

**HIGHWAY EXPANSION AND EXTENSION LOAN PROGRAM FUND
FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDING JUNE 30, 2001**

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INDEPENDENT AUDITORS' REPORT

Transportation Board of the State of Arizona
Arizona Department of Transportation

We have audited the accompanying balance sheet of the Highway Expansion and Extension Loan Program Fund (the "Fund") of the Arizona Department of Transportation ("ADOT") as of June 30, 2001, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. These financial statements are the responsibility of ADOT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements referred to above present only the Fund and are not intended to present fairly the financial position and results of operations of ADOT in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Highway Expansion and Extension Loan Program Fund of the Arizona Department of Transportation, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
December 3, 2001

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund

Balance Sheet

June 30, 2001

(With comparative totals at June 30, 2000)

	<u>2001</u>	<u>2000</u>
Assets and other debits		
Cash and cash equivalent on deposit with the State Treasurer (Note 2)	\$ 163,414,888	\$ 116,479,199
Receivables:		
Loan (Note 3)	36,795,608	60,022,019
Accrued interest	751,385	2,050,507
Due from other Arizona Department of Transportation funds	241,301	9,119
Due from other Arizona counties, cities and other state agencies	<u>310,947</u>	<u>16,588</u>
Total assets and other debits	<u>\$ 201,514,129</u>	<u>\$ 178,577,432</u>
 Liabilities and fund balance		
Accrued payroll and other accrued expenditures	\$ 8,164	\$ -
Due to Arizona Department of Transportation funds	-	1,389,051
Due to Arizona counties, cities, and other state agencies	100,715,414	101,679,790
Advances from other Arizona Department of Transportation funds (Note 5)	<u>20,000,000</u>	<u>20,000,000</u>
Total liabilities	<u>120,723,578</u>	<u>123,068,841</u>
Fund balance - reserved for loans and other financial assistance	80,790,551	55,508,591
Total liabilities and fund balances	<u>\$ 201,514,129</u>	<u>\$ 178,577,432</u>

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Statement of Revenue, Expenditures and Changes in Fund Balance

For the fiscal year ended June 30, 2001

(With comparative totals for the fiscal year ended June 30, 2000)

	<u>2001</u>	<u>2000</u>
Revenues:		
Federal grants and reimbursements	\$ -	\$ 6,561,311
Investment interest	6,493,500	3,780,802
Interest on loans receivable	2,903,764	1,591,725
State match	-	396,600
Total revenues	<u>9,397,264</u>	<u>12,330,438</u>
Expenditures:		
Interest	5,267,763	1,679,790
Administrative	153,197	1,387
Investment management fee	83,395	68,210
Total expenditures	<u>5,504,355</u>	<u>1,749,387</u>
Excess of revenues over expenditures	3,892,909	10,581,051
Other financing sources:		
Operating transfers in	21,389,051	-
Operating transfers out	-	<1,389,051>
Total other financing sources	<u>21,389,051</u>	<u><1,389,051></u>
Excess of revenues and other financing sources over expenditures	25,281,960	9,192,000
Fund balance, July 1	<u>55,508,591</u>	<u>46,316,591</u>
Fund balance, June 30	<u><u>\$ 80,790,551</u></u>	<u><u>\$ 55,508,591</u></u>

The accompanying notes are an integral part of these financial statements.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund

Notes to Financial Statements

June 30, 2001

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Arizona Department of Transportation (Department) was authorized in 1996 to administer a State Infrastructure Bank under a cooperative agreement with the Federal Highway Administration (FHWA), pursuant to Section 350 of the National Highway System Designation Act of 1995. The Highway Extension and Expansion Loan Program (HELP) was authorized to be established as Arizona's State Infrastructure Bank under Arizona Revised Statute, Title 28, Chapter 21, Article 5. The HELP Fund (Fund) was initially capitalized with grants from FHWA and State matching funds.

HELP is administered by a seven member advisory committee. The members serve staggered four year terms and shall not serve more than two consecutive terms. The committee is charged with developing an application form for financial assistance, reviewing requests for loans and financial assistance, making recommendations to the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and submitting an annual report to the Governor and State Legislature. Qualified borrowers, which include any political subdivision, the State or its agencies or Indian tribes, may submit loan applications to HELP for eligible projects.

The Transportation Board may make loans or provide other financial assistance to qualified borrowers, including the Department, from monies in the Fund for eligible projects, enter into a loan repayment agreement with an entity, apply for, accept and administer grants and other financial assistance from the United States and from other public and private sources that are made for deposit in the Fund. HELP does not increase the Transportation Board's bonding authority.

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

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

The financial statements present only the funds comprising the Fund and are not intended to present fairly the financial position or results of operations of the Department.

The accounting policies of the Department conform to generally accepted accounting principles in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund

Notes to Financial Statements (continued)

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICES - Continued

Fund accounting

The operations of the Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various transactions are accounted for in one fund type as follows:

GOVERNMENTAL FUNDS

- Special Revenue Fund -The Special Revenue Fund receives monies from the FHWA along with applicable State matching funds, State Transportation Board Funding Obligations, direct State appropriations and other lawfully available sources. The Transportation Board may use monies in the Fund to make eligible project loans or provide other financial assistance to qualified borrowers, subsidize interest rates, provide other forms and methods of financial assistance, and pay the costs to administer the Fund.

Basis of accounting

The modified accrual basis of accounting is followed for reporting purposes. Under the modified accrual basis of accounting, expenditures are recorded when the related liability is incurred and revenues are recorded when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Those revenues susceptible to accrual are Federal grants and reimbursements, State match and interest.

Budgets and budgetary accounting

The expenditures of the Fund are not governed by appropriations of the State legislature and therefore are not subject to the limitations of a legally adopted budget.

Encumbrance accounting

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

Highway Expansion and Extension Loan Program Fund

Notes to Financial Statements (continued)

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Transactions between departmental funds

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

Use of estimates

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

NOTE 2-CASH AND CASH EQUIVALENTS

The cash and cash equivalents balance is on deposit with the State Treasurer for pooled investment purposes and is not evidenced by securities that exist in physical or book entry form in the Fund's name. Cash equivalents are defined as short-term, highly liquid investments (investments with original maturities of three months or less). All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements, or obligations of the U.S. Government. All investments are carried at cost, which approximates fair value.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund

Notes to Financial Statements (continued)

NOTE 3-LOAN RECEIVABLES

Loan receivables represent loans made pursuant to Loan Repayment Agreements. Twenty such agreements have been authorized as of June 30,2001, as follows:

PROJECT SPONSOR	LOAN DATE	INTEREST RATE*	AUTHORIZED LOAN AMOUNT	FINAL MATURITY	DRAWS TO DATE	OUTSTANDING LOAN BALANCE
Town of Chino Valley	3/17/2000	4.50%	\$ 300,000	Jan-05	\$ 300,000	\$ 230,000
City of Sierra Vista	7/21/2000	4.00%	1,970,000	Jun-03	1,970,000	1,455,000
ADOT	2/18/2000	2.93%	5,664,000	Oct-01	4,618,717	4,618,717
La Paz County	12/18/2000	2.93%	2,000,000	Jan-04	1,448,568	1,448,568
ADOT	5/19/2000	3.46%	5,707,000	Jun-05	1,678,299	1,678,299
ADOT	1/19/2001	2.93%	8,400,000	Jan-03	891,005	891,005
Town of Taylor	5/18/2001	3.42%	1,000,000	Jun-05	1,000,000	1,000,000
Santa Cruz County	1/19/2001	3.42%	1,150,000	Jan-05	-	-
ADOT	3/16/2001	To be Determined	1,000,000	Jun-04	-	-
City of Yuma	4/20/2001	To be Determined	1,000,000	Jul-06	-	-
ADOT	5/18/2001	To be Determined	41,900,000	Jul-05	-	-
Town of Payson	6/15/2001	To be Determined	1,100,000	Jul-06	-	-
City of Yuma	6/15/2001	To be Determined	2,000,000	Jul-06	-	-
City of Mesa	3/20/1998	4.41%	24,000,000	Oct-01	24,000,000	24,000,000
City of Chandler	3/20/1998	3.59%	26,000,000	Jul-02	26,000,000	1,309,254
ADOT	11/15/1999	3.92%	100,000,000	Jun-01	90,324,139	164,765
ADOT / City of Phoenix	11/17/2000	To be Determined	22,500,000	Jun-05	-	-
City of Tucson	3/17/2000	4.50%	2,000,000	Jan-05	2,000,000	-
ADOT	5/19/2000	To be Determined	5,285,000	Jun-05	-	-
City of Tucson	6/15/2001	To be Determined	4,500,000	Jan-06	-	-
Totals			\$ 257,476,000		\$ 154,230,728	\$ 36,795,608

* Interest Rate will be determined on the date of the first draw.

NOTE 4-CONTINGENT LIABILITIES

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 Fund expects such amounts, if any, to be immaterial.

NOTE5-ADVANCES

Senate Bill 1201 authorized the transfer of \$20,000,000 from the State Highway Fund in fiscal year 2000. This amount is shown as Advances to other Arizona Department of Transportation funds in the State Highway Fund and Advances from other Arizona Department of Transportation funds in the Highway Expansion and Extension Loan Program Fund. The advance is due no later than December 31,2008.