

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund

Financial Statements

Fiscal years ended June 30, 2003 and 2002

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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 Arizona Department of Transportation Highway Expansion and Extension Loan Program Fund (the "Fund") as of and for the years ended June 30, 2003 and 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements of the Fund are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the Department that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2003 and 2002 and the changes in its financial position and its cash flows for the years 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, 2003 and 2002 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 2 through 4 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. 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*

December 4, 2003

## Management's Discussion and Analysis

### Financial Highlights

- The assets of the Highway Expansion and Extension Loan Program (HELP) Fund exceeded its liabilities by \$63,224,779 at the end of fiscal year 2003 as compared to \$83,292,829 at fiscal year end 2002. All of this amount may be used to meet the HELP Fund's operational needs for loans or other financial assistance.
- The HELP Fund's total net assets decreased by \$20,068,050. The majority of the decrease is attributable to a one-time distribution to the state's General Fund of \$20,000,000.
- Total loan amounts of \$116.2 million were disbursed from July 1, 2002, to June 30, 2003. Among the \$116.2 million disbursement, \$34.4 million was disbursed on the Arizona Department of Transportation's I-10/I-19 traffic interchange project, and \$25 million was disbursed for projects on the Maricopa County Regional Freeway System.

### Fund Financial Statements

**Fund accounting** The operations of the HELP 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.

### Financial Analysis

In governmental financial statements, net assets may serve over time as a useful indicator of a government's financial position. The HELP Fund's net assets decreased by \$20,068,050 by the end of fiscal year 2003.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
June 30, 2003 and 2002

**Table 1**  
**Highway Expansion and Extension Loan Program Fund's Net Assets**  
**as of June 30, 2003 and 2002**

	Business-type Activities	
	2003	2002
Current assets	\$ 150,813,642	\$ 193,750,984
Non-current assets	83,979,755	55,099,529
Total assets	<u>234,793,397</u>	<u>248,850,513</u>
Other liabilities	151,568,618	21,218
Non-current liabilities	20,000,000	165,536,466
Total liabilities	<u>171,568,618</u>	<u>165,557,684</u>
Net assets:		
Restricted	<u>63,224,779</u>	<u>83,292,829</u>
Total net assets	<u>\$ 63,224,779</u>	<u>\$ 83,292,829</u>

All of the HELP Fund's net assets are restricted for loans and other financial assistance.

**Table 2**  
**Highway Expansion and Extension Loan Program Fund's Changes in Net Assets**  
**for fiscal years ended June 30, 2003 and 2002**

	Business-type Activities	
	2003	2002
Revenues:		
Operating revenues:		
Interest on loans receivables	\$ 3,881,239	\$ 2,226,502
Non-operating revenues:		
Interest on investments	2,399,250	5,540,498
Total revenues	<u>6,280,489</u>	<u>7,767,000</u>
Expenses:		
Operating expenses:		
Interest on notes payable	6,008,600	4,821,052
Other	339,939	443,670
Non-operating expenses:		
Distribution to other state agencies	20,000,000	-
Total expenses	<u>26,348,539</u>	<u>5,264,722</u>
Increase <Decrease> in net assets	<20,068,050>	2,502,278
Net assets - July 1	<u>83,292,829</u>	<u>80,790,551</u>
Net assets - June 30	<u>\$ 63,224,779</u>	<u>\$ 83,292,829</u>

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Statement of Net Assets  
For the fiscal years ended June 30, 2003 and 2002

	2003	2002
<b>Assets</b>		
Current assets:		
Restricted cash on deposit with the State Treasurer (Note 1C)	\$ 96,010,168	\$ 141,334,598
Receivables:		
Accrued interest	249,902	666,035
Loans (Note 3A)	52,903,160	51,019,947
Due from other Arizona Department of Transportation funds	1,269,916	553,125
Due from Arizona counties and cities	380,496	177,279
Total current assets	<u>150,813,642</u>	<u>193,750,984</u>
Non-current assets:		
Receivables:		
Loans (Note 3A)	83,979,755	55,099,529
Total noncurrent assets	<u>83,979,755</u>	<u>55,099,529</u>
Total assets	<u>234,793,397</u>	<u>248,850,513</u>
<b>Liabilities</b>		
Current Liabilities:		
Accrued payroll and other accrued expenses	4,867	3,905
Compensated absences	18,685	17,313
Notes payable (Note 3C)	151,545,066	-
Total current liabilities	<u>151,568,618</u>	<u>21,218</u>
Non-current liabilities:		
Interfund payables (Note 3B)	20,000,000	20,000,000
Notes payable (Note 3C)	-	145,536,466
Total noncurrent liabilities	<u>20,000,000</u>	<u>165,536,466</u>
Total liabilities	<u>171,568,618</u>	<u>165,557,684</u>
<b>Net assets</b>		
Restricted for loans and other financial assistance	63,224,779	83,292,829
Total net assets	<u>\$ 63,224,779</u>	<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 years ended June 30, 2003 and 2002

	2003	2002
<b>Operating revenues:</b>		
Interest on loans receivables	3,881,239	2,226,502
Total operating revenues	3,881,239	2,226,502
<b>Operating expenses:</b>		
Salaries and related benefits	217,411	251,220
Supplies	1,388	1,043
Professional and outside services	118,463	139,498
Travel	1,561	6,126
Interest on notes payable	6,008,600	4,821,052
Other	1,116	45,783
Total operating expenses	6,348,539	5,264,722
Operating income <loss>	<2,467,300>	<3,038,220>
<b>Non-operating revenues &lt;expenses&gt;:</b>		
Interest on investments	2,399,250	5,540,498
Distribution to other state agencies	<20,000,000>	-
Total non-operating revenues <expenses>	<17,600,750>	5,540,498
Changes in net assets	<20,068,050>	2,502,278
Total net assets - July 1	83,292,829	80,790,551
<b>Total net assets - June 30</b>	<b>\$ 63,224,779</b>	<b>\$ 83,292,829</b>

*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 years ended June 30, 2003 and 2002

	2003	2002
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 2,961,231	\$ 2,048,346
Receipts from other funds	82,185,273	9,689,351
Receipts from other agencies	3,270,000	3,417,773
Payments to suppliers	<32,873>	<26,863>
Payments to employees	<216,637>	<244,291>
Payments to other funds	<96,475,705>	<75,507,164>
Payments to other agencies	<19,829,986>	<7,037,504>
Other receipts <payments>	<1,116>	<45,785>
Net cash provided <used> by operating activities	<28,139,813>	<67,706,137>
<b>Cash flows from noncapital financing activities:</b>		
Distribution to other state agencies	<20,000,000>	-
Distribution from other agencies	-	40,000,000
Net cash provided <used> by noncapital financing activities	<20,000,000>	40,000,000
<b>Cash flows from investing activities:</b>		
Interest on investments	2,815,383	5,625,847
Net cash provided by investing activities	2,815,383	5,625,847
Net increase <decrease> in cash	<45,324,430>	<22,080,290>
Cash - July 1	141,334,598	163,414,888
<b>Cash - June 30</b>	\$ 96,010,168	\$ 141,334,598
<b>Reconciliation of operating income to net cash provided &lt;used&gt; by operating activities:</b>		
Operating income <loss>	\$ <2,467,300>	\$ <3,038,220>
Net changes in assets and liabilities:		
Receivables	<30,763,439>	<69,323,867>
Due from other Arizona Department of Transportation funds	<716,791>	<311,824>
Due from Arizona counties and cities	<203,217>	133,668
Accrued payroll and other accrued expenses	962	<4,259>
Compensated absences	1,372	17,313
Notes payable	6,008,600	4,821,052
Net cash provided <used> by operating activities	\$ <28,139,813>	\$ <67,706,137>

*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, 2003

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

**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 Expansion and Extension Loan Program (HELP) was authorized to be established as Arizona's State Infrastructure Bank under Arizona Revised Statutes, Title 28, Chapter 21. 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; and 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 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 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 expenses 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:



**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**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 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 can receive 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 fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, classification because they are included in the state's investment pool.

Arizona Department of Transportation  
Highway Expansion and Extension Loan Program Fund  
Notes to Financial Statements (continued)  
June 30, 2003

**NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES–Continued**

***Receivables and Payables***

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 the Fund and the U.S. Government, Arizona counties and cities, and other state agencies are reported as “due to/from”.

***Restricted Assets***

Resources of the Fund are classified as restricted assets on the balance sheet because 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.

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.

***Net Assets***

The difference between assets and liabilities is reported as “Net Assets” on the proprietary fund statements.

**D. Revenues and Expenses**

Revenues and expenses of proprietary funds are classified as operating and non-operating and as sub-classified by object (e.g., salaries, travel, interest on notes payable, 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.

**NOTE 2–STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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, 2003

**NOTE 3—DETAILED NOTES**

**A. Loans Receivables**

Loans receivables represent loans made pursuant to Loan Repayment Agreements. Thirty-four loans have balances outstanding or are pending as of June 30, 2003, 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	4.50%	\$ 300,000	Jan-05	\$ 300,000	\$ 120,000	\$ 60,000
ADOT	05/19/2000	3.46%	5,707,000	Mar-04	5,165,861	2,157,414	2,157,414
ADOT	05/19/2000	1.77%	5,285,000	Jun-05	5,285,000	1,000,000	1,000,000
ADOT/CITY OF PHOENIX	11/17/2000	2.48%	22,500,000	Jun-05	22,500,000	22,500,000	15,750,000
SANTA CRUZ COUNTY	01/19/2001	3.11%	1,150,000	Jan-05	643,827	513,827	130,000
ADOT	03/16/2001	3.32%	1,000,000	Jun-04	819,382	479,168	479,168
CITY OF YUMA	04/20/2001	1.65%	1,000,000	Dec-06	1,000,000	800,000	200,000
ADOT	05/18/2001	2.85%	41,900,000	Jul-05	30,430,453	6,199,876	6,199,877
TOWN OF TAYLOR	05/18/2001	3.42%	1,000,000	Jun-05	1,000,000	400,000	300,000
TOWN OF PAYSON	06/15/2001	3.56%	1,100,000	Jul-06	1,100,000	995,795	104,205
CITY OF TUCSON	06/15/2001	2.91%	4,500,000	Jan-06	4,500,000	2,900,000	800,000
CITY OF YUMA	06/15/2001	1.77%	2,000,000	Jul-06	2,000,000	2,000,000	500,000
ADOT	09/21/2001	1.76%	3,216,000	Aug-03	2,031,263	204,048	204,048
ADOT	09/21/2001	2.11%	62,500,000	Jan-06	34,378,381	17,574,923	17,574,923
ADOT	09/21/2001	3.30%	50,000,000	Dec-08	47,000,000	47,000,000	-
PIMA COUNTY	12/14/2001	3.23%	1,400,000	Jul-07	1,400,000	1,100,000	740,000
PIMA COUNTY	12/14/2001	3.23%	3,700,000	Jul-07	3,700,000	2,960,000	300,000
TOWN OF MIAMI	01/18/2002	2.20%	80,000	Jun-05	80,000	80,000	53,500
ADOT	03/15/2002	1.35%	13,855,000	Jun-04	8,481,063	3,281,063	3,281,063
ADOT	03/15/2002	1.14%	500,000	Jan-05	192,334	192,334	192,334
ADOT	03/15/2002	1.56%	4,000,000	Oct-04	2,681,459	2,681,459	-
YAVAPAI COUNTY	03/15/2002	1.83%	4,500,000	Jun-05	4,500,000	4,500,000	2,250,000
ADOT	03/15/2002	To be determined	9,900,000	Jun-04	-	-	-
ADOT	03/15/2002	To be determined	5,500,000	Jun-04	-	-	-
GILA COUNTY	04/19/2002	1.43%	1,237,500	Mar-09	1,237,500	1,237,500	61,875
GILA COUNTY	04/19/2002	To be determined	600,000	Mar-09	-	-	-
GILA COUNTY	04/19/2002	To be determined	487,500	Mar-09	-	-	-
ADOT	05/17/2002	1.99%	5,000,000	Jun-06	5,000,000	5,000,000	-
CITY OF LAKE HAVASU CITY	06/21/2002	1.18%	789,508	Feb-05	789,508	789,508	394,754
YAVAPAI COUNTY	06/21/2002	2.25%	4,500,000	Jun-06	4,500,000	4,500,000	-
ADOT	06/21/2002	To be determined	650,000	Nov-06	-	-	-
TOWN OF ORO VALLEY	08/16/2002	1.19%	1,716,000	Jul-05	1,716,000	1,716,000	-
CITY OF SAFFORD	08/16/2002	2.42%	2,000,000	Oct-07	2,000,000	2,000,000	85,000
TOWN OF THATCHER	08/16/2002	1.56%	2,000,000	Oct-07	2,000,000	2,000,000	85,000
<b>TOTAL</b>			<b>\$ 265,573,508</b>		<b>\$ 196,432,031</b>	<b>\$ 136,882,915</b>	<b>\$ 52,903,160</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, 2003

**NOTE 3–DETAILED NOTES–Continued**

**B. Interfund Payables**

Laws 1999, Chapter 2 (SB 1002) authorized the transfer of \$20,000,000 from the State Highway Fund to the HELP Fund in fiscal year 2000. This amount is shown as Interfund Receivable in the State Highway Fund and Interfund Payable in this Fund. The Interfund Payable 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 \$10,140,814. The total amount of the BFO and interest is shown as Notes Payable. The principal and accrued interest as of June 30, 2003, are \$55,524,200 (with a maturity date on March 14, 2004) and \$54,616,614 (with a maturity date of June 27, 2004), 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 \$1,404,252. The total amount of the BFO and interest is shown as Notes Payable. Both of the principal and interest on the BFO are due no later than May 30, 2004.

**NOTE 4–OTHER INFORMATION**

**A. 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.

**B. Subsequent Events**

In August 2003, the Fund refunded Board Funding Obligation (BFO) Series 2000 and 2002 to extend the maturity of the outstanding BFOs. BFO Series 2000 totaled \$110,643,301 with accrued interest of \$10,643,301. BFO Series 2002 totaled \$41,574,895 with accrued interest of \$1,574,895.

Laws 2001, Chapter 238 (HB 2636) authorized a Board Funding Obligation (BFO) of \$140,000,000 to the Fund in fiscal year 2004 with maturity dates no later than four years from the disbursement date. Principal in the amount of \$100,000,000 was disbursed in August 2003 and is payable no later than August 2007.