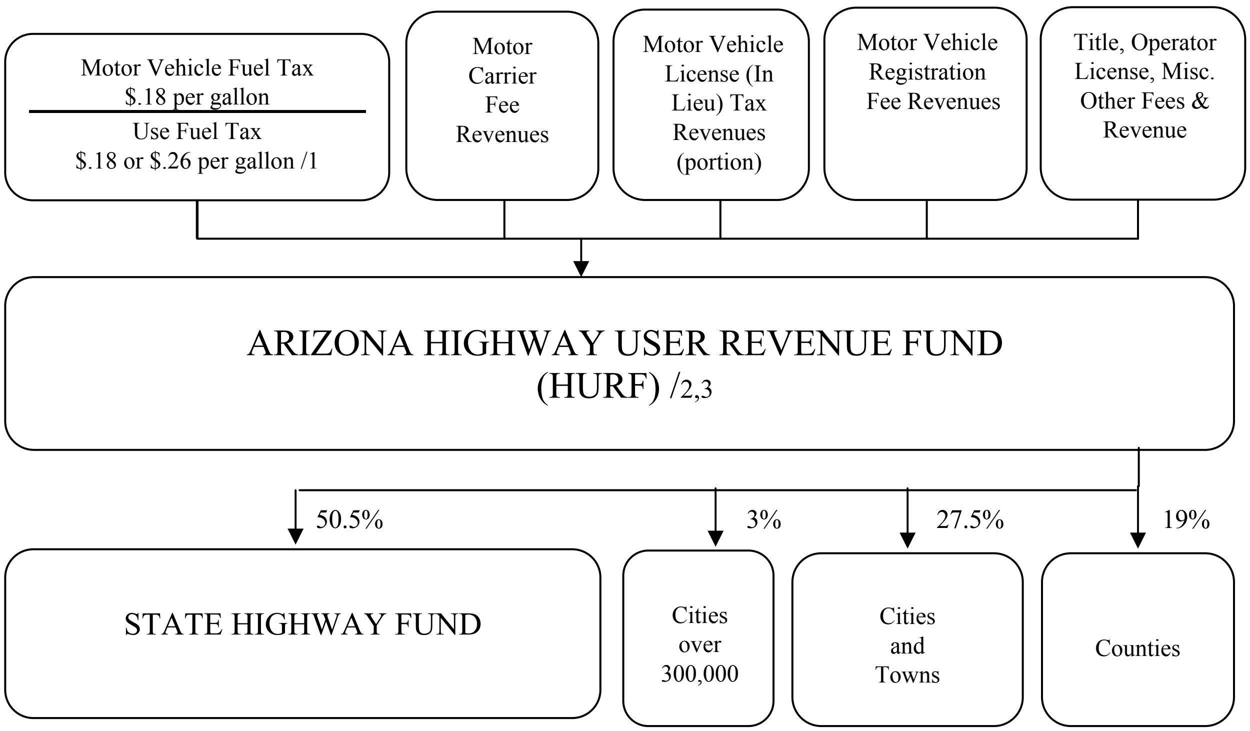
Arizona Highway User Revenue Fund

The State imposes motor vehicle fuel taxes and a variety of different types of taxes, fees and charges relating to the registration, operation and use of motor vehicles on the public highways of the State that are allocated by statute to the State Highway Fund and to the cities, towns and counties of the State, to finance highway improvements and other transportation-related expenses. These taxes, fees and charges are collected by various State officers and transferred to the Department for immediate transfer, after all exemptions and refunds, to the State Treasurer for deposit to the Arizona Highway User Revenue Fund. Each month, in accordance with statutory allocations, the State Treasurer distributes revenues transferred to the Arizona Highway User Revenue Fund primarily to the State Highway Fund and to the appropriate cities, towns and counties. Only after moneys from certain specified sources are deposited to the State Highway Fund do they become Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008A BONDS - Pledged Revenues" herein.

The taxes, fees and charges deposited to the Arizona Highway User Revenue Fund consist of all or a portion of (i) motor vehicle fuel taxes and use fuel taxes, (ii) motor vehicle registration fees, (iii) motor carrier fees, (iv) motor vehicle license (in lieu) taxes, and (v) motor vehicle operators' license fees and miscellaneous fees and revenues. These revenue sources are further described below.

The chart on the following page illustrates the flow of the revenues into the Arizona Highway User Revenue Fund and the distribution of such revenues.

Arizona Highway User Revenue Fund Flow



Notes:

/1 The use fuel tax rate of $.18 per gallon applies to vehicles under 26,001 pounds and other qualifying vehicles. The use fuel tax rate for all other vehicles is $.26 per gallon.

/2 For fiscal year 2008, the Arizona Legislature has authorized the transfer from the HURF of: $1.0 million to the Economic Strength Project Fund to be expended for highway projects that provide economic benefits to the State or a local jurisdiction, $0.6 million to the Motor Vehicle Division for its registration compliance program, $0.2 million to the Arizona Department of Administration to conduct a hazards assessment on State highways, and $6.7 million to the Department for two Motor Vehicle Division service centers and one Department multipurpose facility.

/3 The Arizona Legislature has currently authorized a distribution from the Arizona Highway User Revenue Fund of $10.0 million in fiscal year 2008 to the Arizona Department of Public Safety for highway patrol expenditures. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation."

Arizona Highway User Revenues

The following is a summary of the sources of revenue that are deposited to the Arizona Highway User Revenue Fund under existing statutes. Recent legislative changes are discussed below. This summary does not purport to be a complete description of each of these revenue sources and legislative changes and, accordingly, is qualified by reference to the Arizona Revised Statutes regarding these sources of revenue. The Arizona Legislature has in the past altered and may in the future alter the statutes governing these revenue sources and their allocation. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008A BONDS - Pledged Revenues" herein.

Motor Vehicle Fuel Tax Revenues. Motor vehicle fuel tax revenues consist of motor vehicle fuel (gasoline) taxes and motor vehicle use fuel (primarily diesel) taxes. These are excise taxes imposed upon fuel used in the propulsion of a motor vehicle on the public highways of the State. The motor vehicle fuel (gasoline) tax is currently assessed at the rate of $.18 per gallon, and the use fuel (primarily diesel) tax is assessed at $.18 per gallon for vehicles under 26,001 pounds and other qualifying vehicles and $.26 per gallon for all other vehicles. The motor vehicle fuel tax is collected by the Department from licensed suppliers for each gallon of gasoline possessed, used or consumed in the State and the use fuel tax is collected by the Department from the supplier or paid by the user for the use of the highways in the State and remitted to the Department.

The following is a summary of the gallons of motor vehicle fuels imported into and consumed in the State, subject to the motor vehicle fuel tax (primarily gasoline fuel imported into the State) or motor vehicle use fuel tax (primarily diesel fuel consumed in the State), for each of the last ten fiscal years ended June 30, 2007.

Motor Vehicle Fuels Imported or Consumed
Based on Revenue Gallonage
(000's Gallons)

Fiscal Year	Gasoline Fuel Imported (Net)	Diesel Fuel Consumed	Total	Percentage Change from Previous Year
2007	2,765,012	888,831	3,653,842	1.3%
2006	2,717,115	890,000	3,607,115	3.4%
2005	2,673,800	814,615	3,488,415	4.9%
2004	2,575,172	750,962	3,326,133	4.3%
2003	2,482,727	707,808	3,190,536	2.8%
2002	2,415,654	687,591	3,103,245	4.1%
2001	2,324,443	657,627	2,982,069	2.9%
2000	2,272,983	624,396	2,897,379	2.1%
1999	2,208,129	630,057	2,838,186	7.5%
1998	2,035,426	603,805	2,639,230	3.2%

Note: Totals may not add due to rounding.
Source: Arizona Department of Transportation, Office of Financial Planning.

Motor Vehicle Registration Fee Revenues. Motor vehicles are required to be registered in the State on a staggered monthly registration basis. The fee for passenger vehicles and non-commercial pickup trucks is $8 and for motorcycles the fee is $9, of which $1 is paid to the motorcycle education fund. The fee for commercial motor vehicles, including trucks, buses and taxis, is $12, plus a graduated registration fee based upon the declared gross weight of the motor vehicle. Commercial motor vehicles that operate in several states may instead pay fees which are prorated based on the ratio of operating mileage in the State to the total fleet operating mileage in all states. All motor vehicle registration fees are deposited in the Arizona Highway User Revenue Fund.

The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten fiscal years ended June 30, 2007.

Motor Vehicle Registrations

Fiscal Year	Passenger Vehicles	Trucks/1	Buses and Taxis	Trailers	Motorcycles	Other/2	Total
2007	4,606,770	511,457	3,917	617,240	205,801	663,541	6,608,726
2006	4,434,327	493,440	3,911	576,321	182,312	628,091	6,318,402
2005	4,204,115	462,244	3,494	524,198	156,326	594,754	5,945,131
2004	4,008,189	443,920	3,506	482,845	141,379	558,960	5,638,799
2003	3,833,971	435,426	3,344	443,800	127,627	467,422	5,311,590
2002	3,710,008	444,491	3,326	415,851	117,103	427,336	5,118,115
2001	3,697,895	450,521	3,507	373,145	110,171	4,166	4,639,405
2000	3,583,026	370,147	3,596	340,833	103,973	5,523	4,407,098
1999	3,378,819	365,596	3,348	309,502	95,098	7,213	4,159,576
1998	3,236,322	365,737	3,014	309,402	89,923	9,589	4,013,987

/1 Includes commercial and non-commercial.
/2 Other includes vehicles not assigned to a specific category.

Source: Arizona Department of Transportation, Office of Financial Planning.

Motor Vehicle License (In Lieu) Tax Revenues. The motor vehicle license (in lieu) taxes are based upon the value of the vehicle (according to a statutory formula) and are collected with the vehicle registration fees. Pursuant to current Arizona statutes, these license taxes are distributed as follows: (i) 44.99% to the Arizona Highway User Revenue Fund, (ii) 24.59% to the general fund of the county where the motor vehicle is registered, (iii) 24.59% to the cities and towns of the county where the motor vehicle is registered, and (iv) 5.83% to the counties for the same use as Arizona Highway User Revenue Fund purposes. The above distribution percentages are blended since the tax rates vary between new and renewal vehicles.

Motor Carrier Fee Revenues. The motor carrier fee is imposed on commercial motor vehicles, whether common, contract or private carriers, with a gross weight in excess of 12,000 pounds. The motor carrier fee increases as the declared gross vehicle weight of the vehicle increases. All motor carrier fee revenues are deposited to the Arizona Highway User Revenue Fund.

Motor Vehicle Operators' License Fees and Miscellaneous Fees and Revenues. The balance of the Arizona Highway User Revenue Fund revenues include motor vehicle operators' license fees and miscellaneous fees and revenues. The miscellaneous fees and revenues include certificates of title fees, oversize permit fees, inquiry fees, investment income on moneys held in the Arizona Highway User Revenue Fund, certain fines, penalties and other miscellaneous fees.

Recent Legislation

From time to time legislation is enacted that alters or modifies the deposits of monies into, and the distribution of monies from, the Arizona Highway User Revenue Fund and/or the State Highway Fund, or otherwise affects the Department's capital and financing programs. The information provided below reflects the more significant legislative enactments that have occurred since the Legislature's 2003 regular session.

During the 2004 regular session, legislation was enacted (SB 1402) that distributed $52.2 million from the Arizona Highway User Revenue Fund to the Arizona Department of Public Safety ("DPS") in fiscal year 2005, which resulted in a decrease in distributions to the State Highway Fund for such year of $26.1 million. Another bill enacted during the session (SB 1413) required a one-time transfer in fiscal year 2005 of $118 million to the State General Fund of the motor vehicle license (in lieu) tax revenues that otherwise would have been deposited in the State Highway Fund. The $118 million represented approximately 73 percent of the motor vehicle license (in lieu) tax revenues forecasted by the Department that would have been deposited in the State Highway Fund in fiscal year 2005.

During the 2005 regular session, legislation was enacted (SB 1513) that distributed $63.2 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2006, which reduced the distributions to the State Highway Fund for such year by $30.1 million. Legislation was also enacted (SB 1119) requiring that 1.51 percent of the State Highway Fund share of the motor vehicle license (in lieu) tax revenue be distributed to the Arizona Highway User Revenue Fund and be deposited into the DPS Parity Compensation Fund beginning in fiscal year 2006 and thereafter. The decrease in distributions to the State Highway Fund as a result of this legislation was $2.7 million in fiscal year 2006 and is in addition to the distribution noted in the first sentence of this paragraph. Other legislation was enacted (SB 1103) that extended the termination date of the Motor Vehicles Division of the Department for an additional five years to July 1, 2010 and extended the statutory provisions relating to the Motor Vehicles Division to January 1, 2011. See "PROGRAM RESPONSIBILITY AND MANAGEMENT - Sunset Laws" herein.

During the 2006 regular session, legislation was enacted (HB 2206) that eliminated the statutory limit on the amount of highway revenue bonds that may be outstanding at any one time. Previously, the limit was $1.3 billion. HB 2206 also increased the debt service coverage requirement for the issuance of additional highway revenue bonds from two times to three times. Legislation was also enacted (HB 2863) that distributed $10.0 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2007, as specified in current statute, and which reduced the distributions to the State Highway Fund for fiscal year 2007 by $5.1 million.

During the 2007 regular session, legislation was enacted (HB 2793) that extended the maximum term of highway revenue bonds, such as the Series 2008A Bonds, from 20 to 30 years. Legislation was also enacted (HB 2781) that distributed $10.0 million from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2008, as specified in current statute, and which reduced the distributions to the State Highway Fund for fiscal year 2008 by $5.1 million. Other legislation was enacted (SB 2783) that distributed $6.7 million from the Arizona Highway User Revenue Fund to the State Highway fund in fiscal year 2008 to construct two Motor Vehicle Division service centers and Department multi-use facility.

During the 2008 regular session, legislation was enacted (SB 1468) that extended the termination date of the Department and the Board for an additional eight years to July 1, 2016 and extended the statutory provisions relating to the Department and the Board to January 1, 2017. See "PROGRAM RESPONSIBILITY AND MANAGEMENT – Sunset Laws" herein.

Pending Legislation

The Governor's budget proposal for fiscal year 2009 distributes $10 million from the Arizona Highway User Revenue Fund to the DPS, as specified in current statute. Other budget proposals may be introduced by the Legislature.

Until legislation, if any, is enacted into law, the actual impact on the Arizona Highway User Revenue Fund and the amount deposited in the State Highway Fund in fiscal year 2009 cannot be determined. However, the distribution of moneys to the State Highway Fund for use by the Department in fiscal year 2009 will be decreased by 50.5% of any increased funding to the DPS and any other funding that may be transferred from the Arizona Highway User Revenue Fund.

Funds and Accounts and Application of Pledged Revenues

The Senior Bond Resolution established for the payment of the principal of and interest on the Senior Bonds: a Senior Bond Fund, containing a Principal Account, a Redemption Account and an Interest Account; a Senior Bond Related Costs Fund; and a Senior Bond Reserve Fund. In order to facilitate the administration of the deposit of Pledged Revenues into the funds relating to the Senior Bonds, the Subordinated Bonds and the Second Subordinated Bonds, if any, the Bond Resolutions also established a Subordinated Bond Fund, a Subordinated Bond Related Costs Fund, a Subordinated Bond Reserve Fund, and other similar funds for the Second Subordinated Bonds (all of the above-referenced funds are collectively referred to herein as the "Bond Funds").

Upon the issuance of the Series 2008A Bonds, no amounts are required by the Bond Resolutions to be deposited or maintained in any of the funds referenced above other than the Senior Bond Fund and the Subordinated Bond Fund. Subsequent Bond Resolutions may require deposits to additional funds.

The Bond Resolutions require that all Pledged Revenues paid into the State Highway Fund shall be accounted for by the Board and State Treasurer and held by the State Treasurer and deposited by the State Treasurer into the Bond Funds in the following order and manner:

(1) into the Interest Account in the Senior Bond Fund, on the first day of each month, an amount which in the aggregate is not less than one-fifth (1/5) of the amount of the next semiannual interest payment, net of any investment income deposited to such Account, coming due on the outstanding Senior Bonds; and then

(2) into the Principal Account in the Senior Bond Fund, on the first day of each month, one-eleventh (1/11) of the amount of the principal of the outstanding Senior Bonds coming due on the next principal payment date (whether by stated maturity or mandatory sinking fund redemption), net of any investment income deposited to such Account; and then

(3) into the account in the Highway Bond Proceeds Fund for any outstanding Series of Additional Senior Bonds at such times and in such amounts as may be specified by the provisions of any subsequent Senior Bond Resolution, an amount equal to the unreimbursed amounts, if any, theretofore expended from such account for payment of principal of and interest on any Senior Bonds; and then

(4) into the Senior Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for payment of Bond Related Costs for any Additional Senior Bonds; and then

(5) into the Senior Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for deposit therein; and then

(6) into the Interest Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding an interest payment date on the Outstanding Subordinated Bonds, an amount equal to the interest payment due on such interest payment date on the Outstanding Subordinated Bonds and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any series of Additional Subordinated Bonds; and then

(7) into the Principal Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding a principal payment date (whether at maturity or by mandatory sinking fund redemption) on the Outstanding Subordinated Bonds, an amount equal to the principal payment due on such principal payment date on the Outstanding Subordinated Bonds and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any series of Additional Subordinated Bonds; and then

(8) into the Subordinated Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution, for deposit therein for payment of Bond Related Costs for any Additional Subordinated Bonds; and then

(9) into the Subordinated Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution for deposit therein; and then

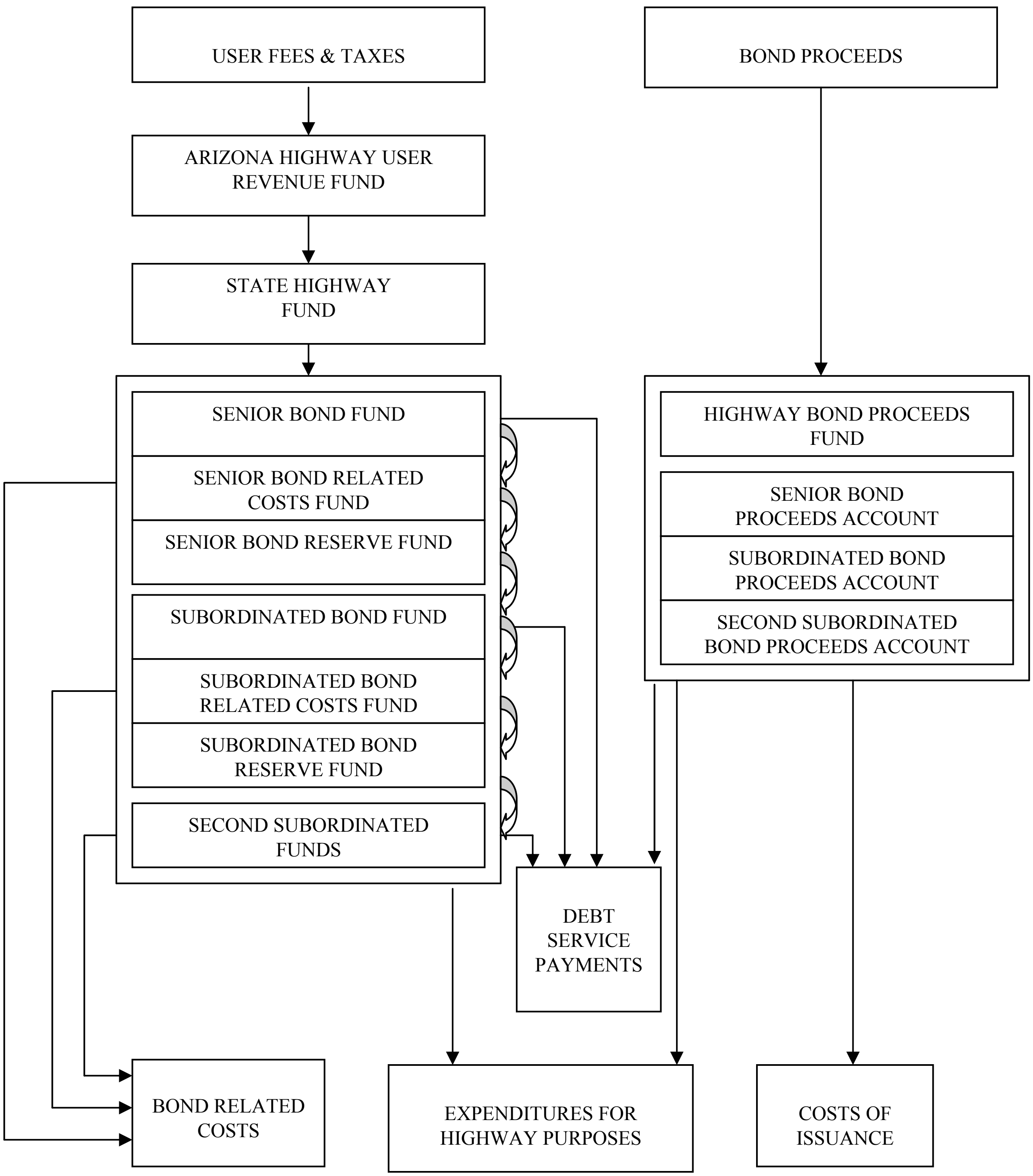
(10) into the Second Subordinated Funds, at such times and in such amounts, if any, specified pursuant to any subsequent resolution of the Board authorizing Second Subordinated Bonds for deposit therein; and then

(11) the remaining Pledged Revenues, if any, may be used and expended by the Board for any other lawful use of the State Highway Fund.

If there is a deficiency in the required deposit to any of the Bond Funds as provided above, and unless the Board uses lawfully available Pledged Revenues on deposit in the State Highway Fund or other lawfully available moneys to cure such deficiency, all additional Pledged Revenues deposited into the State Highway Fund shall be used to make up such deficiencies in such Bond Funds, but only in the priority of deposit set forth above, prior to making any deposits to any lower priority Bond Fund.

To the extent that investment earnings are credited to the Senior and Subordinated Bond Fund pursuant to the Bond Resolutions, subsequent deposits to the Senior and Subordinated Bond Fund shall be reduced by the amount so credited. The Bond Resolutions provide that, to the extent that moneys in the Senior Bond Fund, Senior Bond Related Costs Fund and Senior Bond Reserve Fund are insufficient to pay, when due, principal of and interest on the Senior Bonds, the Senior Bonds shall have a first claim on moneys in all Subordinated Funds for the payment of principal and interest on the Senior Bonds.

HIGHWAY REVENUE BONDS
FLOW OF FUNDS



REVENUES AND DEBT SERVICE COVERAGE

Historical Revenues

The following table sets forth the sources of revenues which were deposited into the Arizona Highway User Revenue Fund and the State Highway Fund for each of the last ten fiscal years ended June 30, 2007.

Sources of Revenues Deposited in the
Arizona Highway User Revenue Fund and State Highway Fund
(000's)

Fiscal Year	Motor Vehicle Fuel Tax Revenues/1	Motor Vehicle Registration Fee Revenues/2	Motor Carrier Tax Revenues/3	Motor Vehicle Operators' License Fees and Misc. Fees and Revenues	Motor Vehicle License (In Lieu) Tax Revenues	Total Deposited to Arizona Highway User Revenue Fund	Percentage Change	Total Distributed to State Highway Fund/4
2007	$707,984	$177,788	$45,226	$57,979	$393,497	$1,382,474	3.82%	$674,141
2006	702,541	158,805	40,504	55,911	373,864	1,331,625	6.91%	623,040
2005	675,652	154,122	37,980	49,567	328,232	1,245,553	5.59%	472,919
2004	642,533	146,638	34,617	43,510	312,262	1,179,561	6.15%	561,131
2003	613,635	141,327	32,856	41,490	281,947	1,111,256	3.24%	525,029
2002	596,325	138,210	29,347	41,873	270,641	1,076,395	4.41%	510,236
2001	574,259	132,269	32,678	40,147	251,612	1,030,965	1.11%	530,637
2000	565,736	140,345	36,563	40,409	236,547	1,019,599	3.75%	528,721
1999	557,775	131,952	34,150	38,775	220,126	982,779	10.74%	509,935
1998	508,543	101,722	63,846	36,426	176,950	887,487	-1.06%	468,240

/1 Reflects $.08 per gallon surcharge on use fuel from January 1, 1994 through September 30, 1997. On January 1, 1998, the use fuel tax rate increased $.09 per gallon to $.27 per gallon for certain vehicles. On July 1, 2000 the use fuel tax rate decreased from $.27 to $.26 per gallon for certain vehicles.

/2 On October 1, 1997, the weight and use registration fees charged to motor carriers increased.

/3 On October 1, 1997, the motor carrier tax based on weight and distance was eliminated, and replaced with a motor carrier fee based on weight.

/4 Subject to certain adjustments, which may include legislative adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. Adjustments may include other distributions from the Arizona Highway User Revenue Fund as required by legislative enactments and amounts paid to third party collection agents. See "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein for a discussion of the decreased deposits to the State Highway Fund for fiscal years 2004 through 2007. For fiscal years 1998 through 2001, includes certain motor vehicle license tax revenues distributed to the State Highway Fund from other than the Arizona Highway User Revenue Fund.

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning.

Projected Revenues

Recognizing the need for formal, well documented forecasts, the Department has developed a long-range forecasting model for revenues to be deposited to the Arizona Highway User Revenue Fund and distributed to the State Highway Fund. This model reflects underlying economic and energy-related trends. These trends are important in forecasting growth rates in personal income, motor vehicle fuel efficiency, employment, and population, all of which in turn are major components of the revenue forecast which follows.

The model uses a disaggregated structural regression-based econometric modeling approach. The use of this technique provides a framework that allows for the complex interaction of economic, demographic, and technological factors which influence collections over the long term. The key variables incorporated in the model which influence growth in Arizona Highway User Revenue Fund collections are: (i) Arizona population, (ii) Arizona real per capita income, (iii) Arizona wage and salary employment, (iv) Arizona vehicle fuel efficiency, and (v) Arizona real gross state product. Of these variables, Arizona population and Arizona real per capita income are the most important in projecting revenues.

In 1992, the Department expanded the capabilities of the model by retaining economic consultants to introduce a risk analysis process into the forecast development effort, thereby providing a means of dealing with the uncertainty concerning future values for the critical model variables. This procedure provides information concerning the range of potential future revenues and their probability of occurrence.

In October 1996, the Department commissioned a consultant to update the forecasting model. The new model was designed to incorporate certain economic data generated over the prior ten years which was not included in the original model. In addition, the consultant was asked to evaluate the inclusion of certain independent variables absent from the original model to enhance the model's forecasting accuracy. The consultant also eliminated some independent variables that were either not significant to the model or were not readily available. The model update was completed in September 1997 and takes into consideration 1997 legislative changes. Subsequent model updates were completed in September 2000, September 2003 and July 2005. The July 2005 update was fully incorporated into the November 2005 forecast.

Over the years, the model has exhibited the ability to forecast revenues with a high degree of accuracy. For the 12-month periods ended June 30, 2007, 2006 and 2005, the forecast of collections to be deposited to the Arizona Highway User Revenue Fund which was made at the start of each such period, was within (1.2%), 1.9% and 1.4%, respectively, of actual collections in such periods.

The following table sets forth the Department's most recent official forecast, as of September 2007, of revenues anticipated to be deposited into the Arizona Highway User Revenue Fund and the amounts to be distributed to the State Highway Fund for each of the five fiscal years through June 30, 2012. See "-Interim Revenue Forecast" below for the Department's more recent interim forecast. The amounts shown below for fiscal year 2008 and subsequent fiscal years reflect a number of factors, including:

- Anticipated growth in the amount of revenues deposited to the Arizona Highway User Revenue Fund; and
- Funding of the Arizona Department of Public Safety from the Arizona Highway User Revenue Fund in fiscal years 2008 through 2012 is $10.0 million per year, as specified in current statutes, and funding of the DPS Parity Compensation Fund of $3.2 million to $4.5 million per year from fiscal year 2008 through fiscal year 2012 (see "SOURCES AND APPLICATIONS OF PLEDGED REVENUES - Recent Legislation").

Forecast of Revenues to be Deposited in the
Arizona Highway User Revenue Fund and State Highway Fund
Fiscal Years ending June 30, 2008 through June 30, 2012
(000's)

Fiscal Year	Motor Vehicle Fuel Tax Revenues	Motor Vehicle Registration Fee Revenues	Motor Carrier Fee Revenues	Motor Vehicle Operators' License Fees and Misc. Fees and Revenues	Motor Vehicle License (In Lieu) Tax Revenues	Total Deposited to Arizona Highway User Revenue Fund	Total Distributed to State Highway Fund/1, 2
2008	$717,600	$189,400	$48,100	$62,900	$422,200	$1,440,200	$698,231
2009	752,800	184,900	47,700	64,200	460,200	1,509,800	735,371
2010	775,900	192,300	50,400	67,300	496,600	1,582,500	770,382
2011	799,500	199,900	53,200	70,500	540,600	1,663,700	809,331
2012	823,300	208,400	56,500	73,900	585,900	1,748,000	849,783

/1 Subject to certain adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. Adjustments may include other distributions from the Arizona Highway User Revenue Fund as required by legislative enactments and amounts paid to third party collection agents. See "SOURCES AND APPLICATION OF PLEDGED REVENUES" herein.

/2 For a discussion of recent legislation and the impact of revenue transfers on forecasted Pledged Revenues, see "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein.

Note: Totals may not add due to rounding

Source: Arizona Department of Transportation, Office of Financial Planning.

Interim Revenue Forecast

The Department's forecasting model, described above, has historically allowed it to accurately forecast highway user revenues. The official forecast is developed through a rigorous process that is undertaken annually, after the close of each fiscal year. The most recent official forecast, as provided in the table above, was completed in September 2007. During the current fiscal year, it has become apparent that national economic conditions, the weak housing market, and higher than anticipated gas prices have negatively impacted fiscal year 2008 deposits to the Arizona Highway User Revenue Fund. Consequently, the Department believes that the above forecast made in September 2007 may no longer accurately project the amounts expected by the Department to be deposited to the Arizona Highway User Revenue Fund through the forecast period. Rather than waiting to adjust its revenue forecast until the next official forecast following the end of the current fiscal year, the Department has developed an interim forecast that will be used for planning purposes. Based on information available to the Department, the Department believes that the following interim forecast is more likely to be achieved than the current official forecast.

Interim Forecast of Revenues to be Deposited in the Arizona Highway User Revenue Fund and State Highway Fund Fiscal Years ending June 30, 2008 through June 30, 2012 (000's)

Fiscal Year	Total Deposited to Arizona Highway User Revenue Fund	Total Distributed to State Highway Fund/1, 2
2008	$1,360,000	$657,730
2009	1,394,000	676,892
2010	1,450,000	703,470
2011	1,515,000	734,237
2012	1,590,000	769,993

/1 Subject to certain adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. Adjustments may include other distributions from the Arizona Highway User Revenue Fund as required by legislative enactments and amounts paid to third party collection agents. See "SOURCES AND APPLICATION OF PLEDGED REVENUES" herein.

/2 For a discussion of recent legislation and the impact of revenue transfers on forecasted Pledged Revenues, see "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein.

Source: Arizona Department of Transportation, Office of Financial Planning.

The prospective financial information included in this Official Statement has been prepared by, and is the responsibility of, the Department. The prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, however, there is no requirement that such prospective financial information be prepared in accordance with such guidelines. In the view of the Department, the forecasts included herein were prepared on a reasonable basis utilizing the methodology described in this section and the interim forecast represents the Department's most recent forecast of revenues expected to be deposited in the Arizona Highway User Revenue Fund and State Highway Fund based on current law. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

THE ACTUAL REVENUES THAT WILL BE DEPOSITED IN THE ARIZONA HIGHWAY USER REVENUE FUND AND THE STATE HIGHWAY FUND MAY VARY FROM THE INTERIM FORECAST BECAUSE OF CHANGES IN LAW, FLUCTUATING ECONOMIC CONDITIONS AND OTHER VARIABLES AFFECTING REVENUE GROWTH. SUCH VARIATIONS COULD BE MATERIAL.

Debt Service Requirements, Forecasted Pledged Revenues and Projected Debt Service Coverage[1]

The debt service requirements of the outstanding Senior Bonds and Subordinated Bonds, and of the Series 2008A Bonds are set forth below. Based upon the Department's interim forecast of Pledged Revenues and debt service requirements, the projected debt service coverage of the outstanding Senior Bonds and the Series 2008A Bonds and Subordinated Bonds (assuming no issuance of Additional Senior Bonds or Additional Subordinated Bonds) is as follows:

Twelve Months Ending July 1	Forecasted Pledged Revenues[1]	Outstanding Senior Bonds[2]	Series 2008A Bonds			Total Senior Bonds Debt Service[3]	Projected Debt Service Coverage on Senior Bonds[2][3]	Outstanding Subordinated Bonds[2]	Total Senior and Subordinated Debt Service Requirements[3]	Projected Total Debt Service Coverage[2][3]
			Principal Payments	Interest Payments[3]	Total Debt Service					
2008	$657,730,000	$ 81,152,265				$81,152,265	5.94	$55,030,935	$136,183,200	4.47
2009	676,892,000	81,344,723		$10,703,326	$10,703,326	92,048,049	6.11	55,039,335	147,087,384	4.60
2010	703,470,000	63,371,573		9,632,994	9,632,994	73,004,567	6.35	73,759,585	146,764,152	4.79
2011	734,237,000	63,399,793		9,632,994	9,632,994	73,032,787	6.63	73,660,335	146,693,122	5.00
2012	769,993,000	101,042,743		9,632,994	9,632,994	110,675,737	6.95	36,064,335	146,740,072	5.25
2013		101,086,260		9,632,994	9,632,994	110,719,254		36,062,460	146,781,714	
2014		101,059,655		9,632,994	9,632,994	110,692,649		36,060,925	146,753,574	
2015		101,040,800		9,632,994	9,632,994	110,673,794		36,063,575	146,737,369	
2016		101,039,538		9,632,994	9,632,994	110,672,532		36,060,575	146,733,107	
2017		101,034,700		9,632,994	9,632,994	110,667,694		36,063,875	146,731,569	
2018		101,017,688		9,632,994	9,632,994	110,650,682		36,065,875	146,716,557	
2019		101,046,913		9,632,994	9,632,994	110,679,907		36,060,375	146,740,282	
2020		93,445,700		9,632,994	9,632,994	103,078,694		36,059,625	139,138,319	
2021		77,942,700		9,632,994	9,632,994	87,575,694		36,065,125	123,640,819	
2022		77,946,451		9,632,994	9,632,994	87,579,445		36,058,250	123,637,695	
2023		46,549,300	$13,705,000	9,632,994	23,337,994	69,887,294		36,066,250	105,953,544	
2024		46,552,300	14,335,000	9,002,563	23,337,563	69,889,863		20,039,250	89,929,113	
2025		46,551,238	15,050,000	8,285,813	23,335,813	69,887,051			69,887,051	
2026		34,560,750	15,805,000	7,533,313	23,338,313	57,899,063			57,899,063	
2027			16,595,000	6,743,063	23,338,063	23,338,063			23,338,063	
2028			17,425,000	5,913,313	23,338,313	23,338,313			23,338,313	
2029			18,285,000	5,051,750	23,336,750	23,336,750			23,336,750	
2030			19,200,000	4,137,500	23,337,500	23,337,500			23,337,500	
2031			20,160,000	3,177,500	23,337,500	23,337,500			23,337,500	
2032			21,165,000	2,169,500	23,334,500	23,334,500			23,334,500	
2033			22,225,000	1,111,250	23,336,250	23,336,250			23,336,250	

(1) From Department's interim revenue forecast for 2008 to 2012 described under "Interim Revenue Forecast" above. For a discussion of recent legislation and the impact of revenue transfers on forecasted Pledged Revenues, see "SOURCES AND APPLICATION OF PLEDGED REVENUES – Recent Legislation" herein.

(2) Does not reflect debt service requirements on up to $625 million of bonds the Board currently anticipates issuing under the Bond Resolutions in the future to fund the current Five-Year Capital Program. The issuance of such bonds may result in a decrease in the projected debt service coverage figures shown. Such bonds may only be issued by the Board, however, subject to meeting certain requirements of the Act and the Bond Resolutions. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008A BONDS - Additional Bonds" for a further discussion of such requirements.

(3) The first interest payment on the Series 2008A Bonds is January 1, 2009.

PROGRAM RESPONSIBILITY AND MANAGEMENT

Arizona Transportation Board

The Board consists of seven members, with two members appointed from Transportation District 1 (Maricopa County) and one member from each of the other transportation districts within the State. Each member of the Board is appointed by the Governor of the State, subject to confirmation by the State Senate, for a term of six years expiring on a staggered basis on the third Monday in January. The Board is responsible for: (i) issuing bonds for State highway purposes; (ii) establishing a complete system of State highway routes; (iii) determining which State highway routes or portions thereof will be accepted into the State highway system, and which will be improved; (iv) establishing, operating, relocating, altering, vacating or abandoning any portion of a State route or State highway; (v) determining priority program planning with respect to highway transportation facilities and monitoring the status of such programs; and (vi) distributing money appropriated from the State Aviation Fund for planning, design, development, acquisition of interests in land, and construction and improvement of publicly owned and operated airport facilities in the counties, cities and towns of the State.

The following sets forth information with respect to each member of the Board:

Name and Transportation District Represented	City of Residence	Term Expires January
Si Schorr, Chair Transportation District 2 Pima County	Tucson	2009
Delbert Householder, Vice Chair Transportation District 4 Gila, Graham and Pinal Counties	Thatcher	2010
Robert Montoya, Member Transportation District 5 Navajo, Apache and Coconino Counties	Flagstaff	2011
Felipe Andres Zubia, Member Transportation District 1 Maricopa County	Avondale	2012
Bill Feldmeier, Member Transportation District 6 Yavapai, Yuma, Mohave and La Paz Counties	Prescott	2012
Barbara Lundstrom, Member Transportation District 3 Cochise, Greenlee and Santa Cruz Counties	Nogales	2013
Victor Flores, Member Transportation District 1 Maricopa County	Tempe	2014

Arizona Department of Transportation

General.

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 1952). The Department's mission is to provide products and services for a safe, efficient and cost-effective transportation system that links Arizona to the global economy, promotes economic prosperity and demonstrates respect for Arizona's environment and quality of life.

Responsibilities and Organization.

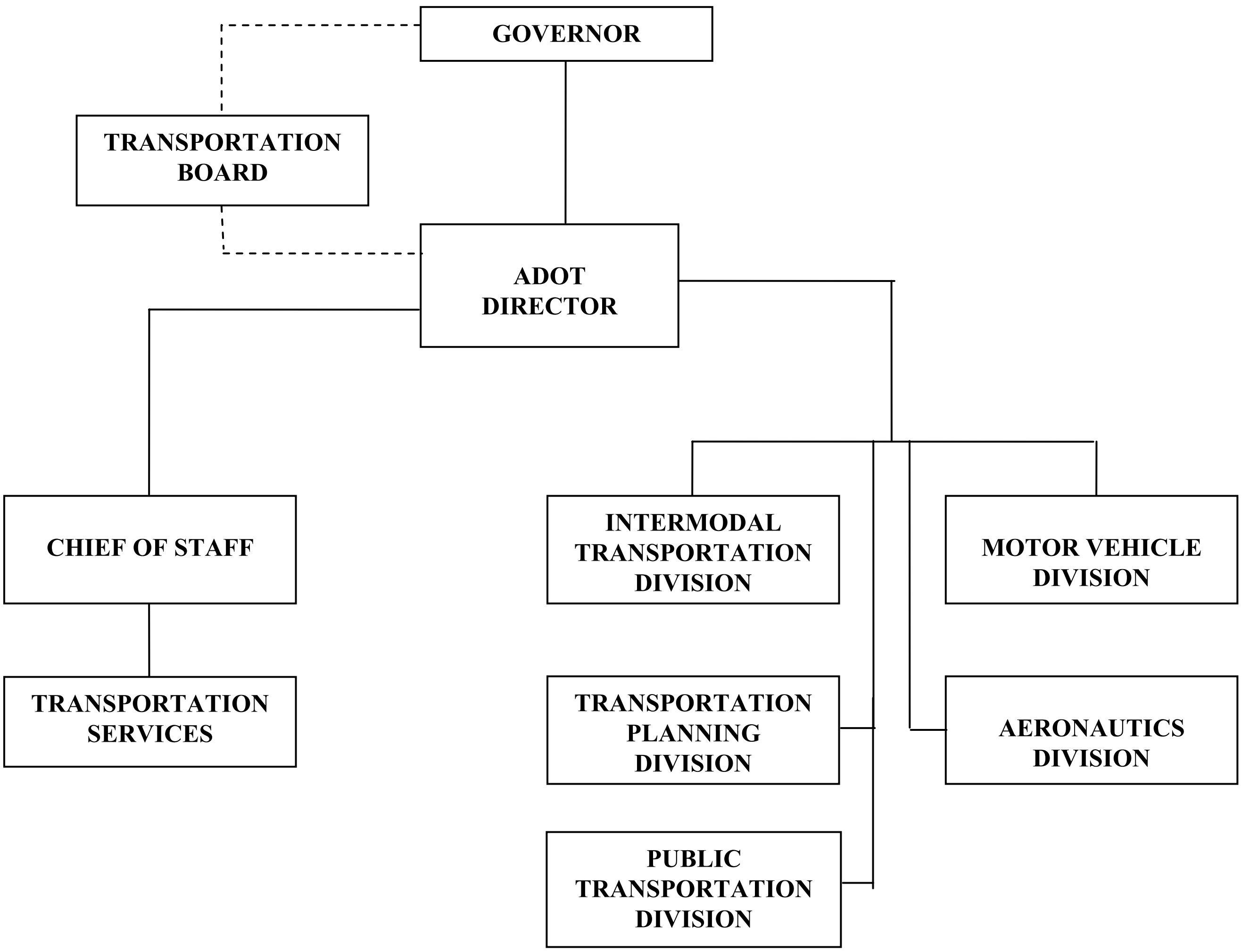
The Department administers the State highway system. The Department's responsibilities also include: (i) registration of motor vehicles and aircraft; (ii) transportation planning, coordination of transportation planning with local governments and annual development of a priority program of capital improvements for both highway and aviation transportation modes; (iii) design and construction of transportation facilities in accordance with a priority plan, and maintenance and operation of the State highway system; and (iv) research and evaluation of new transportation systems and cooperative efforts with and advice to local governments concerning the development and operation of public transit systems.

The Department's operating budget and capital outlay budget for buildings are reviewed by the Governor's office and funds for these purposes are appropriated by the State Legislature. The Department's capital outlay budget for the acquisition of land and the development, construction and improvement of the State highway system is approved by the Board. The recommended budgeting of funds for the Maricopa County Regional Freeway Plan is determined by the Department taking into consideration the priorities recommended by the Maricopa Association of Governments. The funds are allocated by the Board as part of the statewide Five-Year Capital Program.

The Director of the Department serves as the Chief Administrative Officer of the Department. The Director is appointed by the Governor and confirmed by the Senate, and is directly responsible to the Governor. The Department has organized itself into five divisions: Intermodal Transportation Division, Motor Vehicle Division, Aeronautics Division, Transportation Planning Division and Public Transportation Division. In addition, the Transportation Services Group under the direction of the Chief of Staff contains units for Financial Management, Budget and Strategic Planning, Information Technology, Physical Plant Operations, Human Resources, Civil Rights, Audit and Analysis, Procurement, Safety, Training and Arizona Highways Magazine. The Transportation Services Group supports the Department's operating and planning divisions.

The Department's table of organization and a brief description of each of the divisions is set forth below:

ARIZONA DEPARTMENT OF TRANSPORTATION



Intermodal Transportation Division. The Intermodal Transportation Division is the largest of the five divisions of the Department. The Intermodal Transportation Division is responsible for the management and maintenance of the existing State highway system and related facilities as well as the location, design and construction of new highways and facilities that are a part of the State highway system.

Motor Vehicle Division. The Motor Vehicle Division regulates motor vehicles in the State. The Motor Vehicle Division also collects motor vehicle fuel taxes, registration fees, motor carrier fees, motor vehicle operators' license fees and miscellaneous fees and revenues. The Motor Vehicle Division annually processes motor vehicle registrations and records, issues certificates of title for motor vehicles and processes drivers' license applications. The Motor Vehicle Division also operates 23 port-of-entry stations.

Transportation Planning Division. The Transportation Planning Division is responsible for the planning of the statewide transportation system including highways and airports. Its functions include traffic and travel studies and projections, five-year construction priority studies and coordination with local and regional transportation planning agencies. The Transportation Planning Division produces an annually updated Five-Year Capital Program for the Board, from which the Board establishes the priorities for highway and airport projects within the State.

Aeronautics Division. The Aeronautics Division coordinates general aviation in the State. The Aeronautics Division also is responsible for registering and licensing all general aviation aircraft, conducting the Local Airports Grant Program and representing the State at air service hearings.

Public Transportation Division. The Public Transportation Division distributes federal funding for planning, operational and capital acquisitions for transit programs in smaller cities, towns, and rural areas, administers federal grants for transit planning in metropolitan areas, and performs state regulatory safety oversight for the light rail system currently under construction in Maricopa County.

Staff of the Department.

Information concerning the primary administrative personnel of the Department is set forth below:

VICTOR MENDEZ
Director

Mr. Mendez was appointed Director of the Department on October 23, 2001. Prior to his appointment as Director, Mr. Mendez served as Deputy Director of the Department since September 1999. As Deputy Director, Mr. Mendez assisted the director on the implementation of policy and coordinated with each division to achieve the goals of the organization. Mr. Mendez has been with the Department since 1985. Prior to serving as Deputy Director, he served as Deputy State Engineer in charge of the Valley Transportation Group, a position he held since 1997. Previous to that, Mr. Mendez was an Assistant State Engineer in charge of statewide project management.

Mr. Mendez is a registered professional civil engineer and holds a Master of Business Administration degree from Arizona State University and a Bachelor of Science (Civil Engineering) degree from the University of Texas at El Paso.

RICHARD TRAVIS
Deputy Director

Mr. Travis was appointed Deputy Director of the Department on February 20, 2007. Prior to his appointment, Mr. Travis served as a Special Assistant Attorney General, Government Relations and Communications Officer with the Arizona Supreme Court, and as Staff Director for the minority party in the Arizona House of Representatives.

As Deputy Director, Mr. Travis is responsible for assisting the Director with the implementation of policy and coordination of each division to achieve the goals of the department. Mr. Travis holds a law degree from the University of Arizona, and a Bachelor of Arts degree in Philosophy from Trinity University.

SAM ELTERS
State Engineer

Mr. Elters was appointed State Engineer for the Department on August 15, 2005. As State Engineer, Mr. Elters oversees the Department's highway development, construction and maintenance programs, including more than 6,800 miles of highways across Arizona.

Prior to his appointment as State Engineer, Mr. Elters served as District Engineer for the Kingman District since 2002. As District Engineer, he was responsible for all construction and maintenance activities for the Kingman District. Mr. Elters started his career with the Department in 1999 as Resident Engineer in the Kingman District and has also served as Senior Resident Engineer. Previously, Mr. Elters was employed by Mohave County, Arizona.

Mr. Elters has been a registered professional engineer in Arizona since 1990. He has a Bachelor's degree in Civil Engineering from Northern Arizona University and has completed graduate work in civil engineering at the University of Nevada-Las Vegas.

JOHN BOGERT
Chief of Staff

Mr. Bogert joined the Department in 1989 as chief auditor. He was appointed Chief of Staff of the Department in January 2000. Prior to joining the Department, Mr. Bogert was vice president of internal audit for Del Webb Corporation. His prior experience includes nine years with national and local public accounting firms and three years of teaching at Arizona State University and Fort Lewis College.

As Chief of Staff, Mr. Bogert oversees the Transportation Services Group which includes most of the Department's staff functions. In addition, Mr. Bogert assists the Director and Deputy Director in the day-to-day operations of the Department and is responsible for establishing administrative and program policy in support of the Department's strategic plan.

Mr. Bogert obtained a Bachelor of Business Administration degree in Accounting from Eastern New Mexico University and a Master's degree in Accounting from Arizona State University, and is a Certified Public Accountant.

JOHN MCGEE
Chief Financial Officer

Mr. McGee was named Chief Financial Officer for the Department in May 1999. Prior to assuming this position, he served as Finance Manager for the Department since December 1988. As Chief Financial Officer for the Department, he has oversight responsibility for the financial management of the Board's capital program, as well as responsibility for management of the Board's bond financing programs and financial planning activities. Prior to joining the Department, he was employed for sixteen years in various financial and managerial positions with Del Webb Development Company. Mr. McGee holds a Bachelor's degree in Accounting from Brigham Young University and a Master's degree in Business Administration from Arizona State University.

JOHN FINK
Finance Administrator

Mr. Fink joined the Department in October 2001. As Finance Administrator, he assists the Chief Financial Officer with management of the Board's bond financing programs and is responsible for management of the state infrastructure bank program and resource administration. Prior to joining the Department, Mr. Fink managed the state infrastructure bank and bond financing programs for the Oregon Department of Transportation. Mr. Fink holds a Bachelor of Science degree in Chemical Engineering from the University of Michigan and a Master's degree in Business Administration from Vanderbilt University.

RAKESH TRIPATHI
Transportation Planning Division Director

Rakesh Tripathi was appointed as the Director of the Transportation Planning Division in February 2008. In this capacity, he is responsible for regional and statewide multimodal planning, transportation programming, traffic data Arizona Transportation Research Center, and cooperative planning with Native American Tribes and the Metropolitan Planning Organizations. He also oversees CANAMEX and the Arizona Mexico bi-national planning.

Prior to joining the Department, Mr. Tripathi worked for Texas Department of Transportation (TxDOT) for 14 years where he started his career as a bridge designer. He later served in various engineering functions such as project development, roadway design, pavement design, hydraulic design, materials engineering, research, construction and planning. He also served as the Assistant Director of Planning for the Houston-Galveston region for eight years where he managed the largest planning program in Texas, and was most recently Interim Director of Planning.

Mr. Tripathi has a Bachelor's degree in Civil Engineering from Bangalore University, India, a Master of Science degree in Civil Engineering from Oklahoma State University, and a Master's degree in Business Administration from Baylor University. He is a licensed professional engineer in Texas.

STACEY STANTON
Motor Vehicle Division Director

Ms. Stanton was appointed Director of the Motor Vehicle Division ("MVD") in December of 1999, having been named interim Director in August of the same year. Ms. Stanton's prior experience at the Department includes having served as MVD Deputy Director; MVD Assistant Director for Policy and Legislative Support and MVD Assistant Division Director Metro Program. She also served as the Deputy Director for Maricopa County Auto License Department and spent more than eight years in the State Senate as Aide to the Senate President and Arizona State Senate Transportation Analyst.

Ms. Stanton holds a Bachelor of Science (Political Science) degree from Arizona State University and is a Certified Public Manager.

BARCLAY DICK
Aeronautics Division Director

Mr. Dick was appointed Director of the Aeronautics Division on September 20, 2004. Prior to that appointment, Mr. Dick enjoyed a 33-year airport management career with the Tucson Airport Authority. During his airport management career, Mr. Dick held such diverse positions as Project Director, Manager of Terminal Operations, Manager of Maintenance and Vice President for Operations and Safety.

Mr. Dick is an Accredited Airport Executive. He is a past president of the Arizona Airports Association and the Southwest Chapter of the American Association of Airport Executives. Between 1997 and 2003 he served on the national board of directors for the American Association of Airport Executives.

Funding the Department.

The Department has several major sources of revenue available for financing its capital program and day-to-day operations. The operating budget, which is appropriated by the State Legislature, is funded primarily by the Department's share of revenues deposited in the Arizona Highway User Revenue Fund. Included in the highway operating budget are maintenance, operation of the Motor Vehicle Division, general engineering activities, administrative functions and all other highway related operating expenses.

The Board's Five-Year Capital Program is funded from three primary sources: federal highway apportionments, highway user revenues, and the revenues generated by a transportation excise tax for highways in Maricopa County, Arizona. Debt financing supplements these three sources of revenues to ensure timely and cost effective accomplishment of the Five-Year Capital Program.

Summary of Revenues, Expenditures and Changes in Fund Balances

Set forth on the following pages is a table which summarizes certain information for the Department's last three fiscal years ended June 30, 2007, derived from its audited financial statements. The information for the fiscal year ended June 30, 2007, should be read in conjunction with the audited basic financial statements of the Department for the fiscal year ended June 30, 2007, and the notes therein included as Appendix A.

This information is presented for background information only. As described under "SECURITY AND SOURCES OF PAYMENTS FOR THE SERIES 2008A BONDS," *the Series 2008A Bonds are special obligations of the Board payable solely from a first lien on Pledged Revenues, which Pledged Revenues are not segregated or identified in these tables.*

Arizona Department of Transportation
State Highway Fund
Summary of Revenues, Expenditures, and Changes in Fund Balances
Fiscal years ended June 30, 2005 through June 30, 2007

	2005	2006	2007
Revenues:			
Vehicle registration, title, license and related fees	$149,734,911	$287,084,563	$318,644,954
Fuel and motor carrier taxes and fees	333,348,462	346,796,689	365,855,724
Reimbursement of construction expenditures – federal aid	392,940,136	290,101,626	236,948,147
Other federal grants and reimbursements	9,077,434	32,044,310	31,378,893
Reimbursements from Arizona counties, cities and other state agencies	17,701,105	3,112,958	17,409,290
Interest on loans receivable	588,892	492,472	486,134
Interest on investments	7,286,612	11,769,174	26,462,906
Other	10,047,443	4,142,509	5,706,495
Total revenues	920,724,995	975,544,301	1,002,892,543
Expenditures:			
Current:			
Transportation – appropriated by State legislature:			
Administration	40,599,096	43,372,484	44,389,169
Highway	63,743,830	69,290,598	75,970,369
Highway Maintenance	105,887,007	111,378,239	118,939,991
Motor Vehicle Division	86,368,195	91,107,545	98,249,066
Other	169,811	448,625	-
Total Transportation – appropriated by State legislature	296,767,939	315,597,491	337,548,595
Transportation – not appropriated by State legislature:			
Capital Outlay			
Highway construction	478,413,950	550,520,782	466,970,180
Distributions to Arizona counties, cities and other state agencies	34,693,490	44,830,478	37,291,850
Interest on Notes Payable	2,514,145	2,747,657	2,472,429
Debt Service	320,362	-	-
Total Expenditures	812,709,886	913,696,408	844,283,054
Excess (deficiency) of revenues over (under) expenditures	$108,015,109	$61,847,893	$158,609,489

Arizona Department of Transportation
State Highway Fund
Summary of Revenues, Expenditures, and Changes in Fund Balances
Fiscal years ended June 30, 2005 through June 30, 2007
(Continued)

	2005	2006	2007
Other financing sources (uses):			
Operating transfers in	13,840,817	10,129,858	38,568,866
Operating transfers out:			
Debt service	(104,473,980)	(115,421,032)	(129,707,596)
Other	(43,812)	(15,010)	(72,928)
Other sources	1,829,895	2,041,719	3,168,065
Total other financing (uses)	(88,847,080)	(103,264,465)	(88,043,593)
State Appropriation for Statewide Transportation Acceleration Needs (STAN)	-	-	245,000,000
Net change in fund balance	19,168,029	(41,416,572)	315,565,896
Fund balances, Beginning of year	204,374,102	223,542,131	182,125,559
Fund balances, End of year	**$223,542,131**	**$182,125,559**	**$497,691,455**

Source: Provided by the Arizona Department of Transportation, Financial Management Services, as derived from audited financial statements of the Department.

Sunset Laws

In order to encourage systematic legislative review of State agencies and statutes, State law provides for automatic termination of State agencies and statutes pursuant to a statutory schedule unless the State Legislature takes affirmative action to continue the agencies' or statutes' existence. The Department and the Board are scheduled for termination on July 1, 2016, and Title 28, Arizona Revised Statutes, which contains most of the transportation laws of the State, including the provisions relating to the fees and taxes pertaining to the registration, operation and use of motor vehicles and motor vehicle fuel taxes, the Arizona Highway User Revenue Fund and the State Highway Fund, as well as traffic laws, is scheduled for termination on January 1, 2017. In addition, the Motor Vehicle Division of the Department is scheduled for termination on July 1, 2010 and the statutory provisions related to the Motor Vehicle Division are scheduled to terminate on January 1, 2011.

The termination statutes, commonly known as sunset laws, provide a system for automatic committee and legislative review of agencies and statutes prior to their termination. Since the enactment of the sunset laws, the Department's authority and the provisions relating to the fees and taxes pertaining to the registration, operation and use of motor vehicles and motor vehicle fuel taxes have been reviewed twice and the existence of each was continued. While it is impossible at this time to predict what action, if any, the State Legislature will take, the Department is not aware of any factual matter which would cause the State Legislature to discontinue the existence of the Department or the Board or to discontinue the effects of or to amend Title 28 in such a manner as to be detrimental to the Bondholders on or prior to their respective termination dates.

To protect holders of the outstanding Senior Bonds and Subordinated Bonds, including the Series 2008A Bonds, the Arizona statutes provide that if the Act is repealed pursuant to the sunset laws, so long as there are any debts or other obligations payable from the Arizona Highway User Revenue Fund and provision has not been made for payment of those debts or obligations, the provisions of the Act regarding the Arizona Highway User Revenue Fund, the pledge of revenues from that fund and the liens on that fund to pay the debts or other obligations remain in full force and effect until the debts or other obligations have been fully paid and satisfied (or provision is made therefor). In the opinion of Bond Counsel, in the event that the State Legislature fails to take affirmative action to continue the existence of the Department and the Board or the Act, on or prior to their respective termination dates, the State would be obligated to assume and make payments on the Senior Bonds, including the Series 2008A Bonds, and the Subordinated Bonds from Pledged Revenues under the terms and conditions for payment contained in the Senior Bond Resolution.

LITIGATION

There is no litigation or administrative action pending in any court or, to the best knowledge of the Department and the Board, threatened, which would restrain or enjoin the issuance, sale or delivery of the Series 2008A Bonds or in any way contest or affect the validity of the Series 2008A Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Series 2008A Bonds or the levy, pledge or application of Pledged Revenues, or the pledge and application of any funds provided for their payment, or which contests the powers of the State, including the Department and the Board, with respect to the foregoing.

The Office of the Attorney General of the State has reviewed the status of pending lawsuits affecting the State and the Department in connection with their operations, and has reported that there are several proceedings in which the Department is either a plaintiff or defendant and which are generally incidental to the operations of the Department. The ultimate disposition of such pending legal proceedings cannot be predicted or determined at present. With regard to such pending litigation, it is the opinion of the Office of the Attorney General of the State that such pending litigation will not be finally determined so as to result, individually or in the aggregate, in a final judgment against the State or the Department which would materially and adversely affect the Department, its ability to pay debt service on the Senior Bonds and Subordinated Bonds, its continued operations or its financial position.

LEGAL INVESTMENT

To the extent governed by Arizona law, the Act provides that the Series 2008A Bonds are securities in which all public officers and bodies of the State and all municipalities and political subdivisions of the State, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries and all other persons authorized to invest in bonds or other obligations of the State, may properly and legally invest money, including capital in their control or belonging to them. The Series 2008A Bonds are also securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and political subdivisions of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

TAX MATTERS

General

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) interest on the Series 2008A Bonds is exempt from Arizona state income tax. Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2008A Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Board and the Department contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2008A

Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the certifications and representations of the Board and the Department, or the continuing compliance with the covenants by the Board and the Department.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Series 2008A Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Board or the Department may cause loss of such status and result in the interest on the Series 2008A Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2008A Bonds. The Board and the Department have each covenanted to take the actions required of it for the interest on the Series 2008A Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2008A Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2008A Bonds or the market prices of the Series 2008A Bonds.

A portion of the interest on the Series 2008A Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Series 2008A Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2008A Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2008A Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2008A Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress, and legislation affecting the exemption of bonds or interest thereon for purposes of State taxation may be considered by the Arizona Legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Series 2008A Bonds. There can be no assurance that legislation enacted or proposed or clarification of the Code or of Arizona law after the date of issuance of the Series 2008A Bonds will not have an adverse effect on the tax status of interest on the Series 2008A Bonds or the market value of the Series 2008A Bonds.

In November 2007, the United States Supreme Court heard an appeal from a Kentucky state court decision on the issue of whether the United States Constitution precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. The outcome of this or any other court case cannot be predicted, but that outcome could prompt attempts to change the treatment for Arizona income tax purposes of obligations such as the Series 2008A Bonds, including whether interest on the Series 2008A Bonds is exempt from State income tax, although any such attempts could be affected by current provisions of the Arizona State Constitution stating that public debts, as evidenced by bonds of the State, its counties, municipalities or other subdivisions, shall be exempt from taxation.

Prospective purchasers of the Series 2008A Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Series 2008A Bonds at other than their original issuance at the respective prices indicated on the inside front cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Series 2008A Bonds ends with the issuance of the Series 2008A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Board or the Beneficial Owners regarding the tax status of interest on the Series 2008A Bonds in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2008A Bonds, under current IRS procedures, the IRS will treat the Board as the taxpayer and the Beneficial Owners of the Series 2008A Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2008A Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may adversely affect the market prices for the Series 2008A Bonds.

Original Issue Discount and Original Issue Premium

Certain of the Series 2008A Bonds ("Discount Bonds") as indicated on the inside front cover of this Official Statement were offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 2008A Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the cover of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Series 2008A Bonds ("Premium Bonds") as indicated on the inside front cover of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

INDEPENDENT AUDITORS

The basic financial statements of the Department as of and for the year ended June 30, 2007 included in this Official Statement in Appendix A have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission (the “Commission”), the Board and the Department will execute a written Continuing Disclosure Undertaking, dated as of May 1, 2008 (the “Disclosure Undertaking”), substantially in the form set forth as Appendix C, wherein the Board and the Department will agree, for the benefit of the Beneficial Owners of the Series 2008A Bonds, to provide, or cause to be provided, certain annual financial information and operating data generally consistent with the information contained under the heading “REVENUES AND DEBT SERVICE COVERAGE – Historical Revenues” herein, and notice of the occurrence of certain events or failures to take certain required actions with respect to the Series 2008A Bonds.

The Board and the Department may from time to time choose to provide notice of the occurrence of other events, in addition to those required in the Disclosure Undertaking, but the Board and the Department do not undertake to commit to provide any notice of the occurrence of any event except those events listed in the Disclosure Undertaking, if material.

The obligations of the Board and the Department described in the Disclosure Undertaking will remain in effect until the Series 2008A Bonds are no longer outstanding (within the meaning of the Senior Bond Resolution) or the Rule no longer applies to the Series 2008A Bonds. The Disclosure Undertaking may be amended or waived upon receipt by the Board and the Department of an opinion of independent counsel to the effect that the amendment or waiver would not, in and of itself, cause the Disclosure Undertaking to violate the Rule.

A beneficial owner of a Series 2008A Bond may seek to enforce the undertakings of the Board and the Department in the Disclosure Undertaking by an action for specific performance in any court of competent jurisdiction after providing the Board and the Department with 30 days prior written notice of its failure to perform. Any failure of the Board or the Department to comply with any of its obligations in the Disclosure Undertaking shall not be a default or Event of Default with respect to the Series 2008A Bonds under the Senior Bond Resolution.

The Board and the Department are in material compliance with each and every disclosure undertaking into which they have entered pursuant to the Rule.

RATINGS

The Series 2008A Bonds have been rated “AAA” and “Aa1”, respectively, by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc., and Moody’s Investors Service. Such ratings reflect only the views of the rating organizations, and any explanation of the meaning or significance of the ratings may only be obtained from the rating agency. The Board and the Department furnished to the rating agencies certain information and materials, some of which have not have been included in this Official Statement, relating to the Series 2008A Bonds and the Board and the Department. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by a rating agency if in their judgment circumstances so warrant. Any lowering or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series 2008A Bonds.

The Board and the Department expect to furnish each rating agency with information and materials that it may request. The Board and the Department, however, assume no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of the debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Series 2008A Bonds.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 2008A Bonds and with regard to the exclusion of interest from gross income for federal income tax purposes (see "TAX MATTERS") are subject to the legal opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, whose legal services have been retained by the Board. The signed legal opinion, dated and premised on law in effect as of the date of original delivery of the Series 2008A Bonds, will be delivered to the Board at the time of original delivery. The text of that opinion will be printed on the Series 2008A Bonds.

The proposed text of the legal opinion of Bond Counsel is set forth as Appendix B. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date.

In its capacity as Bond Counsel, Bond Counsel has participated in the preparation of, and has reviewed those portions of, this Official Statement pertaining to the Series 2008A Bonds, the Senior Bond Resolution, the Subordinated Bond Resolution and the tax-exempt status of interest on the Series 2008A Bonds (except for outstanding amounts of Senior Bonds and Subordinated Bonds), contained under the captions "INTRODUCTION", "THE SERIES 2008A BONDS", "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008A BONDS", "SOURCES AND APPLICATION OF PLEDGED REVENUES" (excluding "—Recent Legislation" and financial data), "LEGAL INVESTMENT", "TAX MATTERS", "CONTINUING DISCLOSURE UNDERTAKING" (excluding the last paragraph thereunder), "APPENDIX B – PROPOSED FORM OF BOND COUNSEL OPINION" and "APPENDIX C – FORM OF CONTINUING DISCLOSURE UNDERTAKING" herein. Bond Counsel has not been retained to pass upon, and will not express any opinion upon, any other information in this Official Statement or any other information pertaining to the Series 2008A Bonds or the Board or the Department that may be made available to the prospective purchasers of the Series 2008A Bonds or to others.

In addition to rendering the legal opinion, Bond Counsel will assist in the preparation of and advise the Board concerning documents for the bond transcript. Certain legal matters will be passed upon for the Underwriters by their counsel, Ballard Spahr Andrews & Ingersoll, LLP.

FINANCIAL ADVISOR

RBC Capital Markets Corporation is employed as the Financial Advisor to the Board in connection with the issuance of the Series 2008A Bonds. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Series 2008A Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2008A Bonds from the Board at a price of $200,415,343.92. Based upon the initial offering yields of the Series 2008A Bonds as shown on the inside cover hereof, the Underwriters will receive compensation of $739,731.88. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2008A Bonds to dealers (including dealers depositing the Series 2008A Bonds into investment trusts) and others at prices lower than such initial public offering prices. The Underwriters will be obligated to purchase all of the Series 2008A Bonds if any are purchased.

MISCELLANEOUS

The Department and the Board have furnished the information in this Official Statement relating to the Department, the Board, the Arizona Highway User Revenue Fund and the State Highway Fund. The Independent Auditors' Report and management discussion and analysis included in the Department's financial statements contained in Appendix A, refer to certain sections and schedules all of which are not included in this document.

Copies of the Senior Bond Resolution and the Subordinated Bond Resolution discussed herein may be obtained from the Department's Chief Financial Officer, located at 206 South 17th Avenue, Phoenix, Arizona 85007 (telephone: 602-712-7441). All communications concerning this offering should be directed to Mr. John McGee, Chief Financial Officer.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such opinions or the like will be realized. The agreements of the Board and the State are fully set forth in the Senior Bond Resolution in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the Board, the Department or the State, and the purchasers or Owners of any of the Series 2008A Bonds.

This Official Statement is submitted in connection with the sale of the Series 2008A Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the Board and the Department and duly executed and delivered on their behalf by the officials signing below.

ARIZONA TRANSPORTATION BOARD

/s/ Si Schorr
Si Schorr, Chair

ARIZONA DEPARTMENT OF TRANSPORTATION

/s/ Victor M. Mendez
Victor M. Mendez, Director

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APPENDIX A

ARIZONA DEPARTMENT OF TRANSPORTATION
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
WITH REPORT OF INDEPENDENT AUDITORS

The Independent Auditors' Report and management discussion and analysis included in the Department's financial statements contained in Appendix A, refer to certain sections and schedules all of which are not included in this Appendix A.

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INDEPENDENT AUDITORS' REPORT

The Honorable Janet Napolitano
Governor of the State of Arizona, and
Members of the Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation (the "Department"), as of and for the year ended June 30, 2007, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Department of the State of Arizona (the "State") are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2007, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and general fund budgetary comparison information, and infrastructure assets reported using the modified approach as listed in the table of contents are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Department's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLP

November 15, 2007

As management of the Arizona Department of Transportation (Department), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the letter of transmittal, which can be found on pages i-v, and the Department's basic financial statements, which begin on page 15, with the accompanying notes and Required Supplementary Information (RSI).

Financial Highlights

Government-wide:

- The net assets of the Department at the close of the fiscal year are $13.5 billion, compared to $12.5 billion for fiscal year 2006, an increase of 7.9 percent. Of this amount, $236.3 million represents *unrestricted net assets* and may be used to meet the Department's ongoing obligations to citizens and creditors as compared to $189.6 million in 2006.

- The Department's capital assets are $14.3 billion, compared to $13.6 billion for fiscal year 2006, an increase of 5.1 percent. This increase is primarily attributable to highway construction activity. The Department's investment in capital assets, *net of related debt*, is $12.2 billion, compared to $11.8 billion for fiscal year 2006, an increase of 3.4 percent.

- The Department's non-current liabilities are $2.2 billion, compared to $2.0 billion in 2006. The Department issued $224.6 million more in bonds than were retired.

Fund Level:

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of $1.0 billion, as compared to $482.4 million in 2006, a 116.3 percent increase over the prior fiscal year. This increase is primarily due to the receipt of $245 million of State General Fund monies for Statewide Transportation Acceleration Needs (STAN), an account within the Department's General Fund (State Highway Fund). These funds were appropriated by the State to the Department's General Fund (State Highway Fund) to accelerate the construction of certain critical projects on the State highway system.

- The total reserved fund balance is $1.0 billion; of this, $977.4 million (93.5 percent) is reserved for capital projects. Approximately $39.0 million (3.7 percent) is available for spending at the government's discretion (unreserved fund balance) as compared to $49.2 million (10.2 percent) in 2006. At the end of the fiscal year, the unreserved fund balance for the General Fund (State Highway Fund) was $<10.0> million.

- The proprietary funds reported net assets at year-end of $72.0 million, as compared to $67.9 million in 2006, an increase of 6.0 percent.

Overview of the Financial Statements

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

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

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

The statement of net assets combines and consolidates the Department's current financial resources with capital assets and long-term obligations. This statement includes all of the Department's non-fiduciary assets and liabilities. Net assets are the difference between the Department's assets and liabilities, and represent one measure of the Department's financial health.

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

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

The statement of net assets and the statement of activities divide the Department's activities into two types:

Governmental Activities

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

Business-type Activities

Activities for which the Department charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The Department's *Arizona Highways Magazine* and Highway Expansion and Extension Loan Program (HELP) are reported here.

The government-wide financial statements can be found on pages 15-16 of this report.

This report includes two schedules (Exhibit 3.1 and Exhibit 4.1) that reconcile the amounts reported on the governmental fund financial statements (prepared using the modified accrual basis of accounting and current financial resources measurement focus) with governmental activities (prepared using the accrual basis of accounting and economic resources measurement focus) on the appropriate government-wide statements. The following summarizes the impact of utilizing Governmental Accounting Standards Board Statement 34 (GASB 34) reporting:

- Capital assets used in governmental activities are not reported on governmental fund statements.

- Other long-term assets that are not available to pay for current period expenditures are not reported on governmental fund statements.

- Internal service fund activities are reported as governmental activities, but reported as proprietary funds in the fund financial statements.

- Bond issuance costs are capitalized and amortized to expense as governmental activities, but reported as expenditures in the governmental fund statements.

- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, notes payable, and others, only appear as liabilities on the government-wide statements.

- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the governmental fund statements.

- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.

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

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

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

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

The Department maintains fifteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Debt Service Fund, and Capital Projects Fund which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are provided in the form of combining statements elsewhere in this report.

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

The governmental funds financial statements can be found on pages 17-24 of this report.

Proprietary Funds When the Department charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to outside customers, other agencies, or to other divisions of the Department. The Department's enterprise funds are the *Arizona Highways Magazine* Fund and the Highway Expansion and Extension Loan Program Fund. The internal service fund reports activities that provide supplies and services for the Department's other programs and activities and other state agencies. The Equipment Fund is the Department's only internal service fund. Internal service fund activities are reported as governmental activities on the government-wide statements.

The proprietary funds financial statements can be found on pages 25-27 of this report.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs.

The fiduciary fund financial statement can be found on page 28.

Notes to the Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-52 of this report.

Required Supplementary Information In addition to the basic financial statements including accompanying notes, this section presents certain Required Supplementary Information including the Department's Budgetary Comparison Schedule – General Fund (State Highway Fund) and the modified approach to reporting infrastructure assets. Required Supplementary Information can be found on pages 53-60 of this report.

Supplementary Information Other Supplementary Information includes the combining statements for the non-major governmental funds, agency funds, and capital assets and is presented immediately following the Required Supplementary Information on budget and infrastructure assets. Combining and individual fund statements and schedules can be found on pages 61-69 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial health. The following tables, graphs and analyses discuss the financial position and changes to financial position for the Department as a whole as of and for the fiscal years ended June 30, 2007 and 2006.

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

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

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

The total assets of the Department were $16.0 billion, while total liabilities were $2.5 billion, resulting in a net assets balance of $13.5 billion. By far, the largest portion of the Department's net assets, $12.2 billion (90.4 percent), was invested in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), net of any related debt used to acquire those assets. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

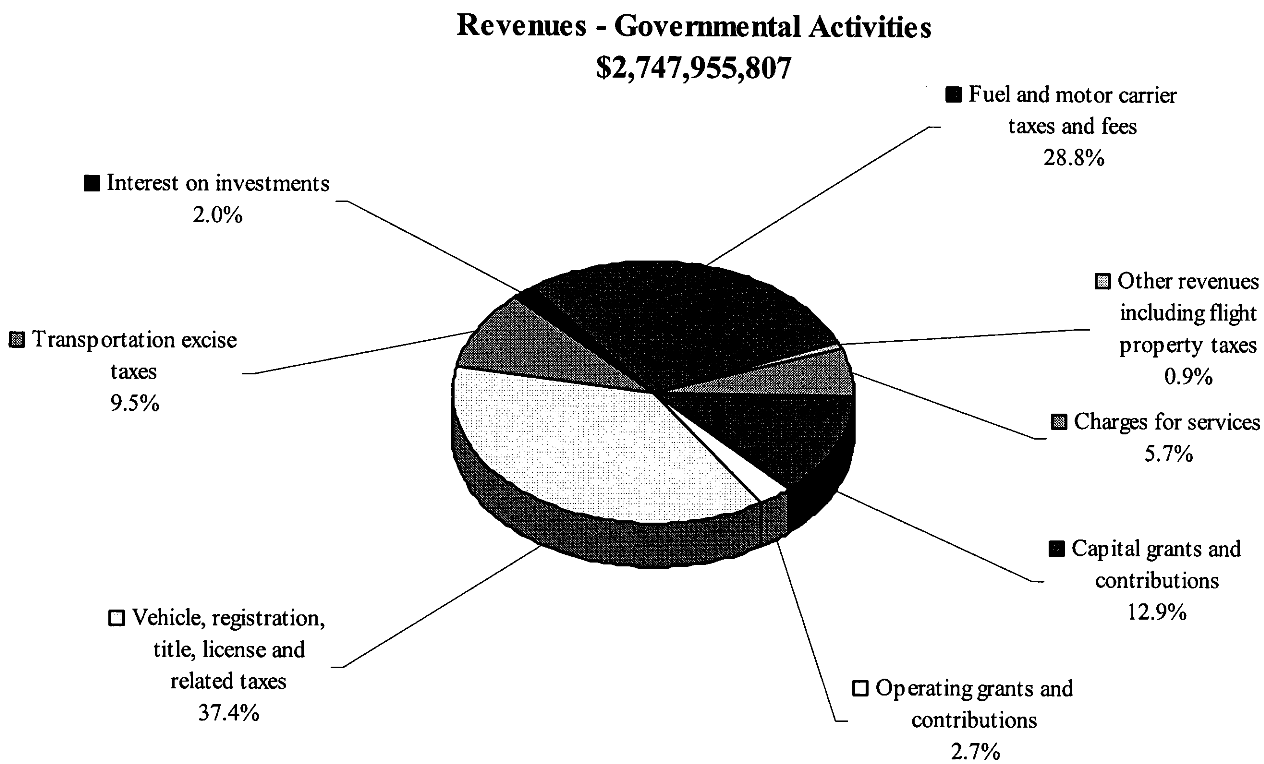
As of June 30, 2007, the Department is able to report positive balances in all three categories of net assets for the governmental activities. The same situation held true for the prior fiscal year. The business-type activities reported an increase in unrestricted net assets for the first time in three years.

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

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

Governmental Activities:

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



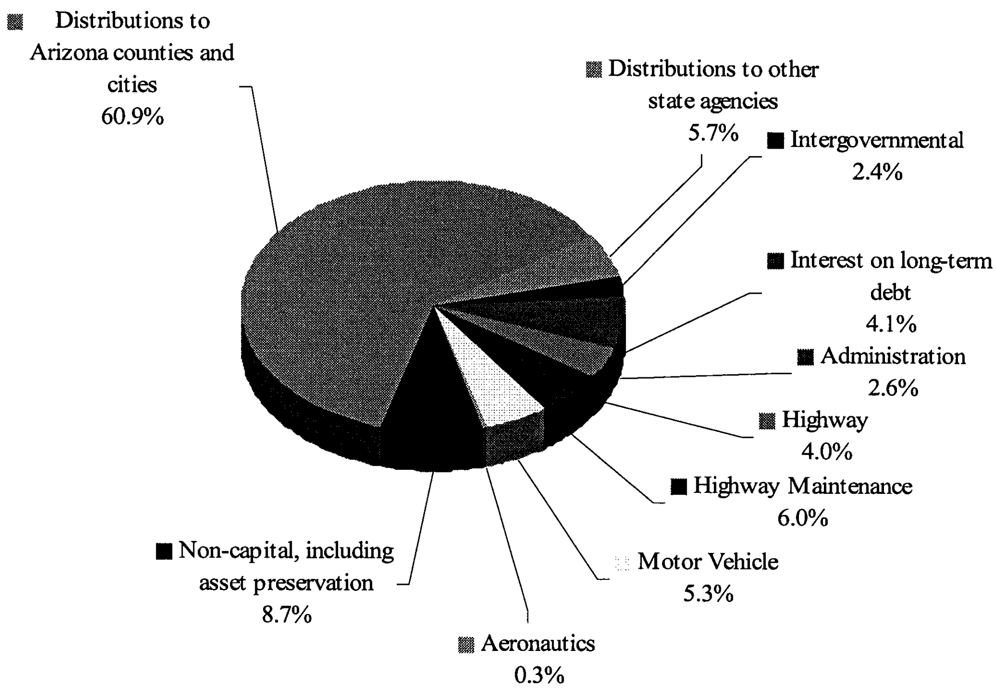
$2.4 billion (or 88.6 percent) of the Department's revenues are from the following five revenue sources:

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

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

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

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



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

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

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

Business-type Activities:

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

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

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

Financial Analysis of the Department's Funds

As previously mentioned, the Department uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental Funds The focus of the Department's governmental funds financial statements (pages 17-24) is to provide information on near-term inflows, outflows, and balances of spendable resources. All major governmental funds are discretely presented on these financial statements, while the non-major governmental funds are combined into a single column. Combining statements for the non-major governmental funds may be found on pages 61-64.

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

The General Fund (State Highway Fund) is the primary operating fund of the Department. At the end of the current fiscal year, the unreserved fund balance of the General Fund (State Highway Fund) was $<10.0> million and the reserved fund balance was $507.7 million. As a measure of the General Fund's (State Highway Fund) liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. Unreserved fund balance represents <1.2> percent of total General Fund (State Highway Fund) expenditures, while total fund balance represents 58.9 percent of the same amount.

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

The Debt Service Fund is used for the accumulation of resources for, and the payment of general long-term debt principal and interest of the governmental funds. The other financing sources of $186.8 million were transferred in from the General Fund (State Highway Fund) ($129.7 million), and Grant Anticipation Notes Fund ($57.1 million), and were used to pay the debt service. The remaining fund balance of $2.7 million is restricted for future debt service payments.

The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities of the governmental funds. During the fiscal year, the Department's expenditures were $172.2 million. Capital outlay expenditures of $166.2 million (96.5 percent) accounted for the majority of the expenditures in the Capital Projects

Fund. This expenditure for the acquisition and construction of new highways was converted to capital assets on the government-wide statements. The fund balance increased by $187.5 million.

Budget Variances

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

Capital Assets and Debt Administration

Capital Assets (See Note 5A to the financial statements for additional information):

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to $14.3 billion (net of accumulated depreciation), a $673.4 million increase over the previous fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	$ 2,217,183,763	$ 2,118,364,685	$ 7,900	$ 7,900	$ 2,217,191,663	$ 2,118,372,585
Buildings and improvements	92,815,639	91,079,425	170,133	203,951	92,985,772	91,283,376
Improvements other than buildings	20,122,366	19,876,604	-	-	20,122,366	19,876,604
Mobile fleet and aircraft	51,132,300	52,678,865	-	-	51,132,300	52,678,865
Machinery and equipment	21,026,496	19,731,615	47,146	36,864	21,073,642	19,768,479
Infrastructure	9,855,140,388	9,379,755,220	-	-	9,855,140,388	9,379,755,220
Construction in progress	2,032,678,119	1,935,193,364	-	-	2,032,678,119	1,935,193,364
Total	$ 14,290,099,071	$ 13,616,679,778	$ 225,179	$ 248,715	$ 14,290,324,250	$ 13,616,928,493

As provided by accounting principles generally accepted in the United States (GAAP), the Department has elected to record its infrastructure assets using the modified approach, as defined in GASB Statement 34. Assets accounted for under the modified approach include 6,817 center lane miles (18,573 travel lane miles) and 4,648 bridges that the Department is responsible for maintaining.

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

The Department manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The Department's serviceability rating goal is 3.23 for the overall system. The most recent assessment from the Transportation Material Technicians indicated that an overall rating of 3.87 was achieved for fiscal year 2007.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). The Department determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the Department to maintain a Condition Rating Index (CRI) of 92.5 percent or better. In fiscal year 2007, a CRI of 93.6 percent was achieved.

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

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

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

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

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

The Department's non-current liabilities for its governmental and business-type activities as of June 30, 2007, amount to $2.2 billion, a decrease of $221.0 million from the previous fiscal year.

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

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

Of the $5.9 billion total in bonds issued between 1980 and 2007, $1.4 billion, or approximately 24 percent, have been refunding issues to lower debt service costs. These efforts have resulted in cumulative debt service savings of $82.4 million in current dollars and $60.5 million on a present value basis.

The senior lien Highway User Revenue Fund (HURF) bonds have been rated AAA/Aa1 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively. The Department's subordinate lien HURF bonds, as a result of a rating increase on September 26, 2006, are rated AAA/Aa2. The Grant Anticipation Notes (GARVEE bonds) are rated AA-/Aa3/AA with the additional rating provided by Fitch Ratings. The Department has no Regional Area Road Fund bonds outstanding.

Arizona Revised Statutes, §ARS 28-7678, authorized the Transportation Board to issue non-negotiable Board Funding Obligations (BFOs) for purchase by the Arizona State Treasurer. Laws 2005, Chapter 150 (HB 2123), authorized the Transportation Board to issue BFOs in the principal amount of $200 million in any fiscal year from fiscal years 2006 through 2020 and that mature no later than four calendar years after the date of issuance. The distribution of this authority is $60 million to the General Fund (State Highway Fund) and $140 million to the Highway Expansion and Extension Loan Program (HELP) Fund. The BFOs are used to help capitalize Arizona's State Infrastructure Bank, which allows the Department and political subdivisions to apply for loans from the HELP Fund established by this legislation.

In fiscal year 2007, the Department issued Highway Revenue Bonds totaling $325,000,000 to (i) finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program and (ii) pay costs of issuing the bonds. In fiscal year 2007 the State Transportation Board received legislative authority to begin issuing Highway Revenue Bonds with maturities up to 30 years in length, replacing the 20 year maturity requirement that had been in place since 1980.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with an overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007 or by visiting our website at http://www.azdot.gov/Inside_ADOT/fms/cafr/CAFR2007.pdf

Exhibit 1

Arizona Department of Transportation
Statement of Net Assets
June 30, 2007

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

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

Arizona Department of Transportation

Statement of Activities

For the fiscal year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net <Expenses> Revenues
Governmental Activities:					
Administration	$ 51,666,715	$ 8,843,066	$ -	$ -	$ <42,823,649>
Aeronautics	5,417,937	1,133,347	609,848	-	<3,674,742>
Highway	79,279,372	2,953,149	31,510,083	354,023,589	309,207,449
Highway Maintenance	120,162,937	577,128	-	-	<119,585,809>
Motor Vehicle	105,961,064	132,273,779	-	-	26,312,715
Non-capital, including asset preservation	173,077,942	-	-	-	<173,077,942>
Distributions to Arizona counties and cities	1,219,208,067	-	-	-	<1,219,208,067>
Distributions to other state agencies	114,795,378	-	-	-	<114,795,378>
Intergovernmental	48,760,126	12,238,611	40,558,982	-	4,037,467
Interest on long-term debt	82,449,597	-	-	-	<82,449,597>
Total governmental activities	2,000,779,135	158,019,080	72,678,913	354,023,589	<1,416,057,553>
Business-type Actvities:					
Arizona Highways Magazine	8,071,836	8,059,902	-	-	<11,934>
Highway Expansion and Extension Loan Program	4,354,619	2,909,458	-	-	<1,445,161>
Total business-type actvities	12,426,455	10,969,360	-	-	<1,457,095>
Total	$ 2,013,205,590	$168,988,440	$ 72,678,913	$354,023,589	$<1,417,514,648>

	Governmental Activities	Business-type Activities	Total
Net <expenses>	$<1,416,057,553>	$ <1,457,095>	$<1,417,514,648>
General revenues:			
Transportation excise taxes	262,263,939	-	262,263,939
Vehicle, registration, title, license, and related taxes	1,029,000,817	-	1,029,000,817
Fuel and motor carrier taxes	790,908,552	-	790,908,552
Flight property taxes	15,302,697	-	15,302,697
Interest on investments	55,760,406	5,563,036	61,323,442
Gain <loss> on sale of capital assets	<464,317>	<2,749>	<467,066>
Other	10,462,131	-	10,462,131
Special item - State appropriation (Note 6D)	245,000,000	-	245,000,000
Total general revenues and special item	2,408,234,225	5,560,287	2,413,794,512
Change in net assets	992,176,672	4,103,192	996,279,864
Net assets - July 1	12,462,382,325	67,931,465	12,530,313,790
Net assets - June 30	$ 13,454,558,997	$ 72,034,657	$ 13,526,593,654

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

Arizona Department of Transportation
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund (State Highway Fund)	Special Revenue Funds: Maricopa Regional Area Road Construction Fund	Special Revenue Funds: Motor Vehicle Division Clearing Fund	Special Revenue Funds: Highway User Revenue Fund
ASSETS				
Unrestricted cash on deposit with the State Treasurer	$ 96,349,039	$ -	$ -	$ -
Receivables:				
Accrued interest	1,781,085	1,167,009	-	152,985
Interfund (Note 5E)	97,870,229	639,320	605,937	15,889,250
Taxes and fees	-	-	10,181,080	51,940,845
Notes and loans	-	1,720,571	-	-
Other	4,336,883	604,976	-	-
Amounts due from:				
U.S. Government	22,097,656	12,005,017	-	-
Inventories	5,757,100	-	-	-
Advance to other funds	20,000,000	-	-	-
Defered charges	-	-	8,128,423	-
Restricted cash on deposit with the State Treasurer	481,966,113	281,914,979	51,720,559	124,943,518
Total assets	$ 730,158,105	$ 298,051,872	$ 70,635,999	$ 192,926,598
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 4,917,524	$ -	$ 17,273,337	$ -
Accrued payroll and other accrued expenditures	9,710,915	55,494	-	8,410
Contracts and retainage payable	48,011,677	24,709,728	-	-
Interfund payables (Note 5E)	1,536,349	-	18,895,171	97,282,353
Amounts due to:				
Arizona counties and cities	-	-	29,772,848	95,635,835
Other state agencies	-	-	4,673,143	-
Surety and rental deposits	2,814	-	21,500	-
Deferred revenue	-	1,720,571	-	-
Notes payable	168,287,371	-	-	-
Total liabilities	232,466,650	26,485,793	70,635,999	192,926,598
Fund balances:				
Reserved for:				
Inventories	5,757,100	-	-	-
Advance to other funds	20,000,000	-	-	-
Debt service	-	-	-	-
Capital projects	481,966,113	271,566,079	-	-
Unreserved reported in:				
General fund	<10,031,758>	-	-	-
Non-major special revenue funds	-	-	-	-
Total fund balances	497,691,455	271,566,079	-	-
Total liabilities and fund balances	$ 730,158,105	$ 298,051,872	$ 70,635,999	$ 192,926,598

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

Debt Service Fund	Capital Projects Fund	Total Non-Major Governmental Funds (See Exhibit 9)	Total Governmental Funds
$ -	$ -	$ 54,876,072	$ 151,225,111
258,190	674,662	166,917	4,200,848
-	134,907	2,964,865	118,104,508
-	-	-	62,121,925
-	-	5,902,173	7,622,744
-	-	4,212,860	9,154,719
-	-	15,441,817	49,544,490
-	-	-	5,757,100
-	-	-	20,000,000
-	-	-	8,128,423
2,429,452	207,177,484	16,491,694	1,166,643,799
$2,687,642	$ 207,987,053	$100,056,398	$ 1,602,503,667
$ -	$ -	$ 1,787,926	$ 23,978,787
-	-	195,446	9,970,265
-	-	15,963,032	88,684,437
110	-	468,204	118,182,187
-	-	4,965,695	130,374,378
-	-	5,897,342	10,570,485
-	-	-	24,314
-	-	5,902,173	7,622,744
-	-	-	168,287,371
110	-	35,179,818	557,694,968
-	-	-	5,757,100
-	-	-	20,000,000
2,687,532	-	90	2,687,622
-	207,987,053	15,874,687	977,393,932
-	-	-	<10,031,758>
-	-	49,001,803	49,001,803
2,687,532	207,987,053	64,876,580	1,044,808,699
$2,687,642	$ 207,987,053	$100,056,398	$ 1,602,503,667

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

Total fund balances - governmental funds (Exhibit 3)	$ 1,044,808,699
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note 4 B).	14,238,045,343
Internal service funds are used by management to charge the costs of equipment rentals to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets (Exhibit 5).	53,290,976
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds (Note 4 B).	7,622,744
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 4 B).	<1,889,208,765>
Net assets of governmental activities (Exhibit 1)	$ 13,454,558,997

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

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

	General Fund (State Highway Fund)	Special Revenue Funds: Maricopa Regional Area Road Construction Fund	Special Revenue Funds: Motor Vehicle Division Clearing Fund	Special Revenue Funds: Highway User Revenue Fund
Revenues:				
Transportation excise taxes	$ -	$ 262,263,939	$ -	$ -
Vehicle registration, title, license, and related taxes and fees	318,644,954	-	515,890,108	313,473,265
Fuel and motor carrier taxes and fees	365,855,724	-	6,715,422	381,442,992
Reimbursement of construction expenditures - federal aid	236,948,147	40,279,418	-	-
Other federal grants and reimbursements	31,378,893	-	-	-
Reimbursements from Arizona counties and cities	15,609,786	7,122,358	-	-
Distributions from other state agencies	1,799,504	-	-	-
Interest on loans receivable	486,134	144,452	-	-
Interest on investments	26,462,906	12,230,767	-	2,451,735
Flight property taxes	-	-	-	-
Grand Canyon National Park Airport	-	-	-	-
Rental income	1,143,026	291,499	-	-
Other	4,563,469	84,422	-	2,337,538
Total revenues	1,002,892,543	322,416,855	522,605,530	699,705,530
Expenditures:				
Current:				
Transportation:				
Administration	44,389,169	-	-	-
Aeronautics	-	-	-	-
Highway	75,970,369	-	-	-
Highway maintenance	118,939,991	-	-	-
Motor Vehicle	98,249,066	-	-	607,300
Total Transportation	337,548,595	-	-	607,300

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

Debt Service Fund	Capital Projects Fund	Total Non-Major Governmental Funds (See Exhibit 10)	Total Governmental Funds
$ -	$ -	$ -	$ 262,263,939
-	-	11,370,345	1,159,378,672
-	-	38,702,544	792,716,682
-	-	57,148,219	334,375,784
-	-	41,168,830	72,547,723
-	-	12,238,611	34,970,755
-	-	-	1,799,504
-	-	297,388	927,974
2,513,135	9,939,693	1,795,211	55,393,447
-	-	15,302,697	15,302,697
-	-	1,133,347	1,133,347
-	-	-	1,434,525
-	-	102,280	7,087,709
2,513,135	9,939,693	179,259,472	2,739,332,758
39,901	446,244	-	44,875,314
-	-	3,876,077	3,876,077
-	-	48,760,126	124,730,495
-	-	-	118,939,991
-	-	4,944,692	103,801,058
39,901	446,244	57,580,895	396,222,935

(continued)

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

		Special Revenue Funds		
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Intergovernmental:				
Distributions to Arizona counties and cities	$ 22,299,363	$ 22,303,272	$ 478,695,619	$ 677,647,751
Distributions to other state agencies	14,992,487	-	43,909,911	21,450,479
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Interest on notes payable	2,472,429	-	-	-
Non-capital, including asset preservation	118,637,423	152,403	-	-
Capital outlay	348,332,757	226,953,479	-	-
Total expenditures	844,283,054	249,409,154	522,605,530	699,705,530
Excess <deficiency> of revenues over <under> expenditures	158,609,489	73,007,701	-	-
Other financing sources <uses>:				
Transfers in	38,568,866	73,279	-	-
Transfers out for debt service	<129,707,596>	-	-	-
Transfers out other	<72,928>	<37,094,890>	-	-
Capital leases	2,128,489	-	-	-
Sale of capital assets	462,448	9,699,566	-	-
Insurance recovery	577,128	-	-	-
Debt issuance	-	-	-	-
Premium from debt issuance	-	-	-	-
Total other financing sources <uses>	<88,043,593>	<27,322,045>	-	-
Special item				
State appropriation for Statewide Transportation Acceleration Needs (STAN)	245,000,000	-	-	-
Net change in fund balances	315,565,896	45,685,656	-	-
Fund balances - July 1	182,125,559	225,880,423	-	-
Fund balances - June 30	$ 497,691,455	$ 271,566,079	$ -	$ -

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

Debt Service Fund	Capital Projects Fund	Total Non-Major Governmental Funds (See Exhibit 10)	Total Governmental Funds
$ -	$ -	$ 16,937,408	$ 1,217,883,413
-	-	34,442,501	114,795,378
100,395,000	-	-	100,395,000
88,363,507	-	-	88,363,507
-	1,591,556	-	1,591,556
-	-	-	2,472,429
-	3,991,770	-	122,781,596
-	166,219,506	-	741,505,742
188,798,408	172,249,076	108,960,804	2,786,011,556
<186,285,273>	<162,309,383>	70,298,668	<46,678,798>
186,857,174	-	-	225,499,319
-	-	<57,148,219>	<186,855,815>
<43,761>	<1,348,438>	<83,487>	<38,643,504>
-	-	-	2,128,489
-	-	-	10,162,014
-	-	-	577,128
-	325,000,000	-	325,000,000
-	26,201,309	-	26,201,309
186,813,413	349,852,871	<57,231,706>	364,068,940
-	-	-	245,000,000
528,140	187,543,488	13,066,962	562,390,142
2,159,392	20,443,565	51,809,618	482,418,557
$ 2,687,532	$ 207,987,053	$ 64,876,580	$ 1,044,808,699

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

Net change in fund balances - total governmental funds (Exhibit 4)	$ 562,390,142
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:	
Capital outlays are reported as expenditures in governmental funds (Note 4 C).	674,747,333
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net assets. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (Note 4 C).	<351,201,309>
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (Note 4 C).	110,372,895
Internal service funds are used by management to charge the cost of equipment rentals to individual funds. The net loss of the internal service funds is reported with governmental activities (Note 4 C).	4,309,093
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (Note 4 C).	<8,441,482>
Change in net assets of governmental activities (Exhibit 2)	$ 992,176,672

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Arizona Department of Transportation (Department) conform in all material respects to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the primary standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental and Financial Reporting Standards* (GASB Codification). Following is a summary of the Department's significant accounting policies.

A. Reporting Entity

The Department is a department of the State of Arizona (State) and is not a legally separate entity. The Department has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of State highway routes, approving all highway construction contracts, and distributing monies for local airport facilities' projects through a grant program.

The Department is responsible for the construction and maintenance of all State highways. The Department cooperates with the various cities and counties within the state in the construction and maintenance of State roads and with the Federal Highway Administration in the construction and maintenance of interstate and other highways. Assistance in the development of local airports, registering motor vehicles and aircraft, licensing drivers, and the publishing of the *Arizona Highways Magazine* are also responsibilities of the Department.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by federal reimbursement, taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

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

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Fund Financial Statements

Separate statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being reported in a single column.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis of accounting*, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year they are levied for transportation excise, aircraft licensing, aviation and motor fuel, flight property, and underground storage tanks. Motor carrier and vehicle license taxes are recognized when received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Department's enterprise funds follow GASB pronouncements and those Financial Accounting Standard Board Statements (FASB) and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The enterprise funds do not follow any FASB Statements and Interpretations issued after November 30, 1989.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the fiscal year, e.g. federal revenue reimbursements, vehicle license taxes, and highway user revenue taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable.

Financial Statement Presentation

The Department reports the following major governmental funds:

The *General Fund,* known as the State Highway Fund, is the primary operating fund. It accounts for all financial resources except for those required to be accounted for in another fund. Expenditures are reported for general operations of the Department, including road and bridge repairs, maintenance and construction, planning and development, engineering, and administration. Revenues are received from the following primary sources: fuel and motor carrier taxes and fees; vehicle registrations, titles, licenses and related fees; and federal grants.

The *Maricopa Regional Area Road Construction Fund* is a special revenue fund that receives Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of certain state highways and arterial streets within Maricopa County.

The *Motor Vehicle Division Clearing Fund* is a special revenue fund which accounts for the collection and disbursement of certain Motor Vehicle Division revenues.

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

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

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

The Department reports the following major proprietary funds:

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

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

Additionally, the Department reports the following funds:

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

The *Agency Funds* are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Department has two agency funds, the Highway Properties – Privilege Tax Fund and the Highway Properties – 24 Percent Fund (neither are included in the government-wide statements).

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for services by the Equipment Fund to the other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes.

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

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

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

Deposits and Investments

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

The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with Arizona Revised Statutes, §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. As of June 30, 2007, the state's investment pools were not rated.

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

The Department's investments are included in the state investment pool and these investments are not shown in the Department's name. Therefore, the Department presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

The Department has restricted cash for payment of capital projects for Maricopa and Pima Counties, for future debt service payments, for the Statewide Transportation Acceleration Needs (STAN) account, and for loan repayments to the HELP fund.

Receivables, Payables and Advances

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

The other receivables and subscriptions receivables are shown net of allowance for doubtful accounts. Other receivables in excess of 180 days comprise the recoverable insurance claims net of allowance for doubtful accounts. The subscriptions receivable allowance for doubtful accounts is equal to outstanding subscription payments past due more than 90 days.

Notes receivable represents loans made to parties purchasing assets previously owned by the Department for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

Inventories and Prepaid Items

The governmental activities inventory is valued at cost, which approximates market, using the moving average method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used. The fund financial statement shows a reservation for inventory for the like amount indicating it does not constitute available expendable resources. No reservation of net assets is shown in the government-wide statements for inventories.

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

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

Restricted Assets

Certain proceeds of the Department's governmental revenue bonds, as well as certain resources of the General Fund and the Highway Expansion and Extension Loan Program Fund (enterprise fund) are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or state statutes. Effective July 1, 1981, state law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the General Fund (State Highway Fund) from the Highway User Revenue Fund for the design, purchase of right-of-way, or construction of controlled-access highways which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). The debt service fund is used to report the resources set aside for payment of future debt service. Bond proceeds are deposited in the capital projects fund and are restricted for acquisitions of right-of-way and construction of federal, state, and local highways.

The Department has restricted cash for payment of capital projects for Maricopa and Pima Counties, for future debt service payments, for the Statewide Transportation Acceleration Needs (STAN) account, and for loan repayments to the HELP fund.

Capital Assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. Purchased capital assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation.

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

The Department depreciates non-infrastructure capital assets on a straight-line basis using the following estimated useful lives. Modular buildings are included on the Statement of Net Assets under the machinery and equipment category; however, modular buildings have an estimated useful life of fifteen (15) years.

Assets	Years
Buildings and improvements	40
Improvements other than building	40
Machinery and equipment	5-15
Mobile fleet and aircraft	5-15

Infrastructure was capitalized for the first time in fiscal year 2002. The infrastructure assets are reported in the governmental-type activities column of the Statement of Net Assets. The Department's infrastructure assets consist of roads and bridges and are presented using the modified approach and, therefore, are not depreciated.

In order to utilize the modified approach, the Department is required to: 1) maintain an asset management system that includes an up to date inventory of eligible infrastructure assets, 2) perform condition assessments of eligible assets and summarize the results using a measurement scale, 3) estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department, and 4) document that the assets are being preserved approximately at or above the established condition level.

Deferred Revenues

In the government-wide statements and proprietary fund financial statements, deferred revenues are recorded when cash, receivables, or other assets are received prior to revenue being recognized. In the governmental funds, amounts are reported as deferred revenues until they are available to liquidate liabilities of the current period. Deferred revenues are reported in the government-wide statements for the business-type activities and in the fund statements for both the governmental and proprietary funds. In the government-wide statements, the deferred revenues relate to unearned subscription revenue for the *Arizona Highways Magazine*. Unearned subscription revenue is recorded when subscription orders are received and is amortized as revenue over the terms of the related subscriptions. Costs associated with the selling of subscriptions are expensed in the year incurred. In the fund statements for the General Fund, the deferred revenue represents the amount for the notes receivable for loans made to parties who purchased assets previously owned by the Department for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination. For the Non-Major Governmental Funds, the deferred revenue represents airport capital improvements designed to generate airport revenues and/or related airport economic development efforts. Loans are typically for construction of aircraft storage hangars, fuel dispensing and storage facilities, and terminal buildings. Loan rates vary and are based on the Bond Buyer Index (BBI) for 25 year national revenue bonds. Loan periods are typically 10 to 25 years in length.

Compensated Absences

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits as well as compensatory time. There is no liability for unpaid accumulated sick leave for the Department. All vacation pay and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements.

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

Employees are allowed to accumulate up to 240 hours of vacation leave (320 hours for uncovered employees) and up to 240 hours of compensatory time which is paid when vacation or compensatory time is taken or upon termination of employment at the individual's then current rate of pay. The liabilities for vacation and compensatory time outstanding as of June 30 for both the governmental and proprietary funds are reported on the Statement of Net Assets.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Prior to 2006 bond premiums and discounts were deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Beginning in 2006, bond premiums and discounts are deferred and amortized using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Net Assets/Fund Balance

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

Reservations

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: 1) funds legally segregated for a specific purpose, or 2) assets, which by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund.

E. Revenues and Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. Administration, Aeronautics, Highway, etc). Additionally, revenues are classified between program and general revenues. Program revenues include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenue includes all taxes and interest on investments.

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

The Distributions to Arizona counties and cities and Distributions to other state agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for real property or infrastructure (e.g. bridges and roads).

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

Other Financing Sources <Uses>

Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond issuance, sale of capital assets, capital leases, insurance recovery, and transfers from other funds. Other financing uses are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds.

F. Interfund Activity and Balances

Interfund Activity
As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are activities between the funds reported as governmental activities and the funds reported as business-type activities (e.g. the transfer of the gain or loss from the Equipment Fund).

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

2. FUNDS BY CLASSIFICATION

The following table lists all of the funds whose balances are reflected in this financial report.

FUND TYPES

MAJOR FUNDS
Governmental Funds :
General Fund (State Highway Fund)

Special Revenue Funds:
Maricopa Regional Area Road Construction Fund
Motor Vehicle Division Clearing Fund
Highway User Revenue Fund

Debt Service Fund

Capital Projects Fund

Proprietary Funds:
Arizona Highways Magazine Fund
Highway Expansion and Extension Loan Program Fund

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

NON-MAJOR FUNDS
Other Governmental Funds:
Special Revenue Funds:
State Aviation Fund
Safety Enforcement and Transportation Infrastucture Fund
Motor Vehicle Liabitity Insurance Enforcement Fund
Vehicle Inspection and Title Enforcement Fund
Motor Carrier Safety Revolving Fund
Underground Storage Tank Fund
Economic Strength Project Fund
Grant Anticipation Notes Fund
Local Agency Deposits Fund

3. BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Annual budgets for the operating expenditures and capital outlay including land, building, and improvements for the General Fund (State Highway Fund) and State Aviation Fund are submitted to the Governor in accordance with state law. The budgets are legally enacted as appropriations after approval by the state legislature and signature by the Governor. The legal level of control for operating expenditures is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures, and all other operating expenditures are specifically allocated within all divisions. In certain divisions, other specific programs are allocated in addition to these categories. Revenue budgets are developed internally by the Department and are not a part of the appropriation process.

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

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

The capital outlay appropriation includes state highway construction and land, building, and improvements for the General Fund (State Highway Fund). A legal limitation is adopted for land, building, and improvements; however, legislation allows the Department to spend in excess of its appropriation for state highway construction up to the current fund balance. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board. A legal limitation is not adopted for the other special revenue funds, the debt service funds, capital projects funds, proprietary funds, and fiduciary funds.

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

A. New Accounting Pronouncements

Statement No. 43 *Financial Reporting by for Postemployment Benefit Plans Other Than Pensions Plans*

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

Statement No. 45 *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions*

This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employee's years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The provisions of this Statement are effective for periods beginning after December 15, 2006. The Department will implement this Statement as appropriate.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*

This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006. The Department will implement this Statement as appropriate.

Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*

This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear plant decommissioning. Essentially, once any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The provisions of this Statement are effective for periods beginning after December 15, 2007. The Department will implement this Statement as appropriate.

Statement No. 50 *Pension Disclosures*

This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. This Statement amends Statements 25 and 27 to require defined benefit pension plans and sole and agent employers to present certain information related to note disclosures or required supplementary information. The provisions of this Statement are effective for periods beginning after June 15, 2007. The Department does not have any pension plans, as defined by this Statement, and therefore, this Statement is not applicable to the Department.

Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*

The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The provisions of this Statement are effective for periods beginning after June 15, 2009. The Department will implement this Statement as appropriate.

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

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

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

Capital assets not subject to depreciation	$ 14,105,002,270
Capital assets subject to depreciation	185,096,801
	14,290,099,071
less Internal Service Fund (Equipment Fund) assets	<52,053,729>
	$ 14,238,045,342

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

Maricopa Regional Area Road Construction Fund	$ 1,720,571
State Aviation Fund	5,902,173
	$ 7,622,744

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

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

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

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported on the government-wide Statement of Activities. The following explanations are necessary to clarify these differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

1. Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, these costs are removed; some costs are capitalized as assets while other costs are expensed as follows:

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

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

Debt issued or incurred:	
Issuance of Highway Revenue Bonds	$<325,000,000>
Issuance of GARVEE Bonds (Grant Anticipation Notes)	-
Premium on bonds	<26,201,309>
	<351,201,309>
Principal repayments:	
Highway Revenue Bonds	57,825,000
Transportation Excise Tax Revenue Bonds	-
GARVEE Bonds (Grant Anticipation Notes)	42,570,000
Amortization of premium and discount	9,019,401
Amortization of bond issuance costs	958,494
	110,372,895
	$<240,828,414>

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

Internal Service Fund (Equipment Fund):	
Changes in net assets	$ 4,309,603
Business activity share of Equipment Fund <gain> loss	<510>
	$ 4,309,093

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

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

5. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

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

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

Business-Type Activities	July 1, 2006 Beginning Balance	Increases	Decreases	June 30, 2007 Ending Balance
Capital Assets, not being depreciated:				
Land	$ 7,900	$ -	$ -	$ 7,900
Capital Assets, being depreciated:				
Buildings and improvements	981,157	-	-	981,157
Machinery and equipment	2,352,439	18,004	<9,003>	2,361,440
Total Capital Assets, being depreciated	3,333,596	18,004	<9,003>	3,342,597
Less accumulated depreciation for:				
Buildings and improvements	<777,206>	<33,818>	-	<811,024>
Machinery and equipment	<2,315,575>	<4,973>	6,254	<2,314,294>
Total accumulated depreciation	<3,092,781>	<38,791>	6,254	<3,125,318>
Total Capital Assets, being depreciated, net	240,815	<20,787>	<2,749>	217,279
Business type activities capital assets, net	$ 248,715	$ <20,787>	$ <2,749>	$ 225,179

Depreciation expense was charged to functions/programs as follows:

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

B. Construction Commitments

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

	Expenditures To Date	Remaining Commitment
Construction Contracts:		
Rural Roadways	$ 169,065,837	$170,213,151
Small Urban Roadways	29,454,931	21,875,919
Urban Roadways	60,846,448	47,684,078
Large Urban Roadways	356,465,009	356,235,098
Sub-total	615,832,225	596,008,246
Design Contracts	952,896,629	133,156,414
Other Commitments	335,606,580	144,630,546
Total	$1,904,335,434	$873,795,206

C. Deferred Revenues

In the fund financial statements, the deferred revenues represent the amount for notes receivable for loans made to parties who purchased assets previously owned by the fund for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination. The State Aviation Fund amount represents loans to various local governments for construction of hangars, taxiways extension, runways, etc. These loans were made at a fixed rate and with various maturities. The proprietary fund includes the amount for unearned subscriptions. The following schedule is a summary of the amounts outstanding as of June 30, 2007:

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

D. Securities Held in Lieu of Retention

In accordance with Arizona law, a contractor may assign to the Department securities in lieu of retention and will deposit with the bank, cash, time certificates of deposit in federally insured banks licensed by the State of Arizona (Certificates of Deposit), securities of or guaranteed by the United States of America (Treasury Bills), or other eligible securities as defined in the Arizona Revised Statutes, Title 35, Chapter 2, Article 2, Section 35-313. At June 30, 2007, the bank held assignment on securities aggregating approximately $5.7 million in lieu of contractor retentions for construction. These additional securities are not reflected in the accompanying financial statements.

E. Interfund Receivables, Payables, Advances and Transfers

The balances of current interfund receivables and payables as of June 30, 2007, were:

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

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

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

In a prior fiscal year, the General Fund advanced $20 million to the Highway Expansion and Extension Loan Program Fund to increase its loan capacity. The advance is due no later than December 31, 2008.

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

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

The General Fund (State Highway Fund) ($129,707,596) and Other Governmental Funds - Grant Anticipation Notes Fund ($57,148,219) made transfers to the Debt Service Fund to pay bond debt service. The Maricopa Regional Area Road Construction Fund made loan principal and interest payments to the General Fund (State Highway Fund) for loan repayments to the Highway Expansion and Extension Loan Program Fund.

F. Leases

Operating Leases

The Department leases data processing equipment, other equipment, and certain facilities from various lessors. The majority of these leases are for a one-year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the fiscal year ended June 30, 2007, approximated $3.8 million.

In fiscal year 2002, the Department renegotiated its long-term lease with the City of Phoenix for a facility located on Washington Street in Phoenix. The lease contains a three year option period which the Department has exercised. The future operating lease commitments are as follows:

Year ending June 30	Amount
2008	$ 859,058
2009	899,965
2010	940,873
Future operating lease commitments	$ 2,699,896

In fiscal year 2003, the Department entered into a long-term lease to build a structure to house lab facilities in Gilbert, Arizona. The future operating lease commitments are as follows:

Year ending June 30	Amount
2008	$ 105,489
2009	117,324
2010	120,660
2011	124,095
2012	127,635
2013	97,758
Future operating lease commitments	$ 692,961

Capital Leases

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

	Governmental Activities
Assets:	
Machinery and equipment	$ 13,422,677
Modular office buildings	2,139,711
Less accumulated depreciation	<2,247,335>
Total	$ 13,315,053

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

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

G. Non-Current Liabilities

Arizona Transportation Board Highway Revenue Bonds

The Transportation Board has issued Senior and Subordinate Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $1,223,425,000. During the year, Highway Revenue Bonds totaling $325,000,000 were issued to (i) finance portions of the Transportation Board's Five-Year Transportation Facilities Construction Program and (ii) pay costs of issuing the bonds.

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

Purpose	Interest Rates	Amount
Govermental activities	3.8% - 5.5 %	$ 1,090,475,000
Govermental activities - refunding	3.4% - 6.0%	400,125,000
		$ 1,490,600,000

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

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

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

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

Arizona Transportation Board Grant Anticipation Notes (GARVEE bonds)

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The original amount of Grant Anticipation Notes (GARVEE bonds – Grant Anticipation Revenue Vehicles) issued in prior years and outstanding at the start of the fiscal year was $325,430,000,000.

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

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

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

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

Notes Payable

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

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

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

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

Refunded Bonds Deposited with Escrow Agents

In prior fiscal years, the Transportation Board had refinanced various bond issues through refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the financial statements of the Department.

Refunded bonds of the Department deposited with escrow agents at June 30, 2007, are as follows:

Original Issue	Type	Escrow Maturity Date	Balance
1999 Series - Senior	Highway Refunding Bonds	July 1, 2009	$ 64,130,000
1999 Series - Senior	Highway Refunding Bonds	July 1, 2009	13,985,000
2001 Series - Senior	Highway Revenue Bonds	July 1, 2011	86,170,000
2002 Series B - Senior	Highway Revenue Bonds	July 1, 2012	48,595,000
	Total refunded bonds deposited with escrow agent		$ 212,880,000

Changes in non-current liabilities

The activity for the fiscal year ended June 30, 2007, was as follows:

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

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $719,920 of the internal service fund's compensated absences and $8,550,822 of capital leases are included in the above amounts.

The capital leases will be liquidated by the internal service fund as well as the General Fund (State Highway Fund). The General Fund (State Highway Fund) has paid compensated absences in the past while the notes payable will be repaid with funds from the General Fund (State Highway Fund) and the Maricopa Regional Area Road Construction Fund.

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

H. Short-term Debt

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

I. Fund Balances

Reservations

Effective July 1, 1981, State law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the General Fund from the Highway User Revenue Fund for the design, purchase of right-of-way, or construction of controlled-access highways and other permitted facilities which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). At June 30, 2007, approximately $151.7 million was reserved in the General Fund (State Highway Fund) for this purpose. In addition, the Statewide Transportation Acceleration Needs account held $317.4 million. The remaining $12.9 million was reserved for highway construction from Federal highway fatality monies and right of way.

The Maricopa Regional Area Road Construction Fund is reserved for capital projects. The Capital Projects Fund is reserved for capital projects funded with Highway Revenue Bonds and Grant Anticipation Notes (GARVEE Bonds). The Debt Service Fund reserve is for future debt service payments.

6. OTHER INFORMATION

A. Subsequent Events

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

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

On September 21, 2007, the Transportation Board adopted a Master Resolution relating to Transportation Excise Tax Revenue Bonds (Maricopa County Regional Area Road Fund). Also on September 21, 2007, the Transportation Board adopted the First Supplemental Resolution authorizing the issuance of the first series of bonds under the Master Resolution in an amount not to exceed $370,000,000.

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

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

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

B. Contingent Liabilities

Risk Management Insurance Losses

The Department is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the state's self-insurance program and, in the opinion of the Department's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the state's self-insurance program. All estimated losses for unsettled claims and actions of the state are determined on an actuarial basis and are included in the State of Arizona's Comprehensive Annual Financial Report.

Claims

The Department has a variety of claims pending against it that arose during the normal course of its activities. Management of the Department believes, based on the advice of legal counsel, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

Light Rail Transit System

Arizona Revised Statutes, §28-9201, requires the Department to establish, implement, and enforce minimum safety standards for light rail transit systems. If a violation of the safety standards is discovered, the Department shall report the violation in writing to the Federal Transit Administration. Furthermore, the organization that operates a light rail transit system shall include a safety oversight function and pay the Department's costs resulting from administration.

C. Retirement Plan

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

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

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

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

D. Special Item

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

Arizona Department of Transportation
Required Supplementary Information
June 30, 2007

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

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	<Negative>
Expenditures appropriated by State legislature in 2007 budget				
Administration	$ 41,392,500	$ 43,892,900	$ 43,727,609	$ 165,291
Highways	235,670,400	248,384,600	247,869,264	515,336
Motor Vehicle	91,847,900	99,479,600	98,809,023	670,577
Total	$ 368,910,800	$ 391,757,100	390,405,896	$ 1,351,204

Timing differences for Highway Maintenace:	
Prior year appropriation expenditures expended in current budgetary year	2,879,966
Current year appropriation expenditures expended in future budgetary year	<2,203,883>
Basis differences:	
Net increase <decrease> from cash basis for budgeting purposes and modified accrual basis for financial reporting purposes	<3,818,082>
Entity differences:	
Funds not appropriated, but included for financial reporting purposes	9,793,706
Perspective differences:	
Expenditures on modified accrual basis and not recognized on budgetary basis:	
Capital outlay and asset preservation	407,461,171
Distribution to cities and counties	22,299,364
Distribution to other state agencies	14,992,487
Interest expense on loans borrowed from the Highway Expansion and Extension Loan Program	2,472,429
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (General Fund) - Exhibit 4	$ 844,283,054

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

Note to Required Supplementary Information

1. Budgets and budgetary accounting

Annual budgets for the operating expenditures and capital outlay including land, building, and improvements for the General Fund (State Highway Fund) and State Aviation Fund are submitted to the Governor in accordance with state law. The budgets are legally enacted as appropriations after approval by the State legislature and signature by the Governor. The legal level of control for operating expenditures is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures, and all other operating expenditures are specifically allocated within all divisions. In certain divisions, other specific programs are allocated in addition to these categories. Revenue budgets are developed internally by the Department and are not a part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation by program, the allocation of funds between personal services, employee-related expenses, and other operating expenditures is an internal decision for the program manager. Accordingly, transfers between line items such as personal services and other operating expenditures within a particular program may be made by the program manager. Transfers of funds between programs require the approval of the Director of the Department of Administration. Expenditures may not exceed appropriations.

All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

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

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

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

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), the Arizona Department of Transportation (Department) reports it roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,817 center lane miles (18,573 travel lane miles) of roads and 4,648 bridges that the Department is responsible to maintain.

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

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

As adopted by the Transportation Board on an annual basis, the Five-Year Transportation Facilities Construction Program (Program) contains estimated expenditures for highway system improvements and the preservation of existing roadway and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2008 and beyond was adopted by the Transportation Board on June 15, 2007.

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

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

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

Roads

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

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

Information About Infrastructure Assets Reported Using the Modified Approach - continued

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

The goal of the Department is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the State highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2007, an overall rating of 3.87 was achieved, as shown in the following graph:

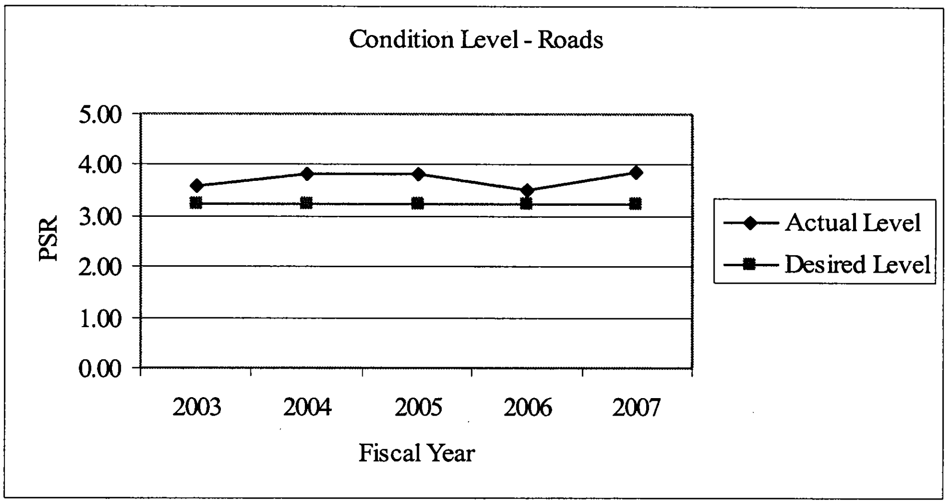


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT PMS, as well as other units within the Department. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2003 through 2007 were as follows:

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

Information About Infrastructure Assets Reported Using the Modified Approach - continued

Bridges

The Department's bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2007, the Department owns and maintains 4,648 bridges with an approximate total deck area of 44,356,907 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

A Condition Rating Index (CRI) is used to track the condition of the bridge network. The CRI is based on four selected bridge inspection condition ratings, which in turn are based on standards established in the FHWA's "Recording and Coding Guide for the Structural Inventory of the Nation's Bridges." The four selected condition ratings that are included in the CRI computation are: the bridge joints condition, the deck condition, the super-structure condition, and the sub-structure condition. The bridge joints condition rating is an Arizona specific rating item not included in the FHWA condition rating guidelines, whereas the three other condition ratings are federally mandated condition ratings. The CRI is computed by subtracting from one the ratio of the sum of the deck areas of all bridges with a condition rating of four or less (see table below), which indicates that the rated element is at best in a poor condition, to the total sum of the deck areas. The rating system in this guide is as follows:

Numerical Rating	Condition Rating
9	Excellent
8	Very Good
7	Good
6	Satisfactory
5	Fair
4	Poor
3	Serious
2	Critical
1	Imminent Failure

Management of the bridge inventory is a major function of the Department's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of the Department to maintain State highway bridges so that the CRI exceeds 92.5%. In fiscal year 2007, the CRI was computed at 93.6%.

Information About Infrastructure Assets Reported Using the Modified Approach – continued

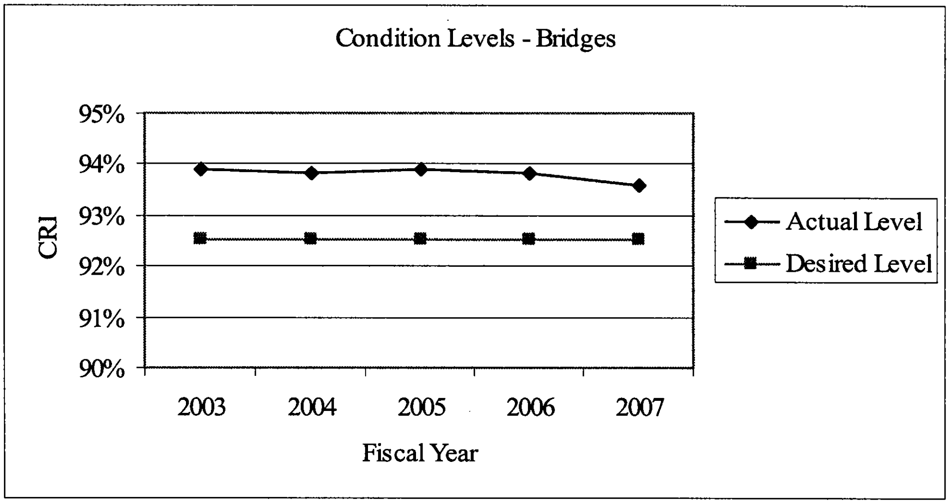


Figure 2

Bridges represent a major public investment, and their inspection and maintenance is an essential function of the Department in its mission of providing products and services for a safe, efficient, and cost effective transportation system. Figure 3 indicates that approximately 60% of the bridges in the state were constructed prior to the 1970s while only 20% have been constructed in the last two decades.

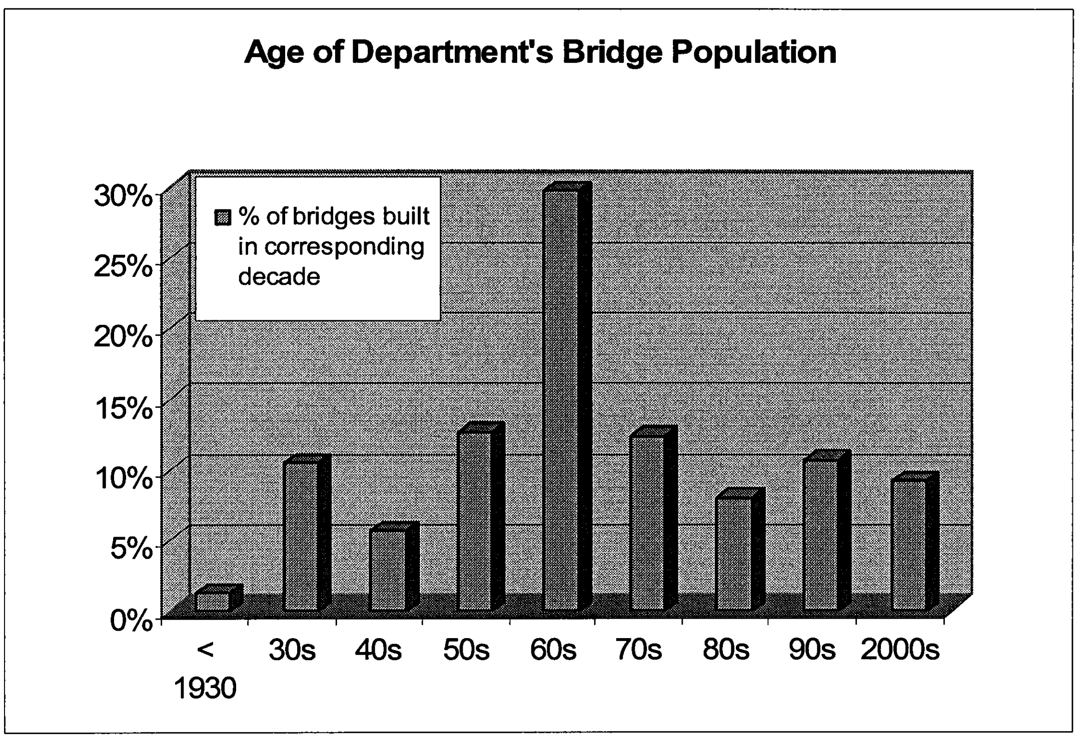


Figure 3

Information About Infrastructure Assets Reported Using the Modified Approach - continued

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2003 through 2007 were as follows:

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

APPENDIX B

PROPOSED FORM OF BOND COUNSEL OPINION

May 21, 2008

To: Arizona Transportation Board
Phoenix, Arizona

We have examined the transcript of proceedings (the "*Transcript*") relating to the issuance by the Arizona Transportation Board (the "*Board*") of its $193,950,000 aggregate principal amount of bonds designated the Arizona Transportation Board, Highway Revenue Bonds, Series 2008A (the "*Series 2008A Bonds*"), dated as of their date of initial delivery. The Series 2008A Bonds are issued under Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the "*Act*"), and pursuant to a resolution adopted by the Board on March 21, 2008 which supplemented the resolution adopted on May 1, 1980, as supplemented to date (collectively, the "*Resolutions*"). The documents in the Transcript include a copy of the Resolutions. All capitalized terms not defined herein shall have the meanings set forth in the Resolutions. We have also examined a conformed copy of a Series 2008A Bond of the first maturity.

Based on this examination, we are of the opinion that, under existing law:

1. The Series 2008A Bonds and the Resolutions are valid, legal, binding and enforceable in accordance with their respective terms, subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Series 2008A Bonds constitute special obligations of the Board, and the principal of, premium, if any, and interest (collectively, *"debt service"*) on the Series 2008A Bonds, together with debt service on the Outstanding Senior Bonds and on any Additional Senior Bonds that may subsequently be issued under the Resolutions on a parity with the Outstanding Senior Bonds and the Series 2008A Bonds (collectively, "*Senior Bonds*"), as provided in the Resolutions, are payable from and secured solely by those moneys paid into the State Highway Fund that constitute Pledged Revenues (as defined in the Resolutions). The Series 2008A Bonds and the payment of debt service thereon are not secured by an obligation or pledge of any moneys raised by taxation other than the Pledged Revenues, and the Series 2008A Bonds do not represent or constitute a general obligation or a pledge of the full faith and credit of the Board or the State of Arizona.

3. The Resolutions create a valid lien and pledge on the moneys that constitute Pledged Revenues paid into the State Highway Fund for the Senior Bonds, which lien and pledge is subject to no prior liens or pledges granted under the Act.

4. The interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "*Code*"), and is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Series 2008A Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Series 2008A Bonds.

Under the Code, portions of the interest earned on the Series 2008A Bonds by certain corporations may be subject to a corporate alternative minimum tax, and interest on the Series 2008A Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinions, we have assumed and relied upon continuing compliance with the Board's covenants and the accuracy, which we have not independently verified, of representations and certifications of the Board contained in the Transcript. The accuracy of those representations and certifications, and the continuing compliance by the Board with those covenants, may be necessary for the interest on the Series 2008A Bonds to be and to remain excluded from gross income for federal income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain of those covenants subsequent to issuance of the Series 2008A Bonds could cause interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2008A Bonds.

Respectfully submitted,

APPENDIX C

FORM OF CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING (*"Undertaking"*), dated May 1, 2008, is executed and delivered by the ARIZONA TRANSPORTATION BOARD (the *"Board"*) and the DEPARTMENT OF TRANSPORTATION (the *"Department"* which, together with the Board, is referred to as the *"Issuer"*), in connection with the issuance by the Board of its $193,950,000 Highway Revenue Bonds, Series 2008A, dated as of their date of initial delivery (the *"Bonds"*).

The Board and the Department each covenants and agrees as follows:

Section 1. Purpose of this Undertaking. This Undertaking is executed and delivered by the Issuer, as of the date set forth above, in accordance with the Rule (defined below) for the benefit of the beneficial owners of the Bonds.

Section 2. Definitions. The terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

"*Annual Information*" means the type of financial information and operating data set forth under the heading "REVENUES AND DEBT SERVICE COVERAGE – Historical Revenues" in the final Official Statement, dated May 6, 2008, for the Bonds.

"*Audited Financial Statements*" means the audited financial statements of the Department, prepared in conformity with generally accepted accounting principles.

"Filing Date" means the first day of the eighth month following the end of each Fiscal Year (or the next succeeding business day if that day is not a business day), beginning February 1, 2009.

"Fiscal Year" means each fiscal year of the Department.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIRs" means, as of any date, any Nationally Recognized Municipal Securities Information Repository then recognized by the Securities and Exchange Commission for purposes of the Rule. As of the date of this Undertaking, the NRMSIRs are:

Bloomberg Municipal Repository
100 Business Park Drive
Princeton, New Jersey 08558
Telephone: (609) 279-3225
Fax: (609)279-5962
http://www.bloomberg.com/rates/municontacts.html
E-Mail: munis@bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Fax: (201) 947-0107
http://www.muniFILINGS.com
E-Mail: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.
Attention: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Telephone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
http://www.interactivedata-prd.com
E-Mail: NRMSIR@interactivedata.com

Standard and Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Telephone: (212) 438-4595
Fax: (212) 438-3975
http://www.disclosuredirectory.standardandpoors.com
E-Mail: nrmsir_repository@sandp.com

"Rule" means Rule 15c2-12, as adopted by the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"SID" means any public or private repository designated by the State as the state repository and recognized as such by the Securities and Exchange Commission for purposes of the Rule. As of the date of this Agreement, no SID exists within the State.

"Specified Event" means the occurrence of any of the events with respect to the Bonds set forth in Exhibit I hereto.

"State" means the State of Arizona.

Section 3. Filing of Annual Information and Audited Financial Statements. The Issuer is the only Obligated Person (as defined in the Rule) for the Bonds. The Issuer hereby agrees to provide or cause to be provided to each NRMSIR and to any SID:

a) Annual Information for the preceding Fiscal Year and unaudited financial statements of the Board if Audited Financial Statements are not provided at the same time, not later than the Filing Date for each Fiscal Year; and

b) Audited Financial Statements for the preceding Fiscal Year, not later than the later of the Filing Date for each Fiscal Year or 30 days after receipt thereof by the Department.

Audited Financial Statements are expected to be available together with the Annual Information. The Issuer is required to deliver, or cause to be delivered, such information in such manner and by such time so that such entities receive the information on or before the date specified.

Section 4. Notice of Material Specified Events and Failure to Provide Annual Information. The Issuer agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB, and to any SID:

a) notice of the occurrence of any Specified Event with respect to the Bonds, if that Specified Event is material; and

b) notice of its failure to provide or cause to be provided the Annual Information on or prior to the applicable Filing Date.

Notwithstanding the foregoing, (i) notice of Specified Events consisting of optional calls or defeasances need not be given under this subsection any earlier than the notice of the underlying event is given to the registered owners of the affected Bonds pursuant to the terms of the Bonds, and (ii) notice of the occurrence of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, is not required if the terms of the redemption under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Bonds will be redeemed in the case of a partial redemption (such as mandatory sinking fund redemption).

If the responsible officials of the Issuer become aware of the occurrence of a Specified Event, the Issuer shall diligently proceed to determine whether that Specified Event is material and, if so, the Issuer shall prepare and provide or cause to be provided notice of the occurrence of that material Specified Event in accordance with this Section.

Section 5. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information or providing notice of the occurrence of an event, in addition to that which is required by this Undertaking. If the Issuer chooses to include any information from any document or notice of occurrence of an event in addition to that which is specifically required by this Undertaking, the Issuer shall have no obligation under this Undertaking to update such information or include it in any future Annual Information or notice of material Specified Events.

Section 6. Failure to Perform. The Issuer agrees that its agreements set forth in Sections 3 and 4 of this Undertaking are intended to be for the benefit of the beneficial owners from time to time of the Bonds. Any beneficial owner of a Bond may enforce the Issuer's obligation to provide or cause to be provided a filing that is due to each NRMSIR and any SID in accordance with Section 3 or to each NRMSIR or to the MSRB and any SID in accordance with Section 4 hereof by commencing an action in a court of competent jurisdiction in Phoenix, Arizona, to seek specific performance by court order to compel the Issuer to make such filings; provided that any beneficial owner seeking to require the Issuer to comply with this Undertaking shall first provide at least 30 days' prior written notice to the Board and the Department of the Issuer's failure, giving reasonable detail of such failure, following which notice the Issuer shall have 30 days to comply. The right of a beneficial owner to enforce any provision of this Undertaking shall be limited to a right to obtain specific enforcement of the Issuer's obligations hereunder and provided further that any failure of the Issuer to comply with any provisions of this Undertaking shall not be a default or an Event of Default with respect to the Bonds under the Bond Resolution (as defined in the Bonds).

Section 7. Amendments; Waiver. Notwithstanding any other provision of this Undertaking, the Issuer may amend this Undertaking, and any provision of this Undertaking may be waived, if such amendment or waiver is supported by a legal opinion, addressed to the Issuer, of an independent counsel who is expert in federal securities laws selected by the Department, to the effect that such amendment or waiver would not, in and of itself, cause this Undertaking to violate the Rule. The Annual Information prepared immediately following any amendment or waiver shall explain the reason for the amendment or waiver and the impact of the change in the type of information being provided.

Section 8. Termination of Undertaking. This Undertaking shall terminate when (a) the Bonds are no longer outstanding (within the meaning of the Bond Resolution) or (b) the Rule no longer applies to these Bonds.

Section 9. Dissemination Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 10. Alternate Means of Disclosure. Notwithstanding the provisions of Sections 3, 4 and 6 requiring that the Issuer file its Annual Information Disclosure, notice of any Material Event and notice of any failure to comply with this Undertaking with each of the NRMSIRS and any SID, the Issuer may instead comply with the provisions of this Undertaking by filing the required information with an entity then recognized by the Securities and Exchange Commission as eligible to receive filings and submit such filings to the NRMSIRS and any

SID for purposes of the Rule (a "Central Post Office"). As of the date of this Disclosure Undertaking, the Central Post Office that has been so recognized by the Securities and Exchange Commission is:

DisclosureUSA
P.O. Box 684667
Austin, Texas 78768-4667
Fax: (512) 476-6403
http://www.disclosureUSA.org

Section 11. Beneficiaries. This Undertaking shall inure solely to the benefit of the Issuer and the beneficial owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 12. Recordkeeping. The Issuer shall maintain records of all Annual Information and notice of material Specified Events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

Section 13. Governing Law. This Undertaking shall be governed by the laws of the State.

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IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Undertaking to be executed and delivered by their duly authorized officers in conjunction with the issuance of the Bonds.

ARIZONA TRANSPORTATION BOARD

By:____

Si Schorr

Its: Chair

ARIZONA DEPARTMENT OF TRANSPORTATION

By:____

Victor Mendez

Its: Director

EXHIBIT I

SPECIFIED EVENTS

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;[*]
5. Substitution of credit or liquidity providers, or their failure to perform;[*]
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities; and
11. Rating changes.

[*] The Issuer has not obtained or provided any credit enhancement or liquidity providers for the Series 2008A Bonds.

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

This information concerning DTC and DTC's book-entry system is based solely on information provided by DTC. Accordingly, neither the Board nor the Department takes responsibility for the accuracy thereof. The Owners should confirm this information with DTC or the DTC participants.

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 2008A Bonds. The Series 2008A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2008A Bond certificate will be issued for each maturity of the Series 2008A Bonds, totaling in the aggregate the principal amount of the Series 2008A Bonds, and will be deposited with DTC. The owners of book-entry interest will not receive or have the right to receive physical delivery of the Series 2008A Bonds.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Securities Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with the Direct Participants, "Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of beneficial interests in the Series 2008A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008A Bonds on DTC's records. The ownership interest of each actual purchaser of a beneficial interest in a Series 2008A Bond ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in the Series 2008A Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2008A Bonds, except in the event that use of the book-entry system for the Series 2008A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2008A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008A Bonds; DTC's records reflect only the identity of the Direct

Participants to whose accounts such Series 2008A Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2008A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2008A Bonds such as redemptions (if any), defaults, and proposed amendments to the Senior Bond Resolution. For example, Beneficial Owners of Series 2008A Bonds may wish to ascertain that the nominee holding the Series 2008A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2008A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2008A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2008A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, and interest payments represented by the Series 2008A Bonds will be made by the Paying Agent to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct Participants and Indirect Participants.

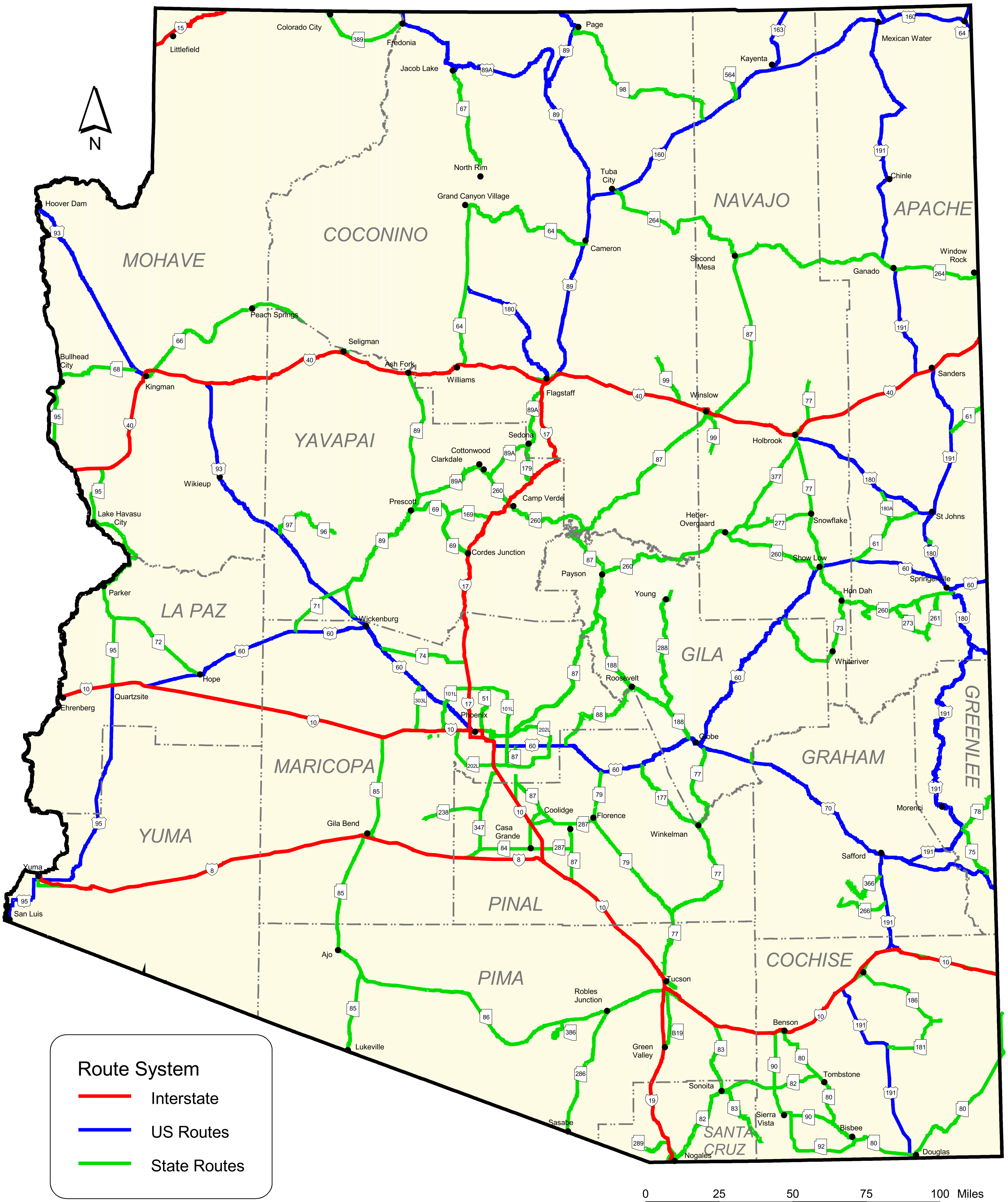
DTC may discontinue providing its services as securities depository with respect to the Series 2008A Bonds at any time by giving reasonable notice to the Paying Agent or the Board. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2008A Bonds are required to be printed and delivered. The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2008A Bonds will be printed and delivered.

THE BOARD AND THE DEPARTMENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC, TO DIRECT PARTICIPANTS OR TO INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2008A BONDS UNDER THE SENIOR BOND RESOLUTION; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2008A BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE SERIES 2008A BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2008A BONDS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Series 2008A Bonds, as nominee for DTC, references in this Official Statement to "Owner" or registered owners of the Series 2008A Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2008A Bonds.

When reference is made in this Official Statement to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Board or the Bond Registrar to DTC only.

State Highway System



0 25 50 75 100 Miles

0 40 80 120 160 Kilometers

Arizona Department Of Transportation
Transportation Planning Division
GIS Team

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