

HELP Financial Statement

Fiscal Year Ended June 30, 2000



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REPORT OF INDEPENDENT AUDITORS

Transportation Board of the State of Arizona
Arizona Department of Transportation

We have audited the accompanying balance sheets of the Highway Expansion and Extension Loan Program Fund of the Arizona Department of Transportation as of June 30, 2000 and 1999, and the related statements of revenues, expenditures and changes in fund balance for the years then ended. These financial statements are the responsibility of the Arizona Department of Transportation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Highway Expansion and Extension Loan Program Fund are intended to present the financial position and results of operations of only the fund of the Arizona Department of Transportation that is attributable to the transactions of the Highway Expansion and Extension Loan Program Fund.

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, 2000 and 1999, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

October 13, 2000

Ernst & Young LLP is a member of Ernst & Young International, Ltd.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund

Balance Sheet

June 30, 2000

(With comparative totals at June 30, 1999)

	<u>2000</u>	<u>1999</u>
Assets and other debits		
Cash and cash equivalent on deposit with the State Treasurer (Note 2)	\$ 116,479,199	\$ 37,600,370
Receivables:		
Loan (Note 3)	60,022,019	7,796,171
Accrued interest	2,050,507	420,050
Due from other Arizona Department of Transportation funds	9,119	500,000
Due from other Arizona counties, cities and other state agencies	<u>16,588</u>	<u>-</u>
Total assets and other debits	<u>\$ 178,577,432</u>	<u>\$ 46,316,591</u>
Liabilities and fund balance		
Due to Arizona Department of Transportation funds	\$ 1,389,051	\$ -
Due to Arizona counties, cities, and other state agencies	101,679,790	-
Advances from other Arizona Department of Transportation funds	<u>20,000,000</u>	<u>-</u>
Total liabilities	<u>123,068,841</u>	<u>-</u>
Fund balance - reserved for loans and other financial assistance	<u>55,508,591</u>	<u>46,316,591</u>
Total liabilities and fund balances	<u>\$ 178,577,432</u>	<u>\$ 46,316,591</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, 2000

(With comparative totals for the fiscal year ended June 30, 1999)

	<u>2000</u>	<u>1999</u>
Revenues:		
Federal grants and reimbursements	\$ 6,561,311	\$ 5,567,176
Investment interest	3,780,802	2,661,772
Interest on loans receivable	1,591,725	28,798
State match	<u>396,600</u>	<u>24,794</u>
Total revenues	<u>12,330,438</u>	<u>8,282,540</u>
Expenditures:		
Interest expense	1,679,790	-
Administrative	1,387	864
Investment management fee	<u>68,210</u>	<u>31,838</u>
Total expenditures	<u>1,749,387</u>	<u>32,702</u>
Excess of revenues over expenditures	10,581,051	8,249,838
Other financing sources:		
Operating transfers in	-	38,066,753
Operating transfers out	<1,389,051>	-
Total other financing sources	<u>1,389,051</u>	<u><38,066,753></u>
Excess of revenues and other financing sources over expenditures	9,192,000	46,316,591
Fund balance, July 1	<u>46,316,591</u>	<u>-</u>
Fund balance, June 30	<u>\$ 55,508,591</u>	<u>\$ 46,316,591</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, 2000

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 as applicable to governments. The following is a summary of the more significant policies:

Arizona Department of Transportation

Highway Expansion and Extension Loan Program Fund

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June 30, 2000

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Arizona Department of Transportation

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 30,2000, as follows:

BORROWER	PROJECT SPONSOR	LOAN DATE	INTEREST RATE*	AUTHORIZED LOAN AMOUNT	FINAL MATURITY	DRAWS TO DATE	OUTSTANDING LOAN BALANCE
ADOT	Chandler	3/20/1998	3.59%	26,000,000	Jul-02	\$24,690,739	\$15,950.937
ADOT	Mesa	3/20/1998	*	24,000,000	Oct-01	-	-
ADOT	MAG-ROW	11/18/1999	3.92%	100,000,000	Jun-01	41,771,082	41,771,082
City of Tucson	Tucson	3/17/2000	4.50%	2,000,000	Jan-05	2,000,000	2,000,000
Town of Chino Valley	Chino Valley	3/17/2000	4.50%	300,000	Jan-05	300,000	300,000
ADOT	SR 260	2/18/2000	*	5,664,000	Oct-01	-	-
ADOT	Various Statewide	5/19/2000	*	5,707,000	2001	-	-
ADOT	Various Pima County	5/19/2000	*	5,285,000	2001	-	-
Totals				\$168,956,000		\$68,761,821	\$60,022,019

* 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.