

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund

Financial Statements

Fiscal years ended June 30, 2004 and 2003

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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 basic 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, 2004 and 2003, 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 of the Department 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, 2004 and 2003, 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, 2004 and 2003 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 as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. This supplementary information is the responsibility of the Department's management. 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 we do not express an opinion on it.

Deloitte & Touche LLP

October 29, 2004

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
June 30, 2004 and 2003

Management's Discussion and Analysis

As management of the Arizona Department of Transportation, Highway Expansion and Extension Loan Program (HELP) 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 years ended June 30, 2004 and 2003. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements and the accompanying notes to the basic financial statements.

Financial Highlights

- The assets of the HELP Fund exceeded its liabilities by \$63,899,875 at the end of fiscal year 2004 as compared to \$63,224,779 at fiscal year end 2003 and \$83,292,829 at the end of fiscal year 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 increased by \$675,096 for fiscal year 2004 and decreased by \$20,068,050 for fiscal year 2003.
- Total loan amounts of \$79.2 million were disbursed from July 1, 2003 to June 30, 2004 and \$116.3 million from July 1, 2002 to June 30, 2003. Among the \$79.2 million disbursement, \$22.8 million was disbursed on the Arizona Department of Transportation's I-10/I-19 traffic interchange project in Tucson, \$13 million was disbursed for projects on the Maricopa County Regional Freeway System, and \$9.9 million was disbursed for the Arizona Department of Transportation's Avenue 3E Traffic Interchange project in Yuma. Of the fiscal year 2003 \$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.
- The Board Funding Obligation (BFO) Series 2000 was redeemed in August 2003. The redemption of the BFO Series 2000 totaled \$110,643,301 with accrued interest of \$10,643,301. The BFO Series 2002 was redeemed in May 2004. The redemption of the BFO Series 2002 totaled \$42,584,534 with accrued interest of \$2,584,534.
- The Fund received disbursements under the BFO Series 2003 totaling \$140,000,000 in fiscal year 2004. A \$100,000,000 disbursement was received in August 2003 and is due in August 2007. A \$40,000,000 disbursement was received in June 2004 and is due in June 2008.

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:

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Management's Discussion and Analysis (continued)
June 30, 2004 and 2003

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 increased by \$675,096 and decreased by \$20,068,050 by the end of fiscal years 2004 and 2003, respectively.

Table 1
Highway Expansion and Extension Loan Program Fund's Net Assets
as of June 30, 2004, 2003 and 2002

	Business-type Activities		
	2004	2003	2002
Current assets	\$ 142,796,226	\$ 150,813,642	\$ 193,750,984
Non-current assets	<u>83,544,471</u>	<u>83,979,755</u>	<u>55,099,529</u>
Total assets	<u>226,340,697</u>	<u>234,793,397</u>	<u>248,850,513</u>
Current liabilities	26,356	151,568,618	21,218
Non-current liabilities	<u>162,414,466</u>	<u>20,000,000</u>	<u>165,536,466</u>
Total liabilities	<u>162,440,822</u>	<u>171,568,618</u>	<u>165,557,684</u>
Net assets:			
Restricted	<u>63,899,875</u>	<u>63,224,779</u>	<u>83,292,829</u>
Total net assets	<u>\$ 63,899,875</u>	<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.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Management's Discussion and Analysis (continued)
June 30, 2004 and 2003

Table 2
Highway Expansion and Extension Loan Program Fund's Changes in Net Assets
for fiscal years ended June 30, 2004, 2003 and 2002

	Business-type Activities		
	2004	2003	2002
Revenues:			
Operating revenues:			
Interest on loans receivables	\$ 3,529,351	\$ 3,881,239	\$ 2,226,502
Non-operating revenues:			
Interest on investments	1,559,446	2,399,250	5,540,498
Total revenues	<u>5,088,797</u>	<u>6,280,489</u>	<u>7,767,000</u>
Expenses:			
Operating expenses:			
Interest on notes payable	4,097,236	6,008,600	4,821,052
Other	316,465	339,939	443,670
Non-operating expenses:			
Distribution to other state agencies	-	20,000,000	-
Total expenses	<u>4,413,701</u>	<u>26,348,539</u>	<u>5,264,722</u>
Increase <Decrease> in net assets	675,096	<20,068,050>	2,502,278
Net assets - July 1	<u>63,224,779</u>	<u>83,292,829</u>	<u>80,790,551</u>
Net assets - June 30	<u>\$ 63,899,875</u>	<u>\$ 63,224,779</u>	<u>\$ 83,292,829</u>

At the end of fiscal years 2004 and 2003, the HELP Fund is able to report a positive balance of net assets.

The HELP Fund's interest on loans receivables revenues decreased by 9 percent in fiscal year 2004 as compared to an increase of 74 percent in fiscal year 2003. An overall decrease in loans receivables of \$6 million and lower interest rates on HELP loans due to prevailing market conditions accounted for the decrease in interest on loans receivables revenues in fiscal year 2004. The increase in interest on loans receivables revenues in fiscal year 2003 was due to an overall increase in loans receivables of \$30.8 million during fiscal year 2003.

The \$20 million transfer to the state general fund that occurred near the end of fiscal year 2003 resulted in a decrease in cash invested with the State Treasurer's office throughout most of fiscal year 2004. This decrease and lower interest income on invested cash due to prevailing market conditions led to a \$839,804 decline in interest on investments revenues in fiscal year 2004. During fiscal year 2003, the average balance of cash invested with the State Treasurer's office declined by \$32.6 million from the prior fiscal year due to disbursement of loan proceeds. This decrease and lower interest income on invested cash due to prevailing market conditions resulted in a \$3.1 million decline in interest in investments revenues in fiscal year 2003.

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The HELP Fund's interest expense on notes payable declined by 32 percent by the end of fiscal year 2004 due to the redemption of the outstanding BFO Series 2000 and BFO Series 2002 during the fiscal year. The new BFO Series 2003 that was disbursed to the Fund in fiscal year 2004 carried lower interest rates resulting in a reduction in interest expense in fiscal year 2004. The HELP Fund's interest expense on notes payable increased by 25 percent by the end of fiscal year 2003. This increase was due to the disbursement to the Fund of \$40 million of the BFO Series 2002 that was outstanding for a portion of fiscal year 2002 and that was outstanding for the entire fiscal year 2003.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 9-14 of this report.

Requests for information This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the Fund's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007 or by visiting our website at <http://www.azdot.gov/ABOUT/fms/helplink.htm>.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Statement of Net Assets
For the fiscal years ended June 30, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Restricted cash on deposit with the State Treasurer (Note 1C)	\$ 92,038,681	\$ 96,010,168
Receivables:		
Accrued interest	135,578	249,902
Loans (Note 3A)	47,349,662	52,903,160
Due from other Arizona Department of Transportation funds	2,886,157	1,269,916
Due from Arizona counties and cities	386,147	380,496
Total current assets	<u>142,796,225</u>	<u>150,813,642</u>
Non-current assets:		
Receivables:		
Loans (Note 3A)	83,544,472	83,979,755
Total noncurrent assets	<u>83,544,472</u>	<u>83,979,755</u>
Total assets	<u>226,340,697</u>	<u>234,793,397</u>
Liabilities		
Current Liabilities:		
Accrued payroll and other accrued expenses	6,711	4,867
Compensated absences	19,645	18,685
Notes payable (Note 3C)	-	151,545,066
Total current liabilities	<u>26,356</u>	<u>151,568,618</u>
Non-current liabilities:		
Interfund payables (Note 3B)	20,000,000	20,000,000
Notes payable (Note 3C)	142,414,466	-
Total noncurrent liabilities	<u>162,414,466</u>	<u>20,000,000</u>
Total liabilities	<u>162,440,822</u>	<u>171,568,618</u>
Net assets		
Restricted for loans and other financial assistance	63,899,875	63,224,779
Total net assets	<u>\$ 63,899,875</u>	<u>\$ 63,224,779</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, 2004 and 2003

	2004	2003
Operating revenues:		
Interest on loans receivables	3,529,351	3,881,239
Total operating revenues	<u>3,529,351</u>	<u>3,881,239</u>
Operating expenses:		
Salaries and related benefits	214,707	217,411
Supplies	1,464	1,388
Professional and outside services	98,560	118,463
Travel	711	1,561
Interest on notes payable	4,097,236	6,008,600
Other	<u>1,023</u>	<u>1,116</u>
Total operating expenses	<u>4,413,701</u>	<u>6,348,539</u>
Operating loss	<884,350>	<2,467,300>
Non-operating revenues <expenses>:		
Interest on investments	1,559,446	2,399,250
Distribution to other state agencies	<u>-</u>	<u><20,000,000></u>
Total non-operating revenues <expenses>	<u>1,559,446</u>	<u><17,600,750></u>
Changes in net assets	675,096	<20,068,050>
Total net assets - July 1	<u>63,224,779</u>	<u>83,292,829</u>
Total net assets - June 30	<u><u>\$ 63,899,875</u></u>	<u><u>\$ 63,224,779</u></u>

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

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Statement of Cash Flows
For the fiscal years ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Receipts from customers	\$ 1,907,458	\$ 2,961,231
Receipts from other funds	65,868,960	82,185,273
Receipts from other agencies	6,064,334	3,270,000
Payments to suppliers	<34,350>	<32,873>
Payments to employees	<212,616>	<216,637>
Payments to other funds	<60,944,511>	<96,475,705>
Payments to other agencies	<18,293,509>	<19,829,986>
Other payments	<1,023>	<1,116>
Net cash <used> by operating activities	<u><5,645,257></u>	<u><28,139,813></u>
Cash flows from noncapital financing activities:		
Distribution to other state agencies	-	<20,000,000>
Net cash <used> by noncapital financing activities	<u>-</u>	<u><20,000,000></u>
Cash flows from investing activities:		
Interest on investments	1,673,770	2,815,383
Net cash provided by investing activities	<u>1,673,770</u>	<u>2,815,383</u>
Net decrease in cash	<3,971,487>	<45,324,430>
Cash - July 1	96,010,168	141,334,598
Cash - June 30	<u><u>\$ 92,038,681</u></u>	<u><u>\$ 96,010,168</u></u>
Reconciliation of operating income to net cash <used> by operating activities:		
Operating loss	\$ <884,350>	\$ <2,467,300>
Net changes in assets and liabilities:		
Receivables	5,988,782	<30,763,439>
Due from other Arizona Department of Transportation funds	<1,616,242>	<716,791>
Due from Arizona counties and cities	<5,651>	<203,217>
Accrued payroll and other accrued expenses	1,844	962
Compensated absences	960	1,372
Notes payable	<9,130,600>	6,008,600
Net cash provided <used> by operating activities	<u><u>\$ <5,645,257></u></u>	<u><u>\$ <28,139,813></u></u>

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

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Notes to Financial Statements
June 30, 2004

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 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:

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Notes to Financial Statements (continued)
June 30, 2004 and 2003

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, 2004 and 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, 2004 and 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, 2004, as follows:

PROJECT SPONSOR	LOAN DATE	INTEREST RATE*	AUTHORIZED LOAN AMOUNT	FINAL MATURITY	DRAW TO DATE	OUTSTANDING LOAN BALANCE	DUE WITHIN ONE YEAR
TOWN OF CHINO VALLEY	03/17/2000	4.50%	\$ 300,000	Jan-05	\$ 300,000	\$ 60,000	\$ 60,000
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	6,750,000	6,750,000
SANTA CRUZ COUNTY	01/19/2001	3.11%	1,150,000	Jan-05	643,827	383,827	130,000
ADOT	03/16/2001	3.32%	1,000,000	Dec-04	930,382	111,000	111,000
CITY OF YUMA	04/20/2001	1.65%	1,000,000	Dec-06	1,000,000	600,000	200,000
ADOT	05/18/2001	2.85%	41,900,000	Jul-05	37,000,000	583,429	583,429
TOWN OF TAYLOR	05/18/2001	3.42%	1,000,000	Jun-05	1,000,000	100,000	100,000
TOWN OF PAYSON	06/15/2001	3.56%	1,100,000	Jul-06	1,100,000	891,590	104,205
CITY OF TUCSON	06/15/2001	2.91%	4,500,000	Jan-06	4,500,000	2,100,000	800,000
CITY OF YUMA	06/15/2001	1.77%	2,000,000	Jul-06	2,000,000	1,500,000	500,000
ADOT	09/21/2001	2.11%	62,500,000	Jan-06	57,204,488	20,601,029	20,601,029
ADOT	09/21/2001	3.30%	50,000,000	Dec-08	50,000,000	50,000,000	-
PIMA COUNTY	12/14/2001	3.23%	3,700,000	Jul-07	3,700,000	2,220,000	740,000
PIMA COUNTY	12/14/2001	3.23%	1,400,000	Jul-07	1,400,000	800,000	300,000
TOWN OF MIAMI	01/18/2002	2.20%	80,000	Jun-05	80,000	26,500	26,500
ADOT	03/15/2002	1.35%	13,855,000	Dec-04	13,855,000	1,655,000	1,655,000
ADOT	03/15/2002	1.14%	500,000	Jan-05	500,000	307,667	307,667
ADOT	03/15/2002	1.56%	4,000,000	Oct-04	2,691,459	2,691,459	2,691,459
YAVAPAI COUNTY	03/15/2002	1.83%	4,500,000	Jun-05	4,500,000	2,250,000	2,250,000
ADOT	03/15/2002	0.86%	9,900,000	Aug-04	9,900,000	1,800,000	1,800,000
ADOT	03/15/2002	0.86%	5,500,000	Jun-05	2,631,119	2,631,119	2,631,119
GILA COUNTY	04/19/2002	1.43%	1,237,500	Mar-09	1,237,500	1,175,625	247,500
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	394,754	394,754
YAVAPAI COUNTY	06/21/2002	2.25%	4,500,000	Jun-06	4,500,000	4,500,000	2,250,000
ADOT	06/21/2002	1.35%	650,000	Nov-06	215,135	215,135	-
REGIONAL FREEWAY SYSTEM	11/21/2003	1.44%	80,500,000	Aug-08	10,000,000	10,000,000	-
TOWN OF ORO VALLEY	08/16/2002	1.19%	1,716,000	Jul-05	1,716,000	1,716,000	936,000
TOWN OF ORO VALLEY	02/20/2004	2.52%	5,000,000	Feb-08	5,000,000	5,000,000	-
CITY OF SAFFORD	08/16/2002	2.42%	2,000,000	Oct-07	2,000,000	1,915,000	90,000
TOWN OF THATCHER	08/16/2002	1.56%	2,000,000	Oct-07	2,000,000	1,915,000	90,000
TOTAL			\$ 342,150,508		\$ 255,179,418	\$ 130,894,134	\$ 47,349,662

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

The activity for the fiscal year ended June 30, 2004, was as follows:

	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Due Within One Year
Loans receivable	\$ 136,882,915	\$ 65,944,512	\$ <71,933,293>	\$ 130,894,134	\$ 47,349,662

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Notes to Financial Statements (continued)
June 30, 2004 and 2003

NOTE 3—DETAILED NOTES—Continued

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
TOTAL			\$ 265,573,508		\$ 196,432,031	\$ 136,882,915	\$ 52,903,160

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

The activity for the fiscal year ended June 30, 2003, was as follows:

	Beginning Balance July 1, 2002	Additions	Reductions	Ending Balance June 30, 2003	Due Within One Year
Loans receivable	\$ 106,119,476	\$ 116,218,713	\$ <85,455,273>	\$ 136,882,915	\$ 52,903,160

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.

Arizona Department of Transportation
Highway Expansion and Extension Loan Program Fund
Notes to Financial Statements (continued)
June 30, 2004 and 2003

NOTE 3--DETAILED NOTES--Continued

C. Notes Payable

Laws 1999, Chapter 189 (SB 1201) and Laws 2001, Chapter 238 (HB 2636) authorized a Board Funding Obligation (BFO) of \$140,000,000 to the Fund in fiscal year 2004. Interest accrued to date is \$2,414,466. The total principal 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 June 2, 2008.

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.