

# FINANCIAL STATEMENTS

Fiscal year ended June 30, 2002

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## INDEPENDENT AUDITORS' REPORT

The Honorable Jane Dee Hull  
Governor of the State of Arizona, and  
Members of the Legislature

We have audited the accompanying financial statements of the Arizona Department of Transportation Highway Expansion and Extension Loan Program Fund (the "Fund") as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Arizona Department of Transportation's (the "Department") 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 1A, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2002, the changes in its financial position and cash flows 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

financial position of the Fund of the Department as of June 30, 2002, the changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4 to the financial statements, in fiscal year 2002, the Fund adopted Governmental Accounting Standards Board ("GASB") Statement No.34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, GASB Statement No.37 , Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, and GASB Statement No.38, Certain: Financial Statement Note Disclosures.

The Management Discussion and Analysis on page 2 is a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Deloitte & Touche LLP*  
November 15, 2002

**Deloitte  
Touche  
Tohmatsu**

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
June 30, 2002

Management's Discussion and Analysis

**Financial Highlights**

- The assets of the Highway Expansion and Extension Loan Program Fund (HELP) exceeded its liabilities by \$83,292,829 at the end of year 2002. All of this amount may be used to meet HELP's ongoing obligations.
- HELP's total net assets increased by \$2,502,278. The majority of the changes are attributable to an increase in the interest on loan receivables.
- Twenty new loans totaling over \$172 million were approved from July 1, 2001, to June 30, 2002. Ten of the 20 loans were made to local governments, and the remaining ten made to accelerate ADOT projects.
- HELP continues to be among the most active State Infrastructure Banks in the nation.

**Fund financial statements**

**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 expenses. 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:

**Proprietary funds.** Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. An enterprise fund is used by the Arizona Department of Transportation (Department) to account for the HELP operation.

The Department's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 6-11 of this report.

**Requests for information.** This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the Fund's finances. Questions concerning any of the information provided in this report or request 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 .dot.state.az.us/ ABOUT/fms/helQlink.htm](http://www.dot.state.az.us/ABOUT/fms/helQlink.htm).

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund

Statement of Net Assets

For the fiscal year ended June 30, 2002

	<u>2002</u>
<b>Assets</b>	
Current assets:	
Restricted cash on deposit with the State Treasurer (Note 1)	\$ 141,334,598
Receivables:	
Accrued interest	666,035
Loans (Note 3A)	51,019,947
Due from other Arizona Department of Transportation funds	571,451
Due from other state agencies	158,953
Total current assets	<u>193,750,984</u>
Noncurrent assets:	
Receivables:	
Loans (Note 3A)	55,099,529
Total noncurrent assets	<u>55,099,529</u>
Total assets	<u>248,850,513</u>
<b>Liabilities</b>	
Current liabilities:	
Accrued payroll and other accrued expenses	3,905
Compensated absences	17,313
Total current liabilities	<u>21,218</u>
Noncurrent liabilities:	
Advances from other Arizona Department of Transportation funds (Note 3B)	20,000,000
Notes payable (Note 3C)	145,536,466
Total noncurrent liabilities	<u>165,536,466</u>
Total liabilities	<u>165,557,684</u>
<b>Net assets</b>	
Restricted for loans and other financial assistance	83,292,829
Total net assets	<u>\$ 83,292,829</u>

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

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund

Statement of Activities

For the fiscal year ended June 30, 2002

	<u>2002</u>
<b>Operating revenues:</b>	
Interest on loans receivables	2,226,502
Total operating revenues	<u>2,226,502</u>
<b>Operating expenses:</b>	
Salaries and related benefits	251,220
Supplies	1,043
Professional and outside services	139,498
Travel	6,126
Interest on notes payable	4,821,052
Other	45,783
Total operating expenses	<u>5,264,722</u>
Operating <loss>	<3,038,220>
<b>Non-operating revenues:</b>	
Interest on investments	5,540,498
Total non-operating revenues	<u>5,540,498</u>
Changes in net assets	2,502,278
Total net assets -July 1	<u>80,790,551</u>
<b>Total net assets – June 30</b>	<u><u>\$ 83,292,829</u></u>

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

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund

Statement of Cash Flows

For the fiscal year ended June 30, 2002

	<u>2002</u>
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 2,048,346
Receipts from other funds	9,689,351
Receipts from other agencies	3,417,773
Payments to suppliers	<26,863>
Payments to employees	<244,291>
Payments to other funds	<75,507,164>
Payments to other agencies	<7,037,504>
Other <payments>	<45,785>
Net cash <used> by operating activities	<u>&lt;67,706,137&gt;</u>
 <b>Cash flows from noncapital financing activities:</b>	
Transfer from other agencies	<u>40,000,000</u>
Net cash provided by noncapital financing activities	<u>40,000,000</u>
 <b>Cash flows from investing activities:</b>	
Interest on investments	<u>5,625,847</u>
Net cash provided by investing activities	<u>5,625,847</u>
Net <decrease> in cash	<22,080,290>
Restricted Cash - July 1	<u>163,414,888</u>
<b>Restricted Cash - June 30</b>	<u><u>\$ 141,334,598</u></u>
<b>Reconciliation of operating income to net cash &lt;used&gt; by operating activities:</b>	
Operating <loss>	\$ <3,038,220>
Adjustment to reconcile operation income to net cash <used> by operating activities	
Net charges in assets and liabilities:	
Receivables	<69,323,867>
Due from other Arizona Department of Transportation funds	330,150>
Due from other state agencies	151,994
Accrued payroll and other accrued expenses	<4,259>
Compensated absences	17,313
Notes payable	4,821,052
Net cash <used> by operating activities	<u><u>\$ &lt;67,706,137&gt;</u></u>

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

Arizona Department of Transportation

Highway Expansion and Extension Loan Program Fund

Notes to Financial Statements

June 30, 2002

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**A. Reporting Entity**

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 Statutes, Title 28, Chapter 21, Article 5. The HELP Fund (Fund) was initially capitalized with grants from FHWA and State matching funds.

The HELP is administered by a seven-member advisory committee. The members serve staggered four-year terms and serve no more than two consecutive terms. The committee is charged with 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 loan repayment agreements with recipients, 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.



Arizona Department of Transportation

Highway Expansion and Extension Loan Program Fund

Notes to Financial Statements (continued)

June 30, 2002

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICES - Continued**

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:

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The economic resources measurement focus and the accrual basis of accounting are followed for reporting purposes. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Federal grants and reimbursements, State match and interest are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Department uses an enterprise fund to account for the Fund and for its loan distribution operation. The 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.

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

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.

### **C. Assets, Liabilities, and Net Assets**

#### **Deposits and investments**

The cash 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. 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.

#### **Restricted Assets**

Resources of the Fund are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by State statutes.

#### **Compensated absences**

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits. There is no liability for unpaid accumulated sick leave. All vacation pay is accrued when incurred in the proprietary fund financial statements. A liability for these amounts is reported as current liabilities.

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 exempt employees) which is paid when vacation is taken or upon termination of employment at the individual's then current rate of pay. For the proprietary funds, all of the outstanding vacation at June 30 is recorded as a current liability.

**NOTE 2-STEW ARDSHIP, COMPLIANCE, AND ACCOUNTING ABILITY**

The expenses 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.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Notes to Financial Statements (continued)

June 30, 2002

**NOTE 3-DETAILED NOTES**

**A. Loans Receivables**

Loans receivables represent loans made pursuant to Loan Repayment Agreements. Thirty-six loans have balances outstanding or are pending as of June 30, 2002, as follows:

PROJECT SPONSOR	LOAN DATE	INTEREST RATE	AUTHORIZED LOAN AMOUNT	FINAL MATURITY	DRAWS TO DATE	OUTSTANDING LOAN BALANCE	DUE WITHIN ONE YEAR
Town Of Chino Valley	03/17/2000	450%	\$ 300,000	Jan-05	\$ 300,000	\$ 175,000	\$ 55,000
ADOT	05/19/2000	3.46%	5,707,000	Mar-04	4,496,851	4,105,995	2,346,283
City Of Sierra Vista	07/21/2000	4.00%	1,970,000	Jun-03	1,970,000	745,000	745,000
ADOT	01/19/2001	2.93%	8,400,000	Jan-03	6,038,856	4,882,412	4,882,412
Santa Cruz County	01/19/2001	3.11%	1,150,000	Jan-05	643,827	643,827	130,000
ADOT	03/16/2001	3.32%	1,000,000	Jun-04	340,214	340,214	340,214
Town Of Taylor	05/18/2001	3.42%	1,000,000	Jun-05	1,000,000	700,000	300,000
ADOT	05/18/2001	2.85%	41,900,000	Jul-05	12,243,017	12,243,017	12,243,017
Town Of Payson	06/15/2001	3.56%	1,100,000	Jul-06	1,100,000	995,795	-
ADOT	09/21/2001	1.76%	3,216,000	Aug-03	1,827,215	1,827,215	1,827,215
Town Of Miami	01/18/2002	2.20%	80,000	Jun-05	80,000	80,000	27,000
City Of Yuma	04/20/2001	*	1,000,000	Jul-06	-	-	-
City Of Yuma	06/15/2001	*	2,000,000	Jul-06	-	-	-
Town Of Mammoth	12/14/2001	*	334,800	Jun-05	-	-	-
Yavapai County	03/15/2002	*	4,500,000	Jun-05	-	-	-
ADOT	03/15/2002	*	13,855,000	Jun-04	-	-	-
ADOT	03/15/2002	*	500,000	Jan-05	-	-	-
ADOT	03/15/2002	*	9,900,000	Jun-04	-	-	-
ADOT	03/15/2002	*	4,000,000	Oct-04	-	-	-
Gila County	04/19/2002	*	1,237,500	Jun-08	-	-	-
Gila County	04/19/2002	*	600,000	Jun-08	-	-	-
Gila County	04/19/2002	*	487,500	Jun-08	-	-	-
ADOT	05/17/2002	*	5,000,000	Jun-06	-	-	-
City Of Lake Havasu City	06/21/2002	*	789,508	Jul-04	-	-	-
ADOT	06/21/2002	*	650,000	Nov-06	-	-	-
Yavapai County	06/21/2002	*	4,500,000	Jun-06	-	-	-
City Of Mesa	03/20/1998	4.41%	24,000,000	Dec-02	24,000,000	22,610,949	22,610,949
ADOT / City Of Phoenix	11/17/2000	2.48%	22,500,000	Jun-05	21,297,194	21,297,195	-
ADOT	09/21/2001	3.30%	50,000,000	Dec-06	22,000,000	22,000,000	-
ADOT	05/19/2000	1.77%	5,285,000	Jun-05	5,285,000	4,672,857	3,672,857
City Of Tucson	06/15/2001	2.91%	4,500,000	Jan-06	4,500,000	3,700,000	740,000
Pima County	12/14/2001	3.23%	1,400,000	Jul-07	1,400,000	1,400,000	300,000
Pima County	12/14/2001	3.23%	3,700,000	Jul-07	3,700,000	3,700,000	800,000
ADOT	09/21/2001	*	62,500,000	Jan-06	-	-	-
ADOT	03/15/2002	*	5,500,000	Jun-03	-	-	-
<b>Total</b>			<b>\$294,562,308</b>		<b>\$112,222,174</b>	<b>\$106,119,476</b>	<b>\$51,019,947</b>

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

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Notes to Financial Statements (continued)

June 30, 2002

**NOTE 3-DET AILED NOTES - Continued**

**B. Advances**

Laws 1999, Chapter 2 (SB 1002) 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 Fund. The advance is due no later than December 31, 2008.

**C. Notes Payable**

Laws 1999, Chapter 189 (SB 1201) authorized a Board Funding Obligation (BFO) of \$100,000,000 to the Fund in fiscal year 2000. Interest accrued to date is \$5,429,814. The total amount of the BFO and interest is shown as Notes Payable. Both of the principal and interest of the BFO are due on March 14, 2004 (\$43,115,200) and June 27, 2004 (\$62,314,614) respectively.

Laws 2001, Chapter 238 (HB 2636) authorized a Board Funding Obligation (BFO) of \$40,000,000 to the Fund in fiscal year 2002. Interest accrued to date is \$106,652. The total amount of the BFO and interest is shown as Notes Payable. Both of the principal and interest of the BFO are due no later than May 30, 2004.

**D. 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 expenses which may be disallowed by the grantor cannot be determined at this time although the Fund expects such amounts, if any, to be immaterial.

**NOTES - ACCOUNTING CHANGES AND RESTATEMENTS**

During fiscal year 2001-2002, the Department implemented several new accounting standards issued by GASB :

Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,

No.37 , Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus, and

No. 38, Certain Financial Statement Note Disclosures.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Notes to Financial Statements (continued)

June 30, 2002

**NOTE 4-ACCOUNTING CHANGES AND RESTATEMENTS - Continued**

Statement No.34, as amended by Statement No.37 , establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state governments, including statement formats and changes in fund types and account groups. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

Statement No.38 requires certain note disclosures when Statement No.34 is implemented. The implementation of these standards did not have a significant impact on the net assets of the Fund.

In fiscal year 2002, the HELP fund changed from Governmental Fund - Special Revenue Fund to Proprietary Fund - Enterprise Fund. The management concluded that during the course of operation of the Fund, it resembled more of a business type fund than governmental fund.