

Annual Financial Report

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

Fiscal Year Ended June 30, 2002

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Annual Financial Report
For the 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 governmental activities, and each major fund of the Arizona Department of Transportation Maricopa Regional Area Road 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 1, the financial statements of the Fund are intended to present the financial position, and the changes in financial position, of only that portion of the governmental activities and each major fund 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, 2002, and the changes in its financial position 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 governmental activities and each major fund for the Fund as of June 30, 2002, and the changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 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 pages 2 through 5 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
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis
June 30, 2002

As management of the Arizona Department of Transportation, Maricopa County Regional Area Road Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements and the accompanying notes.

Financial Highlights

- The assets of the Fund were \$159,710,452 and the liabilities were \$636,068,911. The liabilities exceeded the assets because when the Fund comes into possession of capital assets, they are distributed to the Arizona Department of Transportation's general fund.
- The Fund distributed \$144,746,758 of cash and capital assets to the Arizona Department of Transportation.
- Transportation Excise taxes collected were \$267,563,343.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Fund's basic financial statements. The Fund's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

Government-wide financial statements. The government-wide financial statements are designed to present an overall picture of the financial position of the Fund. These statements, consisting of the statement of net assets and the statement of activities, are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets combines and consolidates the Fund's current financial resources with capital assets and long-term obligations. This statement includes all of the Fund's assets and liabilities. Net assets are the difference between the Fund's assets and liabilities, and represent one measure of the Fund's financial health.

- Indicators of the Fund's financial health include the economic trends affecting the Fund's future tax revenues.

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Management's Discussion and Analysis
June 30, 2002

The statement of activities focuses on both the gross and net cost of various activities; these costs are paid by the Fund's general tax and other revenues. This statement summarizes the cost of providing specific Fund services, and includes all current year revenues and expenses.

Governmental activities

The Fund's basic services are reported here. Taxes and federal grants finance most of these activities.

Governmental funds. The Fund's activities are reported in governmental funds. Reporting for these funds focuses on how money flows into and out of the funds, and amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual method of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Fund's general government operations and the basic services it provides. This information should help you determine whether there are more or less resources available for the Fund's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The Fund maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the Special Revenue Fund, Debt Service Fund, and Capital Projects Fund which are considered to be major funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 12 of this report.

Government-wide Financial Analysis

The following tables and analysis discuss the financial position and changes to financial position for the Fund as a whole as of June 30, 2002. As noted earlier, net assets may serve over time as a useful indicator of the Fund's financial health.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Management's Discussion and Analysis
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The following table reflects the condensed Statement of Net Assets as of June 30, 2002.

Maricopa County Regional Area Road Fund's Net Assets

	Governmental activities
Current and other assets	\$ 159,710,452
Total assets	159,710,452
Long-term liabilities outstanding	636,056,362
Other liabilities	7,985,098
Total liabilities	644,041,460
Net assets:	
Invested in capital assets, net of related debt	<602,890,000>
Restricted	118,558,992
Total net assets	\$ <484,331,008>

The assets of the Fund were \$159.7 million, while the liabilities were \$644.0 million resulting in net assets of \$<484.3> million. The deficit net assets was due to capital assets being distributed to the Arizona Department of Transportation while the Fund retained the debt related to the assets. The purpose of the Fund is highway construction to benefit the Arizona Department of Transportation. To be able to construct highways, the Fund collects excise tax and issues bonds.

The Fund's bonded indebtedness decreased by 6 percent for the fiscal year 2002. This decrease was primarily due to bonded debt that was retired.

**Transportation Excise Tax
 Revenue Bonds
 Repayment schedule**

Fiscal Year	Principal	Interest
2003	\$ 192,290,000	\$ 28,605,218
2004	200,650,000	20,245,235
2005	209,950,000	10,947,652
	\$ 602,890,000	\$ 59,798,105

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Management's Discussion and Analysis
June 30, 2002

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/rarflink.htm>.

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Statement of Net Assets
 June 30, 2002

ASSETS

Receivables:

Accrued interest	\$ 422,191
Other, less allowance	1,612,954
Notes and loans (Note 6)	3,877,976
Due from U.S. Government for reimbursable construction costs	54,662
Due from Arizona counties, cities and other state agencies	22,064,263
Restricted cash on deposit with the State Treasurer	<u>131,678,406</u>
Total assets	<u>159,710,452</u>

LIABILITIES

Accounts payable and other current liabilities	220,446
Accrued payroll and other accrued expenses	2,092
Contracts and retainage payable	5,967,865
Judgements payable (Note 10)	1,794,695
Non-current liabilities (Note 3):	
Due within one year	224,197,865
Due in more than one year	<u>411,858,497</u>
Total liabilities	<u>644,041,460</u>

NET ASSETS

Invested in capital assets, net of related debt (Note 3)	<602,890,000>
Restricted for highway construction	<u>118,558,992</u>
Total Net Assets	<u>\$<484,331,008></u>

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Statement of Activities
 For the fiscal year ended June 30, 2002

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net <Expenses> Revenues
Governmental activities:					
Highway	\$ -	\$ -	\$ 252	\$ 9,775,567	\$ 9,775,819
Other	453,586	344,136	-	-	<109,450>
Distributions to Arizona counties, cities and other state agencies (Note 5)	152,088,248	-	-	-	<152,088,248>
Interest on long-term debt	35,444,816	-	-	-	<35,444,816>
Total governmental activities	<u>\$ 187,986,650</u>	<u>\$ 344,136</u>	<u>\$ 252</u>	<u>\$ 9,775,567</u>	<u>\$ <177,866,695></u>
General revenues:					
Transportation excise taxes					267,563,343
Interest on investments					5,600,804
Sale of land					2,908,736
Other					1,106,645
Total general revenues and transfers					<u>277,179,528</u>
Change in net assets					99,312,833
Net assets - July 1					<u><583,643,841></u>
Net assets - June 30					<u>\$ <484,331,008></u>

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Balance Sheet
 Governmental Funds
 June 30, 2002

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS				
Receivables:				
Accrued interest	\$ 139,533	\$ 267,671	\$ 14,987	\$ 422,191
Other, less allowance	1,612,954	-	-	1,612,954
Notes and loans (Note 6)	3,877,976	-	-	3,877,976
Amounts due from:				
U.S. Government	54,662	-	-	54,662
Arizona counties, cities and other state agencies	22,064,263	-	-	22,064,263
Restricted cash on deposit with the State Treasurer	<u>107,504,344</u>	<u>19,500,237</u>	<u>4,673,825</u>	<u>131,678,406</u>
Total assets	<u>\$ 135,253,732</u>	<u>\$ 19,767,908</u>	<u>\$ 4,688,812</u>	<u>\$ 159,710,452</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 168,022	\$ 3,121	\$ 49,303	\$ 220,446
Accrued payroll and other accrued expenditures	3,137	-	-	3,137
Contracts and retainage payable	4,578,431	-	1,389,434	5,967,865
Judgements payable (Note 10)	-	-	1,794,695	1,794,695
Deferred revenue	3,877,976	-	-	3,877,976
Notes payable (Notes 3)	<u>33,166,362</u>	<u>-</u>	<u>-</u>	<u>33,166,362</u>
Total liabilities	41,793,928	3,121	3,233,432	45,030,481
Fund balances:				
Reserved for:				
Highway construction	93,459,804	-	-	93,459,804
Debt service fund	-	19,764,787	-	19,764,787
Capital projects fund	-	-	1,455,380	1,455,380
Total fund balances	<u>93,459,804</u>	<u>19,764,787</u>	<u>1,455,380</u>	<u>114,679,971</u>
Total liabilities and fund balances	<u>\$ 135,253,732</u>	<u>\$ 19,767,908</u>	<u>\$ 4,688,812</u>	<u>\$ 159,710,452</u>

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2002

Total fund balances - governmental funds (Exhibit 3)	\$ 114,679,971
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Deferred revenue	3,877,976
Accrued payroll	1,045
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. (Note 3)	<u><602,890,000></u>
Net assets of governmental activities (Exhibit 1)	<u><484,331,008></u>

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
 Governmental Funds
 For the fiscal year ended June 30, 2002

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Transportation excise taxes	\$ 267,563,343	\$ -	\$ -	\$ 267,563,343
Federal grants and reimbursements	7,174,684	-	-	7,174,684
Reimbursements from Arizona counties, cities and other state agencies	2,601,135	-	-	2,601,135
Interest	2,813,205	2,527,285	604,450	5,944,940
Sale of land	2,908,736	-	-	2,908,736
Other	1,106,645	-	-	1,106,645
Total revenues	<u>284,167,748</u>	<u>2,527,285</u>	<u>604,450</u>	<u>287,299,483</u>
Expenditures:				
Distributions to other state agencies	77,011,383	-	75,076,865	152,088,248
Debt Service:				
Principal	-	163,455,000	-	163,455,000
Interest	-	35,444,816	-	35,444,816
Bond issuance costs	-	-	370,241	370,241
Other	1,045	83,345	-	84,390
Total expenditures	<u>77,012,428</u>	<u>198,983,161</u>	<u>75,447,106</u>	<u>351,442,695</u>
Excess <deficiency> of revenues over <under> expenditures	207,155,320	<196,455,876>	<74,842,656>	<64,143,212>
Other financing sources <uses>:				
Transfers in (Note 10)	-	198,055,907	-	198,055,907
Proceeds from sale of bonds	-	-	66,010,000	66,010,000
Premium from sale of bonds	-	-	2,805,667	2,805,667
Transfers out (Note 10)	<198,055,907>	-	-	<198,055,907>
Total other financing sources <uses>	<u><198,055,907></u>	<u>198,055,907</u>	<u>68,815,667</u>	<u>68,815,667</u>
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	9,099,413	1,600,031	<6,026,989>	4,672,455
Fund balances, July 1	84,360,391	18,164,756	7,482,369	110,007,516
Fund balances, June 30	<u>\$ 93,459,804</u>	<u>\$ 19,764,787</u>	<u>\$ 1,455,380</u>	<u>\$ 114,679,971</u>

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

Arizona Department of Transportation
 Maricopa County Regional Area Road Fund
 Reconciliation of the Statement of Revenues,
 Expenditures and Changes in Fund Balances of Governmental Funds
 to the Statement of Net Activities
 For the fiscal year ended June 30, 2002

Net change in fund balance - total governmental funds (Exhibit 4) \$ 4,672,455

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2)
 are different because:

Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net assets. Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	<68,815,667>
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	163,455,000
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>1,045</u>
Change in net assets of governmental activities (Exhibit 2)	<u><u>\$ 99,312,833</u></u>

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

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
Notes to Financial Statements
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Maricopa County Regional Area Road Fund (Fund) is a part of the Arizona Department of Transportation (Department) and is not a legally separate entity. The Fund was established under Title 28, Chapter 17, Article 1 of the Arizona Revised Statutes. The Fund 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.

The Fund is responsible for the construction and distribution of assets to the Department by issuing revenue bonds and by the collection of an excise tax. The Fund cooperates with the various cities within Maricopa County in the construction and maintenance of roads.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by federal reimbursement, taxes and intergovernmental revenues.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in two categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions, or enabling legislation.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Arizona Department of Transportation
Maricopa County Regional Area Road Fund
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Fund Financial Statements

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Transportation excise taxes are recognized as revenues for year they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

The Fund reports the following major governmental funds:

The Special Revenue Fund receives Maricopa County transportation excise tax monies collected by the Arizona Department of Revenue. These monies are expended for the construction of controlled-access highways which are included in the Regional Freeway System after the monthly debt service requirements are fully satisfied.

The Debt Service Fund administers the payment of principal and interest on all bonds outstanding under the bond resolutions.

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.

Amounts reported as *program revenues* include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, the Fund generally expends

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the restricted resources first, then unrestricted resources, as they are needed to maintain appropriate cash balances and finance the construction program.

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 Special Revenue and Capital Projects 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.

D. Assets, Liabilities, and Net Assets

Deposits and Investments

The Fund's cash include petty cash, bank accounts, and deposits with the State Treasurer for pooled investments. 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.

The Fund's investments are included in the State investment pool and these investments are not shown in the Fund's name. Therefore, the Fund presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Receivables and Payables

Outstanding balances between U.S. Government and Arizona counties, cities and other state agencies are reported as "due to/from".

Notes receivable represents real estate mortgage loans made to individuals purchasing homes previously owned by the Fund for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

Restricted Assets

Proceeds of the Fund's governmental revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or State statutes. The debt service fund is used to report the resources set aside for payment of future debt service payments. The revenue bonds proceeds are deposited in capital projects fund and are restricted for acquisitions of right-of-way and constructions of county highways.

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Capital Assets

When the Fund comes into possession of capital assets, they are distributed to Arizona Department of Transportation.

Deferred Revenue

In the government-wide statements deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental funds, earned amounts are reported as deferred revenue until they are available to liquidate liabilities of the current period. Deferred revenue is reported in the fund statements for governmental funds. In the fund statements, the deferred revenue represents the amount for the notes receivable for real estate mortgage loans made to individuals who purchased homes previously owned by the Fund for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets

In the Statement of Net Assets, the net assets are negative because the Fund retains the long-term debt obligation to the capital assets but distributes all capital assets, when acquired, to the Department's general fund.

Fund Equity

In the fund financial statements, governmental funds reported the reservation of fund balance for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose. The reservation includes restriction for the purchase of right-of-way or construction of controlled – access highways.

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2. SECURITIES HELD IN LIEU OF RETENTION

In accordance with Arizona law, a contractor may assign to the Department, securities in lieu of retention and will deposit with the bank, cash, time certificates of deposit in federally insured banks licensed by the State of Arizona (Certificates of Deposit), securities of or guaranteed by the United States of America (Treasury Bills), or other eligible securities as defined in the Arizona Revised Statutes, Title 35, Chapter 2, Article 2, Section 35-313 (Eligible Investments). At June 30, 2002, the Trustees held assignment on securities aggregating approximately \$6 million in lieu of contractor retentions for construction. These additional securities are not reflected in the accompanying financial statements.

3. NON-CURRENT LIABILITIES

State of Arizona Transportation Excise Tax Revenue Bonds

Maricopa County Regional Area Road Fund administers all payments of principal and interest for bonds issued by the Transportation Board. The Transportation Excise Tax Revenue Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years was \$700,335,000. During the year, Transportation Excise Tax Revenue Bonds totaling \$66,010,000 were issued to (i) finance the acquisition of land and the design and construction of certain controlled-access highways within Maricopa County, Arizona and (ii) pay cost of issuing the 2001 Series Bonds.

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, 2002) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

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, 2002, the carrying basis was \$45,409,692.

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At maturity on July 1, 2005, the carrying basis will equal the maturity amount of \$51,500,000.

Bonds Payable

All Transportation Excise Tax Revenue Bonds mature on July 1, 2005. Transportation excise tax revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.0 % - 6.5%	\$ 329,555,000
Governmental activities - capital appreciation	7.3% - 7.5%	51,500,000
Governmental activities - refunding	4.4% - 6.5%	<u>221,835,000</u>
		<u>\$ 602,890,000</u>

The following is a summary of changes in general long-term debt for fiscal year ended June 30, 2002:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2002</u>	<u>Due within</u> <u>one year</u>
1988 Series A, Capital Appreciation	\$ 73,000,000	\$ -	\$ 21,500,000	\$ 51,500,000	\$ 21,500,000
1992 Series A, Refunding	86,850,000	-	110,000	86,740,000	23,240,000
1992 Series B	11,455,000	-	2,635,000	8,820,000	2,780,000
1993 Series, Subordinated Refunding	113,175,000	-	30,835,000	82,340,000	31,180,000
1995 Series A, Subordinated	63,515,000	-	14,555,000	48,960,000	15,355,000
1995 Series B, Subordinated, Refunding	85,940,000	-	33,185,000	52,755,000	10,215,000
1998 Series A	98,150,000	-	21,580,000	76,570,000	25,865,000
1999 Series, Subordinated	76,055,000	-	17,685,000	58,370,000	18,555,000
2000 Series	92,195,000	-	21,370,000	70,825,000	22,420,000
2001 Series	-	<u>66,010,000</u>	-	<u>66,010,000</u>	<u>21,180,000</u>
	<u>\$ 700,335,000</u>	<u>\$ 66,010,000</u>	<u>\$ 163,455,000</u>	<u>\$ 602,890,000</u>	<u>\$ 192,290,000</u>

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Bonds payable at June 30, 2002, 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, due in varying annual installments beginning in 2002 at an approximate yield of 7.3 percent to 7.5 percent, through July 1, 2005	\$ 51,500,000
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 5.5 percent to 5.8 percent, through July 1, 2005	86,740,000
1992 Series B, authorized by the Transportation Board on October 1, 1992, due in varying annual installments plus semiannual interest at rates ranging from 5.5 percent to 5.8 percent, through July 1, 2005	8,820,000
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 4.5 percent to 5.6 percent, through July 1, 2005	82,340,000
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 5.5 percent to 6.5 percent, through July 1, 2005	48,960,000
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 4.8 percent to 6.5 percent, through July 1, 2005	52,755,000
1998 Series A authorized by the Transportation Board on June 15, 1998, due in varying annual installments plus semiannual interest at rates ranging from 4.1 percent to 5.0 percent, through July 1, 2005	76,570,000
1999 Series, subordinated, authorized by the Transportation Board on June 15, 1999, due in varying annual installments plus semiannual interest at rates ranging from 5.0 percent to 5.3 percent, through July 1, 2005	58,370,000
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	70,825,000
2001 Series, authorized by the Transportation Board on October 15, 2001, due in varying annual installments plus semiannual interest at rates ranging from 3.8 percent to 5.0 percent, through January 1, 2006	<u>66,010,000</u>
	<u>\$ 602,890,000</u>

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Refunded Bond Deposited with Escrow Agents

In prior years, the Transportation Board refinanced the 1988 Series A Bond issue through advance refunding arrangements. Under the terms of the refunding bond issue, sufficient assets to pay all principal and interest on the refunded bond issue 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 issue refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the refunded bond are not reflected in the financial statements of the Fund.

Refunded bonds of the Fund outstanding at June 30, 2002, are as follows:

<u>Original Issue</u>	<u>Type</u>	<u>Escrow Maturity Date</u>	<u>Balance</u>
1988 Series A	Transportation Excise Tax Revenue Bonds Capital Appreciation Bonds	July 1, 2005	\$ 8,996,156
	Total refunded bonds outstanding		<u>\$ 8,996,156</u>

Annual debt service requirements of the Transportation Excise Tax Revenue Bonds are as follows:

<u>Fiscal Year</u>	<u>Principal-</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 192,290,000	\$ 28,605,218	\$ 220,895,218
2004	200,650,000	20,245,235	220,895,235
2005	209,950,000	10,947,652	220,897,652
	<u>\$ 602,890,000</u>	<u>\$ 59,798,105</u>	<u>\$ 662,688,105</u>

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.

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Bonds aggregating \$82,340,000 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 \$520,550,000 are not subject to redemption.

Notes Payable

Notes payable is a \$33,166,362 construction loan from the City of Mesa. The notes payable 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 notes payable is 1.75 percent per annum, with interest payments due monthly. The notes payable principal repayments will commence in fiscal year 2003, with monthly repayment amounts corresponding to the actual monthly draw down amounts. Activity for notes payable for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance June 30, 2002</u>	<u>Due within one year</u>
Notes payable	\$ 7,528,571	\$ 25,637,791	\$ -	\$ 33,166,362	\$ 31,907,865

Annual debt service requirements for notes payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 31,907,865	\$ 383,202	\$ 32,291,067
2004	1,258,497	51,566	1,310,063
	<u>\$ 33,166,362</u>	<u>\$ 434,768</u>	<u>\$ 33,601,130</u>

4. ACCOUNTING CHANGES

During fiscal year 2002, the Fund 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,

Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Ominibus, and

Statement No. 38, Certain Financial Statement Note Disclosures.

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

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financial reporting model used by the Fund, including statement formats and changes in fund types and account groups. In addition to the fund financial statements, governments are required to report government-wide financial statements prepared using the accrual basis of accounting and the economic resources measurement focus. 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 provisions of these new standards have been incorporated into the financial statements and notes. The following tables summarize changes to fund equities previously reported on the Combined Balance Sheet.

Aggregated fund balances of governmental fund types at June 30, 2001 - as previously reported	\$ 110,007,516
Add:	
Revenues earned but not yet available	3,615,516
Less:	
Long term liabilities	<u><697,266,873></u>
Net assests of governmental activities as of July 1, 2001	<u>\$ <583,643,841></u>

5. DISTRIBUTIONS

The distributions to the Department primarily represent the distributions when the Fund comes into possession of capital assets.

Distributions to other government agencies for the year ended June 30, 2002, were as follows:

Distribution to Arizona Department of Transportation	\$ 144,746,758
Distribution to Regional Public Transit Authority	<u>7,341,490</u>
Total	<u>\$ 152,088,248</u>

6. RECEIVABLES

When land, that was distributed to the Department, that is not used for highway construction is excess land. Excess land is returned to the Fund for sale.