

*Financial Statements*

***Arizona Department of Transportation  
Maricopa County Regional Area Road Fund***

*Fiscal Year Ended June 30, 2001*

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Financial Statements

Fiscal year ended 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 Maricopa County Regional Area Road 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 balances 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 Maricopa County Regional Area Road 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

**Deloitte  
Touche  
Tohmatsu**

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Balance Sheet  
 June 30, 2001

	Governmental Fund Types				Totals (Memorandum Only)
	Construction Account (Special Revenue Fund)	Bond Account (Debt Service Fund)	Bond Proceeds Account (Capital Projects Fund)	General Long- Term Debt Account Group	
<b>Assets and other debits</b>					
Cash and cash equivalents on deposit with the State Treasurer (Note 2)	\$ 70,428,529	\$ 17,110,080	\$ 10,877,947	\$ -	\$ 98,416,556
Receivables:					
Notes (Note 4)	3,615,516	-	-	-	3,615,516
Accrued interest	143,817	1,054,676	86,085	-	1,284,578
Other	2,316,138	-	-	-	2,316,138
Due from U.S. Government for reimbursable construction costs	171,404	-	-	-	171,404
Due from other Arizona Department of Transportation funds	36,560	-	-	-	36,560
Due from Arizona counties, cities and other state agencies	22,273,615	-	-	-	22,273,615
Amount available in debt service fund for retirement of general long-term debt	-	-	-	18,164,756	18,164,756
Amount to be provided for retirement of general long-term debt	-	-	-	671,422,028	671,422,028
<b>Total assets and other debits</b>	<b>\$ 98,985,579</b>	<b>\$ 18,164,756</b>	<b>\$ 10,964,032</b>	<b>\$ 689,586,784</b>	<b>\$ 817,701,151</b>
<b>Liabilities and fund balances</b>					
Liabilities:					
Construction contracts payable	\$ 6,502,322	\$ -	\$ 2,887,556	\$ -	\$ 9,389,878
Accounts payable	591,645	-	594,107	-	1,185,752
Accrued payroll and other accrued expenditures	2,650	-	-	-	2,650
Due to Arizona counties, cities and other state agencies	-	-	-	-	-
Notes payable (Note 9)	7,528,571	-	-	-	7,528,571
Bonds payable (Note 5)	-	-	-	689,586,784	689,586,784
<b>Total liabilities</b>	<b>14,625,188</b>	<b>-</b>	<b>3,481,663</b>	<b>689,586,784</b>	<b>707,693,635</b>
Fund balances - reserved for highway construction	84,360,391	18,164,756	7,482,369	-	110,007,516
<b>Total liabilities and fund balances</b>	<b>\$ 98,985,579</b>	<b>\$ 18,164,756</b>	<b>\$ 10,964,032</b>	<b>\$ 689,586,784</b>	<b>\$ 817,701,151</b>

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

Arizona Department of Transportation  
 Maricopa County Regional Area Road Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 For the fiscal year ended June 30, 2001

	Governmental Fund Types			Totals (Memorandum Only)
	Construction Account (Special Revenue Fund)	Bond Account (Debt Service Fund)	Bond Proceeds Account (Capital Projects Fund)	
<b>Revenues:</b>				
Transportation excise taxes	\$ 264,722,440	\$ -	\$ -	\$ 264,722,440
Federal grants and reimbursements	27,446,833	-	-	27,446,833
Reimbursements from Arizona counties, cities and other state agencies	8,531,545	-	-	8,531,545
Interest	5,186,650	5,818,523	2,847,255	13,852,428
Other	2,123,075	-	-	2,123,075
Total revenues	<u>308,010,543</u>	<u>5,818,523</u>	<u>2,847,255</u>	<u>316,676,321</u>
<b>Expenditures:</b>				
Capital outlay - highway construction	129,561,083	-	78,394,621	207,955,704
Distributions to other state agencies	7,421,930	-	-	7,421,930
Debt Service:				
Principal	-	156,865,000	-	156,865,000
Interest	-	40,035,320	-	40,035,320
Other	-	78,413	-	78,413
Total expenditures	<u>136,983,013</u>	<u>196,978,733</u>	<u>78,394,621</u>	<u>412,356,367</u>
Excess <deficiency> of revenues over <under> expenditures	171,027,530	<191,160,210>	<75,547,366>	<95,680,046>
<b>Other financing sources &lt;uses&gt;:</b>				
Operating transfers in	738,754	192,277,738	-	193,016,492
Proceeds from sale of bonds	-	-	115,650,638	115,650,638
Operating transfers out:				
Debt service	<192,277,738>	-	-	<192,277,738>
Other	<45,069,207>	<732,000>	<32,620,903>	<78,422,110>
Total other financing sources <uses>	<u>&lt;236,608,191&gt;</u>	<u>191,545,738</u>	<u>83,029,735</u>	<u>37,967,282</u>
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	<65,580,661>	385,528	7,482,369	<57,712,764>
Fund balances, July 1	<u>149,941,052</u>	<u>17,779,228</u>	-	<u>167,720,280</u>
<b>Fund balances, June 30</b>	<u>\$ 84,360,391</u>	<u>\$ 18,164,756</u>	<u>\$ 7,482,369</u>	<u>\$ 110,007,516</u>

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

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements

June 30, 2001

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Maricopa County Regional Area Road Fund (Fund) was established under Title 28, Chapter 17, Article 1 of the Arizona Revised Statutes. The Fund accounts for the proceeds of Transportation Excise Tax Revenue Bonds issued by the Transportation Board of the State of Arizona Department of Transportation (Transportation Board) and Transportation Excise Tax revenues.

The Arizona Department of Transportation (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 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 expenditures and adherence to annual budgets. The State Treasurer invests the cash balances of the Department.

The financial statements present only the funds and account group 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:

*Fund accounting*

The accounts of the Fund are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each 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 in individual funds 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 three fund types and one account group as follows:

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

GOVERNMENTAL FUNDS

- Special Revenue Fund - The Special Revenue Fund receives Maricopa County transportation excise tax monies collected by the Department of Revenue after the monthly debt service requirements are fully satisfied. These monies are expended for the construction of controlled-access highways which are included in the Regional Freeway System.
- Debt Service Fund - The Debt Service Fund administers the payment of principal and interest on all bonds outstanding under the bond resolutions.
- Capital Projects Fund - The Capital Projects Fund administers the use of the net proceeds of any bonds issued pursuant to the bond resolutions. The bond proceeds are applied to the payment of certain bond related expenditures and construction expenditures and the funding of certain debt service reserve requirements.

ACCOUNT GROUP

- General Long-Term Debt - Long-term liabilities related to the Fund are accounted for in the General Long-Term Debt Account Group.

*Basis of accounting*

The modified accrual basis of accounting is followed for reporting purposes. Under the modified accrual basis of accounting, expenditures, other than interest on long-term debt, 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. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Those revenues susceptible to accrual are transportation excise taxes, Federal grants and reimbursements, and reimbursements from Arizona counties, cities and other state agencies for construction costs incurred by the Department. Federal grant monies are received after the incurrence of qualifying expenditures. As a result, the Federal share of all qualifying goods or services received or performed prior to year end has been accrued.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

*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.

The Transportation Board annually approves the Five-Year Transportation Facilities Construction Program for the Maricopa County Regional Area Road Construction and Bond Proceeds Funds. This program lists all planned construction projects for the next five years and the related program budget. Debt service payments are made in accordance with the requirements under the relevant bond resolution.

*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.

*Transactions between departmental funds*

Transactions which 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 expenditures in the fund that is reimbursed.

*Bond premiums, discounts and issuance costs*

Premiums or discounts on bond issuances are netted against the bond proceeds in the capital projects fund. The bonds are recorded at their face value in the General Long-Term Debt Account Group, except in the case of capital appreciation bonds. The capital appreciation bonds are initially recorded net of their discount and the discount is amortized over the life of the issue using the effective interest method. All costs related to bond issuance are recorded as debt service expenditures in the appropriate fund as incurred.

*Use of estimates*

The preparation of these financial statements in conformity with GAAP 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.



Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

*Memorandum only totals*

The Total columns included in the accompanying financial statements are captioned memorandum only to indicate they are presented only to facilitate financial analysis. The information in the columns is not intended to present financial position or results of operations in conformity with GAAP. This information is not comparable to a consolidation and interfund eliminations have not been made in the aggregation of the information.

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 maintain separate investment accounts for the portions of the Maricopa County Regional Area Road Bond and Bond Proceeds Funds relating to the Transportation Excise Tax Revenue Bond issues. These funds may be invested primarily in obligations of the U.S. Government. All investments are carried at cost, which approximates fair value.

NOTE 3—SECURITIES HELD IN LIEU OF RETENTION

In accordance with Arizona law, a contractor may assign to the Department, in lieu of contract retention, time certificates of deposit in Federally insured banks licensed by the State of Arizona or securities of the United States of America, the State of Arizona, its counties, municipalities and school districts or deposits in savings and loan institutions authorized to transact business in the State of Arizona.

At June 30, 2001, the Trustee held assignments, on securities, aggregating \$6,866,583 in lieu of contractor retentions for construction in the special revenue fund. These securities are not reflected in the accompanying financial statements.

NOTE 4—NOTES RECEIVABLE

Notes receivable represents real estate mortgage loans made to individuals purchasing homes 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.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

NOTE 5--BONDS PAYABLE

Bonds payable at June 30, 2001, related to the Maricopa County Regional Area Road Fund State of Arizona Transportation Excise Tax Revenue Bonds are comprised of the following individual issues:

1988 Series A, authorized by the Transportation Board on September 22, 1988, Capital Appreciation Bonds, face amount of \$73,000,000 less unamortized discount of \$10,748,216 due in varying annual installments beginning in 2002 at an approximate yield of 7.3 percent to 7.5 percent, through July 1, 2005	\$ 62,251,784
1992 Series A, refunding, authorized by the Transportation Board on October 1, 1992, due in varying annual installments plus semiannual interest at rates ranging from 5.4 percent to 5.8 percent, through July 1, 2005	86,850,000
1992 Series B, authorized by the Transportation Board on October 1, 1992, due in varying annual installments plus semiannual interest at rates ranging from 5.4 percent to 5.8 percent, through July 1, 2005	11,455,000
1993 Series, subordinated, refunding authorized by the Transportation Board on December 10, 1993, due in varying annual installments plus semiannual interest at rates ranging from 4.4 percent to 5.6 percent, through July 1, 2005	113,175,000
1995 Series A, subordinated, authorized by the Transportation Board on October 5, 1995, due in varying annual installments plus semiannual interest at rates ranging from 4.5 percent to 6.5 percent, through July 1, 2005	63,515,000
1995 Series B, subordinated, refunding, authorized by the Transportation Board on October 5, 1995, due in varying annual installments plus semiannual interest at rates ranging from 4.5 percent to 6.5 percent, through July 1, 2005	85,940,000
1998 Series A authorized by the Transportation Board on June 15, 1998, due in varying annual installments plus semiannual interest at rates ranging from 4.0 percent to 5.0 percent, through July 1, 2005	98,150,000
1999 Series, subordinated, authorized by the Transportation Board on June 15, 1999, due in varying annual installments plus semiannual interest at rates ranging from 4.8 percent to 5.3 percent, through July 1, 2005	76,055,000
2000 Series, authorized by the Transportation Board on September 15, 2000, due in varying annual installments plus semiannual interest at rates ranging from 4.4 percent to 5.8 percent, through July 1, 2005	<u>92,195,000</u>
	<u>\$ 689,586,784</u>

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

NOTE 5—BONDS PAYABLE—Continued

The following is a summary of changes in general long-term debt for the fiscal year ended June 30, 2001:

	Balance July 1, 2000	Additions	Retirements	Amortization of Discount	Balance June 30, 2001
Bonds:					
1988 Series A, Capital Appreciation	\$ 57,918,423	\$ -	\$ -	\$ 4,333,361	\$ 62,251,784
1992 Series A, Refunding	127,020,000	-	40,170,000	-	86,850,000
1992 Series B	13,955,000	-	2,500,000	-	11,455,000
1993 Series, Subordinated, Refunding	122,065,000	-	8,890,000	-	113,175,000
1995 Series A, Subordinated	77,440,000	-	13,925,000	-	63,515,000
1995 Series B, Subordinated, Refunding	86,195,000	-	255,000	-	85,940,000
1998 Series A	136,135,000	-	37,985,000	-	98,150,000
1999 Series, Subordinated	107,700,000	-	31,645,000	-	76,055,000
2000 Series	<u>-</u>	<u>113,690,000</u>	<u>21,495,000</u>	<u>-</u>	<u>92,195,000</u>
Total general long-term debt	<u>\$ 728,428,423</u>	<u>\$ 113,690,000</u>	<u>\$156,865,000</u>	<u>\$ 4,333,361</u>	<u>\$ 689,586,784</u>

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

NOTE 5—BONDS PAYABLE—Continued

Future debt service requirements of the Transportation Excise Tax Revenue Bonds outstanding at June 30, 2001, related to the Fund are as follows:

Fiscal Year	1988 Series A		1992 Series A Refunding Bonds		1992 Series B Bonds	
	Capital Appreciation Bonds		Principal	Interest	Principal	Interest
	Principal	Interest				
2002	\$ 21,500,000	\$ -	\$ 110,000	\$ 4,958,740	\$ 2,635,000	\$ 647,905
2003	21,500,000	-	23,240,000	4,952,690	2,780,000	502,980
2004	21,500,000	-	24,545,000	3,651,250	2,935,000	347,300
2005	8,500,000	-	38,955,000	2,239,913	3,105,000	178,538
	<u>\$ 73,000,000</u>	<u>\$ -</u>	<u>\$ 86,850,000</u>	<u>\$ 15,802,593</u>	<u>\$ 11,455,000</u>	<u>\$ 1,676,723</u>

Fiscal Year	1993 Series Subordinated,		1995 Series A Subordinated Bonds		1995 Series B Subordinated,	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 30,835,000	\$ 5,502,045	\$ 14,555,000	\$ 3,819,500	\$ 33,185,000	\$ 5,091,063
2003	31,180,000	3,775,285	15,355,000	3,018,975	10,215,000	3,099,963
2004	32,335,000	2,372,185	16,275,000	2,097,675	12,470,000	2,614,750
2005	18,825,000	884,775	17,330,000	1,039,800	30,070,000	1,804,200
	<u>\$ 113,175,000</u>	<u>\$ 12,534,290</u>	<u>\$ 63,515,000</u>	<u>\$ 9,975,950</u>	<u>\$ 85,940,000</u>	<u>\$ 12,609,976</u>

Fiscal Year	1998 Series A Bonds		1999 Series Subordinated Bonds		2000 Series Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 21,580,000	\$ 4,818,000	\$ 17,685,000	\$ 3,853,738	\$ 21,370,000	\$ 4,751,338
2003	25,865,000	3,757,000	18,555,000	2,969,487	22,420,000	3,712,838
2004	25,615,000	2,481,750	19,420,000	2,041,737	23,580,000	2,616,838
2005	25,090,000	1,217,000	20,395,000	1,070,738	24,825,000	1,369,938
	<u>\$ 98,150,000</u>	<u>\$ 12,273,750</u>	<u>\$ 76,055,000</u>	<u>\$ 9,935,700</u>	<u>\$ 92,195,000</u>	<u>\$ 12,450,952</u>

Fiscal Year	Total Bonds		
	Principal	Interest	Total
2002	\$ 163,455,000	\$ 33,442,329	\$ 196,897,329
2003	171,110,000	25,789,218	196,899,218
2004	178,675,000	18,223,485	196,898,485
2005	187,095,000	9,804,902	196,899,902
	<u>\$ 700,335,000</u>	<u>\$ 87,259,934</u>	<u>\$ 787,594,934</u>

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

NOTE 5--BONDS PAYABLE--Continued

The bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The 1993 Series Bonds, the 1995 Series A and B Bonds and the 1999 Series Bonds are subordinate to the other senior Transportation Excise Tax Revenue Bonds. The Transportation Board may issue additional subordinated Transportation Excise Tax Revenue Bonds as long as the amount of transportation excise tax deposited with the Fund (plus any other monies deposited during the period) in any 12 consecutive months out of the 18 months prior to the issuance date of the proposed bonds is not less than 120 percent of the greatest combined adjusted aggregate debt service for all senior and subordinated bonds in the current or future bond years, including any proposed bonds. The Transportation Board may issue additional senior Transportation Excise Tax Bonds if the above condition is met and also if the amount of transportation excise tax deposited (plus any other monies deposited during the period) for the same period is not less than 200 percent of the greatest adjusted aggregate debt service for all senior bonds.

Bonds aggregating \$113,175,000 are subject to redemption prior to their maturity dates at the option of the Transportation Board in whole at any time, or in part at interest payment dates. These bonds may be redeemed at various redemption prices ranging from 100 percent to 102 percent of principal, plus accrued interest to the date fixed for redemption. Bonds aggregating \$587,160,000 are not subject to redemption.

The Bond Resolution adopted by the Transportation Board on July 25, 1986, established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988, gives the Transportation Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reflected in the accompanying financial statements. The policies (aggregating \$70,063,698 at June 30, 2001) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated bonds, which were issued by MBIA Insurance Corporation and the 1995 Series A and Series B Subordinated bonds which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond principal and interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no bonds are outstanding under the Bond Resolution.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 2001, the carrying basis was \$62,251,784. At maturity on July 1, 2005, the carrying basis will equal the maturity amount of \$73,000,000.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

NOTE 5--BONDS PAYABLE--Continued

*Refunded bonds*

In prior years, the Fund refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal 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 accompanying financial statements. Refunded Bonds of the Fund outstanding as of June 30, 2001, are \$8,996,156 of the 1988 Series A Capital Appreciation Bonds.

NOTE 6--COMMITMENTS UNDER CONSTRUCTION CONTRACTS

The Fund had outstanding commitments under construction contracts of approximately \$73,780,000 at June 30, 2001.

NOTE 7--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.

NOTE 8--TRANSPORTATION EXCISE TAX

In the 1985 regular session, the Legislature of the State of Arizona enacted transportation financing legislation. This legislation gives each county's voters the option of approving up to a 10 percent increase in existing transaction privilege taxes for highway purposes. Pursuant to this legislation, on October 8, 1985, Maricopa County (the County) voters approved a referendum providing for an increase in the transaction privilege tax (the Excise Tax) to finance the construction of certain controlled-access highways in the County. The Excise Tax is levied upon persons engaging in business activities within the County who are subject to the State of Arizona transaction privilege tax. Collection of the Excise Tax in the County commenced on January 1, 1986. The Excise Tax levy is currently scheduled to expire December 31, 2005. Revenues from the Excise Tax are collected by the Department of Revenue of the State of Arizona and are transferred to the State Treasurer for deposit into the Fund.

Arizona Department of Transportation  
Maricopa County Regional Area Road Fund

Notes to Financial Statements (continued)

NOTE 9 – NOTES PAYABLE

Notes payable represents \$7,528,571 in Maricopa Regional Area Road (RARF) Construction Account for a City of Mesa construction loan. The RARF loan is based on actual draw downs from the City of Mesa construction loan account used to fund actual construction expenditures. The interest rate on the RARF loan is 1.75 percent per annum, with interest payments due monthly. RARF loan principal repayments will commence in fiscal year 2003, with monthly repayment amounts corresponding to the actual monthly draw down amounts.

NOTE 10 – SUBSEQUENT EVENT

On October 15, 2001, the Department issued \$66,010,000 in Transportation Excise Tax Revenue Bonds (Series 2001) to (i) finance the costs of construction of certain controlled-access highways within Maricopa County, Arizona and (ii) pay costs of issuing the Series 2001 Bonds. The Series 2001 Bonds are due July 1, 2003, through July 1, 2005. Net proceeds totaled \$68,421,205 (after receipt of \$2,805,666 of reoffering premium and payment of \$394,461 in underwriting fees).