OFFICIAL STATEMENT

NEW ISSUE – BOOK-ENTRY-ONLY

Ratings: Standard & Poor's: "AAA"
Moody's: "Aa1"
See "Ratings" herein

$74,250,000
ARIZONA TRANSPORTATION BOARD
HIGHWAY REVENUE REFUNDING BONDS
SERIES 2002A

Dated: March 1, 2002 **Due: July 1, as shown on the inside cover page hereof**

The Highway Revenue Refunding Bonds, Series 2002A (the "Series 2002A Bonds") are being issued by the Arizona Transportation Board (the "Board") as a separate series of fully registered bonds in denominations of $5,000 or any integral multiple thereof.

Interest on the Series 2002A Bonds is payable on January 1 and July 1 of each year, commencing July 1, 2002, by check mailed on each Interest Payment Date by the paying agent, initially Bank One Trust Company, N.A. (the "Paying Agent"), to the registered owners thereof as of the 15th day of the month next preceding such Interest Payment Date. Principal, premium, if any, and interest may be paid by wire transfer upon request of registered owners of $1,000,000 or more in aggregate principal amount, as described herein. Principal of the Series 2002A Bonds is payable upon presentation and surrender at the designated corporate trust office of the Paying Agent.

The maturities, interest rates and prices or yields of the Series 2002A Bonds are shown on the reverse side of this cover page.

The Series 2002A Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2002A Bonds. Purchases of beneficial interests in such Series 2002A Bonds will be made in book-entry only form. Purchasers will not receive certificates representing the ownership interest in the Series 2002A Bonds purchased by them. So long as the Series 2002A Bonds are registered in the name of Cede & Co., as nominee of DTC, payments of the principal, interest and premium, if any, on the Series 2002A Bonds will be made directly by the Paying Agent to Cede & Co., as nominee of DTC. See "THE SERIES 2002A BONDS – General Description" and "APPENDIX D – BOOK-ENTRY-ONLY SYSTEM" herein.

The Series 2002A Bonds are issued pursuant to the Board's senior bond resolution, as supplemented (the "Senior Bond Resolution"), on a parity as to security and source of payment with the previously issued Series 2002, Series 2001, Series 1999 and Series 1993 Senior Bonds (as defined herein) of the Board, and any additional Senior Bonds subsequently issued on a parity therewith. The aggregate principal amount of Senior Bonds that will be outstanding immediately after delivery of the Series 2002A Bonds will be $479,725,000 after giving effect to the refunding in advance of maturity of certain currently outstanding Senior and Subordinated Bonds. See "PLAN OF REFUNDING" herein.

Proceeds of the Series 2002A Bonds are intended to be used to (i) refund in advance of maturity portions of the Board's outstanding Senior and Subordinated Bonds, and (ii) pay costs of issuing the Series 2002A Bonds. See "PLAN OF REFUNDING" herein.

The Series 2002A Bonds are subject to optional redemption prior to maturity as more fully described herein.

The Series 2002A Bonds and all other Senior Bonds are special obligations of the Board payable from and secured solely by a first lien on and pledge of the Pledged Revenues (as defined herein), which consist of all moneys derived from fees, excises, or license taxes relating to registration, operation or use of vehicles on the public highways of the State of Arizona, and to fuel used for the propulsion of such vehicles, deposited into the State Highway Fund. The Series 2002A Bonds are not obligations, general, special or otherwise, of the State of Arizona, do not constitute a legal debt of the State of Arizona, and are not enforceable against the State of Arizona.

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming compliance with certain covenants, interest on the Series 2002A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended, and (ii) interest on the Series 2002A Bonds is exempt from Arizona state income tax. The interest may be subject to certain federal taxes imposed on certain corporations, including the corporate alternative minimum tax on a portion of that interest. (For a more complete discussion of tax aspects, see "TAX EXEMPTION" herein.)

This cover page contains only a brief description of the Series 2002A Bonds and the security therefor. It is not a summary of material information with respect to the Series 2002A Bonds. Investors should read the entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 2002A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Squire, Sanders & Dempsey L.L.P., Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Snell & Wilmer L.L.P. It is expected that the Series 2002A Bonds, in book-entry form, will be available for delivery to DTC in New York, New York, on or about March 27, 2002.

SALOMON SMITH BARNEY

BEAR, STEARNS & CO., INC. **LEHMAN BROTHERS**

A.G. EDWARDS & SONS, INC.

Dated: March 7, 2002

$74,250,000
ARIZONA TRANSPORTATION BOARD
HIGHWAY REVENUE REFUNDING BONDS
SERIES 2002A

MATURITY SCHEDULE

Year (July 1)	Amount	Interest Rate	Yield	Year (July 1)	Amount	Interest Rate	Yield
2003	$5,785,000	3.000%	2.000%	2012	$ 360,000	4.125%	4.190%
2004	280,000	2.250	2.270	2013	8,000,000	5.250	4.430
2005	285,000	2.750	2.790	2014	8,420,000	5.250	4.540
2006	295,000	3.000	3.110	2015	8,860,000	5.250	4.630
2007	300,000	3.400	3.430	2016	9,325,000	5.250	4.720
2008	310,000	3.600	3.640	2017	9,815,000	5.250	4.810
2009	325,000	3.800	3.850	2018	10,330,000	5.250	4.890
2010	335,000	3.900	3.990	2019	10,875,000	5.250	4.960
2011	350,000	4.000	4.090				

(Accrued interest to be added)

STATE OF ARIZONA

Jane Dee Hull
Governor

ARIZONA TRANSPORTATION BOARD

Katie Dusenberry
Chair

Ingo Radicke
Vice Chair

Dallas "Rusty" Gant
Member

Richard Hileman
Member

Bill Jeffers
Member

James Martin
Member

Joe Lane
Member

STATE OF ARIZONA DEPARTMENT OF TRANSPORTATION

Victor Mendez
Director

Debra Brisk
Deputy Director

Edward D. Wright
State Engineer

John Bogert
Chief of Staff

Mary Lynn Tischer
Division Director
Transportation Planning Division

Stacey Stanton
Division Director
Motor Vehicle Division

Gary Adams
Division Director
Aeronautics Division

John McGee
Chief Financial Officer

FINANCIAL CONSULTANT

RBC Dain Rauscher Inc.
Phoenix, Arizona

BOND COUNSEL

Squire, Sanders & Dempsey L.L.P.
Phoenix, Arizona

CONTACT PERSONS CONCERNING THIS OFFERING:

John McGee
John Fink
(602) 712-7441

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State of Arizona, the Arizona Transportation Board (the "Board"), or the State of Arizona Department of Transportation (the "Department"). This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the securities offered hereby or an offer to sell or solicitation of offers to buy, nor shall there be any sale of the Series 2002A Bonds, by any person in any jurisdiction where such offer or solicitation or sale would be unlawful.

The information contained in this Official Statement has been obtained from the Board, the Department and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a promise by, any of the foregoing. The presentation of such information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends. No representation is made that the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representations of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. This Official Statement contains projections and forecasts which are forward looking statements concerning facts which may or may not occur in the future. All such forward looking statements may not be realized and must be viewed with an abundance of caution. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Arizona, the Board, or the Department since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS, AND THE UNDERWRITERS MAY OVERALLOT OR ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICES OF THE SERIES 2002A BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET IN ORDER TO FACILITATE THEIR DISTRIBUTION. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2002A Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency has passed upon the accuracy of this Official Statement.

The Board has undertaken to provide continuing disclosure with respect to the Series 2002A Bonds as required by Rule 15c2-12 of the Securities and Exchange Commission. See "Continuing Disclosure Undertaking" and "Appendix C – Form of Continuing Disclosure Undertaking" herein.

TABLE OF CONTENTS

(THIS PAGE INTENTIONALLY LEFT BLANK)

OFFICIAL STATEMENT

relating to

$74,250,000

Arizona Transportation Board
Highway Revenue Refunding Bonds
Series 2002A

INTRODUCTION

This Official Statement (including the cover page and Appendices attached hereto) provides certain information in connection with the issuance by the Arizona Transportation Board (the "Board") of its Highway Revenue Refunding Bonds, Series 2002A (the "Series 2002A Bonds").

The Series 2002A Bonds are issued pursuant to the State Highway Bonding Authorization Law, Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the "Act"), and under and pursuant to a resolution adopted by the Board on May 1, 1980, as supplemented to date, including a supplemental resolution adopted on December 14, 2001 and amended on February 15, 2002 (the "2002 Resolution") authorizing the Series 2002 Bonds issued on February 6, 2002 and the Series 2002A Bonds (collectively, the "Senior Bond Resolution").

Proceeds of the Series 2002A Bonds are intended to be used for the purpose of (i) refunding in advance of maturity portions of the Board's outstanding Senior and Subordinated Bonds in the aggregate principal amount of $71,000,000, and (ii) paying costs of issuing the Series 2002A Bonds (see "PLAN OF REFUNDING").

The Series 2002A Bonds are special obligations of the Board. The principal of, premium, if any, and interest (collectively, "Debt Service") on the Series 2002A Bonds, together with the outstanding Senior Bonds not refunded, are payable from and secured solely by a first pledge of and lien on Pledged Revenues as provided in the Senior Bond Resolution, as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002A BONDS". Additional bonds may be issued on a parity with the Board's outstanding Senior Bonds ("Additional Senior Bonds") under the conditions and in the manner provided in the Senior Bond Resolution and in the hereinafter described Subordinated Bond Resolution. The Series 2002A Bonds, the outstanding Senior Bonds and Additional Senior Bonds are collectively referred to as the "Senior Bonds."

The Series 2002A Bonds are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any funds of the State, the Board, or the Department other than the money pledged and otherwise available for the benefit of the registered owners ("Owners") of the Senior Bonds pursuant to the Act and the Senior Bond Resolution.

The Series 2002A Bonds are issued on a parity as to security and source of payment with the Board's outstanding Highway Revenue Bonds, Series 2002 (the "Series 2002 Bonds"), Highway Revenue Bonds, Series 2001 (the "Series 2001 Bonds"), Highway Revenue Bonds, Series 1999 (the "Series 1999 Bonds"), and Highway Revenue Refunding Bonds, Series 1993 (the "Series 1993 Bonds").

The aggregate principal amount of Senior Bonds that will be outstanding immediately after delivery of the Series 2002A Bonds will be $479,725,000, after giving effect to the refunding in advance of maturity of certain currently outstanding Senior and Subordinated Bonds, as more fully described under "PLAN OF REFUNDING."

In addition, the Board has outstanding bonds payable from and secured solely by a subordinated and junior pledge of Pledged Revenues (the "Subordinated Bonds") which were issued under and pursuant to the Act and a resolution adopted by the Board on September 27, 1991, as supplemented (the "Subordinated Bond Resolution"). Subordinated Bonds are payable from and secured solely by a lien on and pledge of the Pledged Revenues subordinate in all respects to payments required for the benefit of the Owners of the Senior Bonds. The aggregate principal amount of Subordinated Bonds that will be outstanding immediately after the delivery of the Series 2002A Bonds will be $299,795,000, after giving effect to the refunding in advance of maturity of certain currently outstanding Subordinated Bonds, as more fully described under "PLAN OF REFUNDING." No obligations other than the above-described Subordinated Bonds are outstanding under the Subordinated Bond Resolution.

The Board may finance highway projects in whole or in part by the issuance of bonds up to the limit under the Act. The current limit is a principal amount of $1,000,000,000 outstanding at any one time, including Senior Bonds and Subordinated Bonds, but excluding refunded bonds, unless an additional amount is authorized by the Legislature. The aggregate amount of Senior Bonds and Subordinated Bonds that will be outstanding immediately after the delivery of the Series 2002A Bonds will be $779,520,000.

Payments on the Series 2002A Bonds are not subject to annual appropriation by the Legislature of the State nor are payments on the Series 2002A Bonds subject to any constitutional or statutory limitation on expenditures.

The Arizona Legislature has previously and may in the future amend the Act and other statutes that govern Pledged Revenues. However, any such amendments would be subject to the covenants of the Board in the Bond Resolutions (as defined below) that the State will not limit or alter the rights vested in the Board to collect such fees and taxes as may be necessary to produce sufficient revenues to fulfill the terms of such Bond Resolutions or any agreement made with the Owners of the Senior Bonds and Subordinated Bonds or in any way impair the rights and remedies of such Owners until all Senior Bonds and Subordinated Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Owners, are fully met and discharged. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002A BONDS – Pledged Revenues."

This Official Statement describes the terms of and security for the Series 2002A Bonds and the use of proceeds of the Series 2002A Bonds. These descriptions do not purport to be comprehensive or definitive. All references herein to the Senior Bond Resolution and Subordinated Bond Resolution (collectively, "Bond Resolutions") are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto contained in the Bond Resolutions and is further qualified in its entirety by reference to laws and principles of equity relating to or affecting the enforceability of creditors' rights. Copies of the Bond Resolutions may be obtained as set forth under "MISCELLANEOUS."

THE SERIES 2002A BONDS

General Description

The Series 2002A Bonds are issuable as fully registered bonds. The Series 2002A Bonds will bear interest from March 1, 2002, at the rates, and will mature on the dates and in the amounts, all as set forth on the inside cover page hereof. As described within "Appendix D – BOOK-ENTRY-ONLY SYSTEM", the Series 2002A Bonds will be registered in the name of Cede & Co., as registered Owner and nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, Cede & Co., is registered Owner of all of the Series 2002A Bonds, all payments on the Series 2002A Bonds will be made directly to DTC.

So long as Cede & Co. is the registered Owner of the Series 2002A Bonds, as nominee for DTC, references herein to "Owners" or registered owners of the Series 2002A Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of such Series 2002A Bonds (the "Beneficial Owners"). When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Board or the Paying Agent to DTC only, as registered Owner.

The Series 2002A Bonds initially will be dated as shown on the cover page, and will be issued in denominations of $5,000 or any integral multiple thereof. Interest on the Series 2002A Bonds will be payable on each January 1 and July 1 (each such date is referred to herein as an "Interest Payment Date"), commencing July 1, 2002, and will accrue from such dated date. Interest on the Series 2002A Bonds will be payable by check or draft mailed on the Interest Payment Date by the Paying Agent to the Owners thereof as shown on the registration books maintained by the bond registrar, initially Bank One Trust Company, N.A. and its successors (the "Bond Registrar"), at the address appearing therein, at the close of business of the Bond Registrar on June 15 and December 15 of each year (the "Regular Record Date"). The principal of the Series 2002A Bonds will be payable upon presentation and surrender thereof at the designated corporate trust office of the paying agent, initially Bank One Trust Company, Arizona, NA and its successors (the "Paying Agent"). However, at the written request of the Owners of $1,000,000 or more in aggregate principal amount of Series 2002A Bonds, delivered to the Bond Registrar prior to a Regular Record Date, interest, premium, if any, and principal may be paid by wire transfer at the Owner's expense to a bank account in the continental United States.

Redemption Provisions

The Series 2002A Bonds maturing on or before July 1, 2012 are not subject to optional redemption prior to maturity. The Series 2002A Bonds maturing on and after July 1, 2013 are subject to optional redemption prior to maturity, at the election of the Board, as a whole or in part at any time, on or after July 1, 2012, at the respective redemption prices (expressed as percentages of the principal amount of the Series 2002A Bonds to be redeemed) set forth below in each case together with accrued interest to the redemption date.

Period During Which Redeemed **(both dates inclusive)**	**Redemption** **Prices**
July 1, 2012 to June 30, 2013	102.00%
July 1, 2013 to June 30, 2014	101.50
July 1, 2014 to June 30, 2015	101.00
July 1, 2015 to June 30, 2016	100.50
July 1, 2016 and thereafter	100.00

Notice of Redemption.

The Bond Registrar shall give notice by mail of the redemption of the Series 2002A Bonds, not less than 30 days prior to the redemption date, to the registered Owners (Cede & Co., so long as the book-entry-only system is in effect) of any Series 2002A Bonds or portions thereof to be redeemed at their last address appearing on the bond register of the Board. Such notice shall specify the maturities of the Series 2002A Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Series 2002A Bonds of like maturity are to be redeemed, the particular Series 2002A Bonds or portions thereof to be redeemed. Any defect in the notice to the Owner of any Series 2002A Bond which is to be redeemed shall not affect the validity of the proceedings for the redemption of any other Series 2002A Bond. Any notice of redemption which is mailed shall be presumed to be given, whether or not such notice is received. Any failure on the part of a nominee of a Beneficial Owner of a Series 2002A Bond to notify the Beneficial Owner shall not affect the validity of the redemption of such Series 2002A Bond.

So long as the Series 2002A Bonds are held under the Book-Entry-Only System (See Appendix D), notice of redemption shall be sent to Cede & Co., as the registered Owner. If on the redemption date, money for the redemption of the Series 2002A Bonds or portions thereof to be redeemed, together with accrued interest thereon to the redemption date, is held by the Paying Agent and is available to pay the redemption price of the Series 2002A Bonds or portions thereof to be redeemed on the redemption date, and if notice of redemption has been given as described in the preceding paragraph, then, from and after the redemption date, interest on the Series 2002A Bonds or portions thereof so called for redemption shall cease to accrue.

If at the time of mailing of notice of an optional redemption of the Series 2002A Bonds there has not been deposited with the State Treasurer in a subaccount in the Senior Bond Fund moneys or Defeasance Obligations (as defined in the 2002 Resolution) sufficient to redeem all the Series 2002A Bonds called for optional redemption, then such notice shall state that the optional redemption is conditional upon the deposit of moneys or Defeasance Obligations sufficient for the redemption with the State Treasurer not later than the opening of business on the redemption date, and such notice will be of no effect and such Series 2002A Bonds shall not be optionally redeemed unless such moneys or Defeasance Obligations are so deposited.

Exchange and Transfer

If the Series 2002A Bonds are not in book-entry-only form, the following paragraph will be applicable.

The registration of any Series 2002A Bond may be transferred upon the bond register of the Board by the Owner thereof, in person or by his or her duly authorized attorney, upon surrender of such Series 2002A Bond at the designated corporate trust office of the Bond Registrar accompanied by a written instrument of transfer satisfactory to the Bond Registrar and duly executed by the Owner or by his or her duly authorized attorney. Any Series 2002A Bond may be exchanged at the designated corporate trust office of the Bond Registrar for new Series 2002A Bonds of any authorized denomination, aggregate principal amount and maturity as the surrendered Series 2002A Bond. The Bond Registrar will not charge an administrative fee for any new Series 2002A Bond issued upon any exchange or transfer, but may require the Owner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Bond Registrar is not required to exchange or transfer any Series 2002A Bond (i) during the period commencing on June 15 and December 15 of each year and ending on the subsequent July 1 or January 1, respectively, (ii) during the period of fifteen days preceding any selection of Series 2002A Bonds for redemption, or (iii) which has been chosen for redemption.

Defeasance

If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all outstanding Series 2002A Bonds or Series 2002A Bonds of a particular maturity or a particular Series 2002A Bond within a maturity, the principal, premium, if any, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Senior Bond Resolution, such Series 2002A Bonds will cease to be entitled to any lien, benefit or security under the Senior Bond Resolution, and all covenants, agreements and obligations of the Board to the Owners of such Series 2002A Bonds will thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the Senior Bond Resolution, any outstanding Series 2002A Bonds will be deemed to have been paid within the meaning and with the effect expressed in the foregoing paragraph if there has been deposited with the State Treasurer or with an escrow agent appointed for such purpose, moneys or Defeasance Securities (defined below) or both. The maturing principal and interest income on such Defeasance Securities, if any, shall be sufficient without reinvestment, together with any cash (as evidenced by a report of an independent nationally recognized CPA firm or financial consulting firm), to pay the principal of, premium, if any, and interest on such Series 2002A Bonds to their maturity or to their prior redemption dates as may be specified by the Board. The moneys and Defeasance Securities shall be held irrevocably in trust for the Owners of such Series 2002A Bonds, for the purpose of paying the principal of, premium, if any, and interest on such Series 2002A Bonds, as the same shall mature, come due or become payable upon prior redemption. Upon such deposit, the Series 2002A Bonds so provided for shall no longer be outstanding under the Senior Bond Resolution. *Defeasance Securities* are: (i) direct obligations of, or obligations fully guaranteed by, the United States of America; (ii) certain certificates evidencing ownership of the right to principal or interest on obligations described in (i); and (iii) certain advance refunded municipal obligations which are rated at the time of purchase "AAA/Aaa" by Standard & Poor's Rating Service and Moody's Investors Service, respectively.

PLAN OF REFUNDING

Approximately $77,134,806 of the proceeds of the Series 2002A Bonds will be placed in an irrevocable depository trust with Bank One Trust Company, N.A. (the "Escrow Trustee"), and will be used to acquire certain United States Treasury obligations (the "Treasury Obligations") the maturing principal of and interest income on which are calculated to be sufficient to pay, when due, the interest on, the principal of, and premium, if any, on the following described outstanding Subordinated Bonds and Senior Bonds (the "Bonds Being Refunded") to their respective redemption dates shown below.

Issue (Dated Date)	Bond Issue	Original Principal Amount	Maturity Dates to be Refunded	Principal Amount of Bonds Being Refunded	Redemption Date	Redemption Premium on Bonds Being Refunded
03-15-92	Subordinated Series 1992B Bonds	$88,910,000	7-1-03	$6,870,000	7-1-02	1.5%
10-15-99	Senior Series 1999 Bonds	$151,080,000	7-1-13 to 7-1-19	$64,130,000	7-1-09	None

The moneys deposited in the depository trust will be held by the Escrow Trustee irrevocably in trust for the payment of the principal of, premium, if any, and interest on the Bonds Being Refunded pursuant to the terms of an escrow agreement (the "Escrow Agreement") between the Board and the Escrow Trustee. Upon the deposit of such moneys, the Bonds Being Refunded will no longer be Outstanding under the Senior Bond Resolution and the Subordinated Bond Resolution, and will be considered paid in accordance with their terms.

The remaining portion of the Series 2002A Bonds will be used for paying costs of issuing the Series 2002A Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Arbitrage Group, Inc., independent certified public accountants, will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them by RBC Dain Rauscher Inc., as financial consultant to the Board, relating to (a) the adequacy of the maturing principal amounts of the Treasury Obligations held pursuant to the Escrow Agreement established for the payment of the Bonds Being Refunded, interest earned thereon and certain other moneys on deposit pursuant to the Escrow Agreement to pay all of the principal of, premium, if any, and interest on the Bonds Being Refunded, as such principal, and interest become due and payable to their redemption date and (b) the computations of yield on both the Treasury Obligations and the Series 2002A Bonds used by Bond Counsel to support its opinion that the interest on the Series 2002A Bonds is excluded from gross income for federal income tax purposes. The Arbitrage Group, Inc. will express no opinion on the assumptions provided to them nor as to the exemption from taxation of the interest on the Series 2002A Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002A BONDS

Legal Authority

The Series 2002A Bonds are special obligations of the Board and are being issued by the Board pursuant to the Act and the Senior Bond Resolution. Under the terms and provisions of the Act, the Board is authorized to issue bonds for the payment of highway obligations; the costs of construction, reconstruction, maintenance and repair of public highways and bridges; county, city and town roads and streets; acquisition of real properties for future highway needs; other related highway purposes; and for the refunding of any bonds previously issued.

The Act provides that the Board may issue bonds, including Senior Bonds and Subordinated Bonds, up to a total principal amount of $1,000,000,000 outstanding at any time, excluding refunded bonds. The State Legislature has the right to increase or change the foregoing limitations and restrictions. See "Additional Bonds" below.

The Series 2002A Bonds, the outstanding Senior Bonds and any Additional Senior Bonds that may subsequently be issued by the Board on a parity therewith pursuant to the Senior Bond Resolution, are issued on a parity as to security and source of payment. Immediately after the delivery of the Series 2002A Bonds, and after giving effect to the refunding of the Bonds Being Refunded, there will be $479,725,000 of Senior Bonds outstanding.

General

Payments of principal and interest on the Series 2002A Bonds and all other Senior Bonds are payable from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. The lien on and pledge of Pledged Revenues for Senior Bonds is in all respects senior and prior to the lien on and pledge of Pledged Revenues for Subordinated Bonds. *Pledged Revenues* are the moneys deposited by the State Treasurer into the State Highway Fund that are derived from a portion of specified sources. Generally, such sources are: motor vehicle fuel taxes, motor vehicle registration fees, motor carrier fees, a portion of motor vehicle license (in lieu) taxes, and motor vehicle operators' license fees and certain miscellaneous fees and revenues collected by the State of Arizona. For a discussion of the sources of the Pledged Revenues, see "Pledged Revenues" and "SOURCES AND APPLICATION OF PLEDGED REVENUES" herein.

As provided in the Act, all Pledged Revenues deposited into the State Highway Fund shall be immediately subject to the lien of the pledge granted in the Senior Bond Resolution for the Senior Bonds without any future physical delivery or further act.

In addition to Pledged Revenues, the Series 2002A Bonds and all other Senior Bonds and Subordinated Bonds are also payable from, but are not secured by a pledge of, all moneys to be deposited into the Arizona Highway User Revenue Fund. Arizona statutes currently require that if there are defaults in amounts required by the Senior Bond Resolution and the Subordinated Bond Resolution to be deposited into the Bond Funds (as defined below), then the Department shall deduct from the revenues that otherwise would be deposited into the Arizona Highway User Revenue Fund, prior to their deposit, an amount sufficient to avoid such default, which will be applied to avoid such default. For a discussion of the revenues that are deposited to the Arizona Highway User Revenue Fund, see "SOURCES AND APPLICATION OF PLEDGED REVENUES - Arizona Highway User Revenue Fund" herein.

The Senior Bonds and the Subordinated Bonds are not subject to acceleration under any circumstances.

The Board may issue Additional Senior Bonds on a parity with the Series 2002A Bonds and the other outstanding Senior Bonds as described under "Additional Bonds - *Additional Senior Bonds*" herein. The Board may also issue Additional Subordinated Bonds as described under "Additional Bonds - *Additional Subordinated Bonds*" herein.

Special Obligations

The Series 2002A Bonds are special obligations of the Board and are payable solely from the sources specified in the Act and the Senior Bond Resolution. The Series 2002A Bonds are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State and are not enforceable against the State, nor shall payment thereof be enforceable out of any funds of the State, the Board, or the Department other than the money pledged and otherwise available for the benefit of the Owners of the Senior Bonds pursuant to the Act and the Senior Bond Resolution.

Pledged Revenues

The Series 2002A Bonds, together with the outstanding Senior Bonds and any Additional Senior Bonds that may be subsequently issued, are payable from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. The State Highway Fund is the operating fund of the Department from which the Department pays debt service on highway revenue bonds or other evidences of indebtedness, operational expenses of the Department and expenditures for highway construction and improvement and acquisition of rights of way. The State Highway Fund contains money derived from many sources. Only the money in the State Highway Fund derived from certain sources specified in the Bond Resolutions and the Act (described below and relating generally to motor vehicles) constitutes Pledged Revenues.

Certain specified revenues are deposited into the Arizona Highway User Revenue Fund. See "SOURCES AND APPLICATION OF PLEDGED REVENUES-Arizona Highway User Revenue Fund". Each month, according to statutory allocations, 50.5% of moneys in the Arizona Highway User Revenue Fund (after certain statutory distributions) are transferred to the State Highway Fund. In addition to the distribution from the Arizona Highway User Revenue Fund, certain other moneys are distributed to and deposited in the State Highway Fund. Only moneys from specified sources that are paid into and are on deposit in the State Highway Fund constitute "Pledged Revenues". See "SOURCES AND APPLICATION OF PLEDGED REVENUES-Arizona Highway User Revenues" herein for a more detailed discussion of such revenues.

The Arizona Legislature has previously altered and may in the future alter (1) the type and/or rate of the taxes, fees and charges relating to motor vehicles which are deposited into the Arizona Highway User Revenue Fund; (2) the allocation of such moneys between (a) deposits into the State Highway Fund, which upon such deposit become Pledged Revenues and (b) distributions to cities, towns and counties (or other state funds); or (3) the type and/or rate of the taxes, fees and charges which are deposited directly into the State Highway Fund. The authority of the Arizona Legislature to make changes in use of moneys deposited into the Arizona Highway User Revenue Fund is subject to the requirement of the Arizona Constitution that revenues derived from fees or taxes related to the registration, operation or use of motor vehicles (excluding the State's vehicle license tax) may only be used for highway-related purposes including, but not limited to, paying debt service on bonds issued under the Act. The Legislature's right to make such changes is further restricted by the Bond Resolutions in which the Board, as agent for the State and pursuant to the Act, has pledged and agreed with the Owners of the outstanding Senior Bonds and Subordinated Bonds that the State will not limit or alter the rights vested in the Board to collect such fees and taxes as may be necessary to produce sufficient revenues to fulfill the terms of the Bond Resolutions or any agreement made with the Owners of such Senior Bonds and Subordinated Bonds or in any way impair the rights and remedies of the Owners until all Senior Bonds and Subordinated Bonds, together with interest thereon and interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of any Owners are fully met and discharged.

There is no requirement in the Bond Resolutions that amounts be deposited into the State Highway Fund in excess of the amounts necessary to make transfers to the Bond Funds, as described under "SOURCES AND APPLICATION OF PLEDGED REVENUES—Funds and Accounts and Application of Pledged Revenues."

Additional Bonds

Additional Senior Bonds. Pursuant to the Senior Bond Resolution, the Board has previously issued and there will be outstanding Senior Bonds in the aggregate principal amount of $479,725,000 immediately after the delivery of the Series 2002A Bonds and after giving effect to the refunding of the Bonds Being Refunded. The Bond Resolutions provide that any outstanding Senior Bonds, the Series 2002A Bonds and any Additional Senior Bonds enjoy a pledge of and a claim upon Pledged Revenues prior to the claim in favor of any Subordinated Bonds.

Under the Senior Bond Resolution, Additional Senior Bonds may be issued on a parity with the outstanding Senior Bonds only when:

(a) all the payments of the principal of and interest on the then outstanding Senior Bonds are current; and

(b) the Pledged Revenues for the preceding 12-month period were not less than 400% of the highest annual principal and interest payments on all outstanding Senior Bonds for the highest aggregate one-year period during the life of the outstanding Senior Bonds, including the principal and interest payments on the Additional Senior Bonds proposed to be issued, but excluding the principal and interest on any Senior Bonds to be refunded that shall not be Outstanding immediately after the issuance of such proposed Additional Senior Bonds; and

(c) subject to (e) below, the Additional Senior Bonds to be issued shall be payable as to principal and interest on such date or dates as the Board shall designate; and

(d) the proceeds from the sale of the Additional Senior Bonds are to be used for any lawful highway purpose, including refunding any bonds; and

(e) all other requirements of law existing on the date such Additional Senior Bonds are issued have been met.

Under the Subordinated Bond Resolution, the Board has agreed for the benefit of the Owners of Subordinated Bonds that the Board will not issue Additional Senior Bonds on parity with the outstanding Senior Bonds unless the Pledged Revenues received by the State Treasurer in any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted in the Subordinated Bond Resolution) were not less than 300% of the maximum aggregate Adjusted Debt Service Requirements (as defined in the Subordinated Bond Resolution) on all outstanding Senior Bonds and outstanding Subordinated Bonds, including the Senior Bonds to be issued but excluding any Senior Bonds or Subordinated Bonds to be refunded that shall not be outstanding immediately after the issuance of such Additional Bonds, in the then current or any future Bond Year (as defined in the Subordinated Bond Resolution), during the life of the outstanding Senior Bonds, including the proposed Senior Bonds to be issued.

Under the Subordinated Bond Resolution, the Board has agreed for the benefit of the Owners of Subordinated Bonds that the Board will not issue Additional Senior Bonds for refunding purposes unless either the requirements described in the immediately preceding paragraph are met or unless the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Senior Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Senior Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements by Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Senior Bonds.

In addition to the requirements of the Senior Bond Resolution and the Subordinated Bond Resolution, certain additional statutory requirements, described below under the subheading *"Statutory Limitation on Issuance of Additional Bonds,"* must be met in order for the Board to issue Additional Senior Bonds.

The Board currently estimates that it may issue additional bonds under the Bond Resolutions in the aggregate principal amount of up to approximately $330 million over the remainder of the current Five Year Capital Program (ending FY 2006) to fund additional highway projects. Such additional bonds may be issued as either Additional Senior Bonds, Additional Subordinated Bonds, Second Subordinated Bonds (as described below), or any combination thereof. The actual amount of Additional Senior Bonds to be issued will depend upon, among other considerations, market conditions, cash flow requirements of the Board for construction, any increase in statutory limits on principal amount of bonds and other sources of funding available to meet such requirements (including proceeds of Additional Subordinated Bonds or Second Subordinated Bonds).

Additional Subordinated Bonds. Pursuant to the Subordinated Bond Resolution, the Board has previously issued and there will be outstanding Subordinated Bonds in the aggregate principal amount of $299,795,000 immediately after the delivery of the Series 2002A Bonds and after giving effect to the refunding of the Bonds Being Refunded. Under the Subordinated Bond Resolution, Additional Subordinated Bonds may be issued on a parity with the outstanding Subordinated Series 1993A Bonds, Series 1993B Bonds, Series 1992B Bonds, and Series 1991A Bonds (collectively the "Subordinated Bonds") only when the requirements of the Subordinated Bond Resolution have been met, including the requirement that the amount of Pledged Revenues received by the State Treasurer during any 12 consecutive months out of the most recent preceding 18 months (as adjusted as permitted under the Subordinated Bond Resolution) was not less than 300% of the maximum aggregate Adjusted Debt Service Requirements in the then current or any future Bond Year on the outstanding Senior Bonds and the outstanding Subordinated Bonds, including the proposed series of Additional Subordinated Bonds but excluding any Senior Bonds or Subordinated Bonds to be refunded that shall not be outstanding immediately after the issuance of the Additional Subordinated Bonds.

Additional Subordinated Bonds may be issued at any time to refund in whole or in part any outstanding Subordinated Bonds, Senior Bonds or Second Subordinated Bonds, provided that the Board certifies that the aggregate Adjusted Debt Service Requirements on Senior Bonds and Subordinated Bonds to be outstanding immediately after the date of issuance of the proposed refunding Subordinated Bonds is not, for each Bond Year from the then current Bond Year through the last Bond Year during which Senior Bonds and Subordinated Bonds are outstanding immediately prior to the issuance of the proposed refunding Subordinated Bonds, more than 105% of the aggregate Adjusted Debt Service Requirements by Bond Year on all Senior Bonds and Subordinated Bonds outstanding immediately prior to the issuance of the refunding Subordinated Bonds. If the Board cannot satisfy the requirement of the preceding sentence, the Board may nevertheless issue Subordinated Bonds for the purpose of refunding in whole or in part any outstanding Subordinated Bonds, Senior Bonds or Second Subordinated Bonds upon compliance with the test described in the preceding paragraph.

In addition to the requirements of the Subordinated Bond Resolution, certain additional statutory requirements, described below under the subheading *"Statutory Limitation on Issuance of Additional Bonds"*, must be met in order for the Board to issue Additional Subordinated Bonds.

Second Subordinated Bonds. The Board may, at any time, or from time to time, in accordance with the Bond Resolutions, issue or incur second subordinated bonds for any of its lawful purposes, which shall be payable out of, and which may be secured by a pledge of and lien on, amounts of Pledged Revenues remaining after all deposits to the funds established for the Senior Bonds and Subordinated Bonds required by the Bond Resolutions have been made; provided, however, that such pledge of and lien on Pledged Revenues shall be, and shall be expressed to be, subordinate and junior in all respects to the lien and pledge created by the Senior Bond Resolution as security for the Senior Bonds and shall also be subordinate and junior in all respects to the lien and pledge created by the Subordinated Bond Resolution as security for the Subordinated Bonds (such bonds being referred to herein as "Second Subordinated Bonds"). There are currently no Second Subordinated Bonds outstanding nor any plans to issue Second Subordinated Bonds.

In addition to the requirements of the Bond Resolutions, certain additional statutory requirements, described below under the subheading *"Statutory Limitation on Issuance of Additional Bonds"*, must be met in order for the Board to issue Second Subordinated Bonds.

Statutory Limitation on Issuance of Additional Bonds. The Act limits the total principal amount of bonds issued thereunder, including Senior Bonds, Subordinated Bonds and Second Subordinated Bonds, that the Board may have outstanding at any time, excluding refunded bonds, to no more than $1,000,000,000 unless an additional amount is authorized by the Arizona Legislature. The aggregate principal amount of Senior Bonds and Subordinated Bonds that will be outstanding immediately after the delivery of the Series 2002A Bonds and after giving effect to the refunding of the Bonds Being Refunded, will be $779,520,000. The Act presently provides that the Board may issue additional bonds, which may be Senior Bonds, Subordinated Bonds or Second Subordinated Bonds, if the moneys pledged to the payment of such bonds for the preceding twelve-month period exceed by two times the highest annual principal and interest payments on all the outstanding bonds and the bonds to be issued for the highest one-year period during the life of both the outstanding bonds and the bonds to be issued. In addition, for any additional bonds to be issued, the requirements of the applicable Bond Resolutions described above must also be met.

Amendments to 2002 Resolution

The Board may amend the 2002 Resolution pursuant to which the Series 2002 Bonds and Series 2002A Bonds are issued or other existing Senior Bond Resolutions without notice to or consent of the Owners for any of the following purposes: (1) to cure any ambiguity, inconsistency, formal defect or omission in the 2002 Resolution or other existing Senior Bond Resolutions; (2) to grant to or confer upon the Owners of the Series 2002 Bonds and Series 2002A Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon them; or (3) to amend or supplement the 2002 Resolution or other existing Senior Bond Resolutions in any other respect, provided such amendment or supplement is not materially adverse to the interests of the Owners of the Series 2002 Bonds and Series 2002A Bonds.

Exclusive of the amendments described above, the 2002 Resolution or other existing Senior Bond Resolutions, and the rights and obligations of the Board and of the Owners of the Series 2002 Bonds and Series 2002A Bonds thereunder, may be amended by the Board only with consent of Owners of at least a majority in aggregate principal amount of the Outstanding Series 2002 Bonds and Series 2002A Bonds; provided, however, that no such modification or amendment shall, without the express written consent of the Owner of each Series 2002 Bonds and Series 2002A Bond affected, reduce the principal amount of or the interest rate payable thereon, advance the earliest redemption date or reduce the redemption premium, extend its maturity or the times for paying interest, nor shall any such modification or amendment reduce the percentage of consent required for amendment or modification.

Any act done pursuant to an amendment consented to as provided in the 2002 Resolution shall be binding upon the Owners of all of the Series 2002 Bonds and Series 2002A Bonds.

To obtain any such consent, the Board shall cause the Bond Registrar to mail a notice, first-class postage prepaid, to the registered Owners (Cede & Co., so long as the book-entry-only system is in effect) of the Series 2002 Bonds and Series 2002A Bonds at their addresses appearing on the registration books, briefly describing the proposed amendment.

SOURCES AND APPLICATION OF PLEDGED REVENUES

The Series 2002A Bonds and all other Senior Bonds are payable from and secured solely by a first lien on and pledge of the Pledged Revenues on deposit in the State Highway Fund. Moneys in the State Highway Fund that constitute Pledged Revenues consist primarily of moneys distributed from the Arizona Highway User Revenue Fund. The distribution of moneys to the State Highway Fund that constitute Pledged Revenues is more fully discussed below.

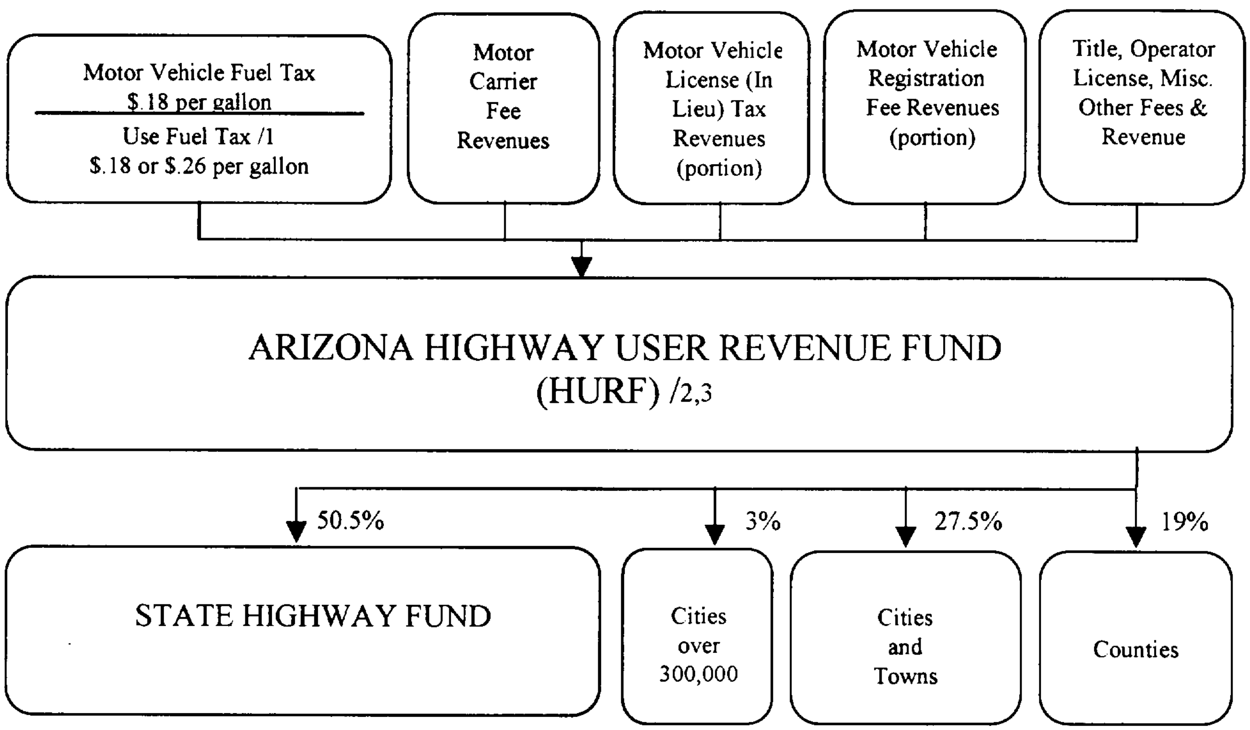
Arizona Highway User Revenue Fund

The State imposes motor vehicle fuel taxes and a variety of different types of taxes, fees and charges relating to the registration, operation and use of motor vehicles on the public highways of the State that are allocated by statute to the State Highway Fund and to the cities, towns and counties of the State, to finance highway improvements and other transportation-related expenses. These taxes, fees and charges are collected by various State officers and transferred to the Department for immediate transfer, after all exemptions and refunds, to the State Treasurer for deposit to the Arizona Highway User Revenue Fund. Each month, in accordance with statutory allocations, the State Treasurer distributes revenues transferred to the Arizona Highway User Revenue Fund primarily to the State Highway Fund and to the appropriate cities, towns and counties. Only after moneys from these specified sources are deposited to the State Highway Fund do they become Pledged Revenues. See " SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002A BONDS - Pledged Revenues" herein.

The taxes, fees and charges deposited to the Arizona Highway User Revenue Fund consist of (i) motor vehicle fuel taxes and use fuel taxes, (ii) motor vehicle registration fees, (iii) motor carrier fees, (iv) a portion of motor vehicle license (in lieu) taxes, and (v) motor vehicle operators' license fees and miscellaneous fees and revenues. These revenue sources are further described below.

The following chart illustrates the flow of the revenues into the Arizona Highway User Revenue Fund and the distribution of such revenues.

Arizona Highway User Revenue Fund Flow



Notes:

/1 The use fuel tax rate of $.18 per gallon applies to vehicles under 26,001 pounds and other qualifying vehicles. The use fuel tax rate for all other vehicles is $.26 per gallon.

/2 The Legislature has authorized the annual transfer of $1 million to the Economic Strength Project Fund to be expended for highway projects that provide economic benefits to the State or a local jurisdiction.

/3 The Legislature has authorized a distribution of $26.8 million in fiscal year 2002 to the Arizona Department of Public Safety for highway patrol expenditures.

Arizona Highway User Revenues

The following is a summary of the sources of revenue that are deposited to the Arizona Highway User Revenue Fund under existing statutes. Recent legislative changes are discussed below. This summary does not purport to be a complete description of each of these revenue sources and legislative changes and, accordingly, is qualified by reference to the Arizona Revised Statutes regarding these sources of revenue. The Arizona Legislature has altered and may in the future alter the statutes governing these revenue sources and their allocation. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002A BONDS-Pledged Revenues" herein.

Motor Vehicle Fuel Tax Revenues. Motor vehicle fuel tax revenues consist of motor vehicle fuel (gasoline) taxes and motor vehicle use fuel (primarily diesel) taxes. These are excise taxes imposed upon fuel used in the propulsion of a motor vehicle on the public highways of the State. The motor vehicle fuel (gasoline) tax is currently assessed at the rate of $.18 per gallon, and the use fuel (primarily diesel) tax is assessed at $.18 for vehicles under 26,001 pounds and other qualifying vehicles and $.26 per gallon for all other vehicles. The motor vehicle fuel tax is collected by the Department from licensed suppliers for each gallon of gasoline possessed, used or consumed in the State and the use fuel tax is collected by the Department from the supplier or paid by the user for the use of the highways in this State and remitted to the Department.

The following is a summary of the gallons of motor vehicle fuels imported into and consumed in the State, subject to the motor vehicle fuel tax (primarily gasoline fuel imported into the State) or motor vehicle use fuel tax (primarily diesel fuel consumed in the State), for each of the last ten fiscal years ended June 30, 2001.

Motor Vehicle Fuels Imported or Consumed
Based on Revenue Gallonage
(000's Gallons)

Fiscal Year	Gasoline Fuel Imported (Net)	Diesel Fuel Consumed	Total	Percentage Change from Previous Year
2001	2,324,443	657,627	2,982,069	2.9%
2000	2,272,985	624,396	2,897,381	2.1
1999	2,208,129	630,057	2,838,186	7.5
1998	2,035,426	603,805	2,639,230	3.2
1997	2,021,962	535,821	2,557,783	2.8
1996	1,994,229	495,050	2,489,278	5.1
1995	1,901,663	466,043	2,367,706	1.3
1994	1,859,129	477,978	2,337,108	8.6
1993	1,751,264	400,045	2,151,309	4.7
1992	1,710,440	343,944	2,054,384	0.2

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning.

Motor Vehicle Registration Fee Revenues. Motor vehicles are required to be registered in the State on a staggered monthly registration basis. The fee for passenger vehicles and non-commercial pickup trucks is $8 and for motorcycles the fee is $9, of which $1 is paid to the motorcycle education fund. The fee for commercial motor vehicles, including trucks, buses and taxis, is $12, plus a graduated registration fee based upon the declared gross weight of the motor vehicle. Commercial motor vehicles that operate in several states may instead pay fees which are prorated based on the ratio of operating mileage in the State to the total fleet operating mileage in all states. Motor vehicle registration fees are deposited in the Arizona Highway User Revenue Fund.

The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ended December 31, 2001.

Motor Vehicle Registrations

Calendar Year	Passenger Vehicles	Trucks/1	Buses and Taxis	Trailers	Motorcycles	Total
2001	3,739,081	456,188	3,568	397,157	78,978	4,674,972
2000	3,638,242	419,186	3,791	353,241	73,340	4,487,800
1999	3,496,182	375,650	3,678	313,695	67,023	4,256,228
1998	3,433,142	335,244	2,409	173,846	69,347	4,013,987
1997	3,043,605	289,256	2,529	169,102	57,780	3,562,272
1996	2,807,928	305,493	3,018	283,638	69,070	3,469,147
1995	2,583,632	293,792	2,040	316,608	69,650	3,265,722
1994	2,428,868	289,708	2,279	294,237	67,808	3,082,900
1993	2,510,578	328,074	2,603	291,720	71,560	3,204,535
1992	2,428,350	313,655	2,881	278,710	77,728	3,101,325

1/ Includes commercial and non-commercial.

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning.

Motor Vehicle License (In Lieu) Tax Revenues. The motor vehicle license (in lieu) taxes are based upon the value of the vehicle (according to a statutory formula) and are collected with the vehicle registration fees. These license taxes are distributed as follows: (i) 44.99% to the Arizona Highway User Revenue Fund, (ii) 24.59% to the general fund of the county where the motor vehicle is registered, (iii) 24.59% to the cities and towns of the county where the motor vehicle is registered, and (iv) 5.83% to the counties for the same use as Highway User Revenue Fund purposes. The above distribution percentages are blended since the tax rates vary between new and renewal vehicles. The small amount of Vehicle License Tax (VLT) that is collected from alternative fuel powered vehicles is distributed primarily to the State General Fund to aid in school financial assistance. See "Recent Legislation" below.

Motor Carrier Fee Revenues. The motor carrier fee is imposed on commercial motor vehicles, whether common, contract or private carriers, with a gross weight in excess of 12,000 pounds. The motor carrier fee increases as the declared gross vehicle weight of the vehicle increases. All motor carrier fee revenues are deposited to the Arizona Highway User Revenue Fund.

Motor Vehicle Operators' License Fees and Miscellaneous Fees and Revenues. The balance of the Arizona Highway User Revenue Fund revenues include motor vehicle operators' license fees and miscellaneous fees and revenues. The miscellaneous fees and revenues include certificates of title fees, oversize permit fees, inquiry fees, investment income on moneys held in the Arizona Highway User Revenue Fund, certain fines, penalties and other miscellaneous fees.

Recent Legislation

In 1998, legislation was enacted (SB 1007) which reduced the motor vehicle license (in lieu) tax rate by approximately 16% and increased the depreciation rate used in calculating the tax to 16.25% from 15%. The legislation provided that the reduction in motor vehicle license (in lieu) tax revenues would only impact the distribution of such revenues to the State General Fund, with the remaining recipients (State Highway Fund, counties, cities and towns) being held revenue neutral.

In 2000, legislation was enacted (HB 2329) which reduced the motor vehicle license (in lieu) tax by approximately 3% effective June 1, 2000 and provided for a further reduction on December 1, 2000 if certain revenue levels were attained by the State General Fund in fiscal year 2000. The June 1, 2000 reduction impacted the distribution of motor vehicle license (in lieu) tax revenues to the State General Fund and the State Highway Fund. The legislation included a State General Fund appropriation to the State Highway Fund to hold it revenue neutral from the June 1, 2000 tax reduction. All other recipients (counties, cities, towns, Local Transportation Assistance Fund) were not impacted. Based on actual fiscal year 2000 State General Fund revenues, an additional tax rate reduction of approximately 5% took effect on December 1, 2000 impacting the State Highway Fund and the Local Transportation Assistance Fund. The legislation included language for a State General Fund appropriation to the State Highway Fund and the Local Transportation Assistance Fund to hold them revenue neutral from the December 1, 2000 tax reduction for fiscal year 2001. All other recipients (counties, cities, and towns) were not impacted.

On December 14, 2000, the Governor signed into law SB 1004, which made substantial amendments to legislation enacted in the previous regular legislative session providing tax rebates for purchasers of vehicles equipped or converted to use alternate fuels. Under the amendments, the number of vehicles qualifying for tax rebates was anticipated to be reduced substantially. The Department believes the impact of the program, as modified by SB 1004, on revenue distributed to the State Highway Fund will be minimal.

In 2001, legislation was enacted (HB 2636) which increased the principal amount of highway revenue bonds that may be outstanding at any one time (including Senior Bonds and Subordinated Bonds) from $800 million to $1 billion. Other 2001 legislation enacted (SB 1243 and HB 2631) increased the distribution of moneys from the Arizona Highway User Revenue Fund to the Arizona Department of Public Safety (DPS), primarily to hire additional patrol personnel and purchase equipment. The total moneys to be distributed to DPS from the Arizona Highway User Revenue Fund amount to $26.8 million in fiscal year 2002. Prior to passage of these legislative acts, the amount to be distributed to DPS from the Arizona Highway User Revenue Fund in such fiscal year was $10 million. As a result, the distribution of moneys to the State Highway Fund for use by the Department will be decreased by 50.5% of the increased funding to DPS from the Arizona Highway User Revenue Fund in fiscal year 2002.

Proposed Legislation

On February 11, 2002, the Governor convened a third special session of the 45th Legislature, to address expected revenue shortfalls in the State's budget for fiscal year 2002. Proposals have been submitted by the Governor and by members of the State Senate and House of Representatives which would, if enacted, provide further increases in distribution of moneys from the Arizona Highway User Revenue Fund to the DPS, totaling as much as $32 million annually. It cannot be determined currently whether any of such proposals will be enacted and, if so, in what form. The distribution of moneys to the State Highway Fund for use by the Department would be decreased by an amount equal to 50.5% of any increases in funding for DPS from the Arizona Highway User Revenue Fund in fiscal year 2002.

In the 2002 regular legislative session, which convened on January 21, 2002, two substantially similar bills have been introduced (one in the State Senate and one in the House of Representatives), which, if enacted, would increase the principal amount of highway revenue bonds (including Senior Bonds and Subordinated Bonds) that may be outstanding at any one time from $1.0 billion to $1.3 billion. The Board and the Department support the proposed increase. It cannot be determined currently whether either of such bills will be enacted and, if so, in what form.

Funds and Accounts and Application of Pledged Revenues

The Senior Bond Resolution established for the payment of the principal of and interest on the Senior Bonds: a Senior Bond Fund, containing a Principal Account, a Redemption Account and an Interest Account; a Senior Bond Related Costs Fund; and a Senior Bond Reserve Fund. In order to facilitate the administration of the deposit of Pledged Revenues into the funds relating to the Senior Bonds, the Subordinated Bonds and the Second Subordinated Bonds, if any, the Bond Resolutions also established a Subordinated Bond Fund, a Subordinated Bond Related Costs Fund, a Subordinated Bond Reserve Fund, and other similar funds for the Second Subordinated Bonds (all of the above-referenced funds are collectively referred to herein as the "Bond Funds").

Upon the issuance of the Series 2002A Bonds, no amounts are required by the Bond Resolutions to be deposited or maintained in any of the funds referenced above other than the Senior Bond Fund and the Subordinated Bond Fund. Subsequent Bond Resolutions may require deposits to additional funds.

The Bond Resolutions require that all Pledged Revenues paid into the State Highway Fund shall be accounted for by the Board and State Treasurer and held by the State Treasurer and deposited by the State Treasurer into the Bond Funds in the following order and manner:

(1) into the Interest Account in the Senior Bond Fund, on the first day of each month, an amount which in the aggregate is not less than one-fifth (1/5) of the amount of the next semiannual interest payment, net of any investment income deposited to such Account, coming due on the outstanding Senior Bonds; and then

(2) into the Principal Account in the Senior Bond Fund, on the first day of each month, one-eleventh (1/11) of the amount of the principal of the outstanding Senior Bonds coming due on the next principal payment date (whether by stated maturity or mandatory sinking fund redemption), net of any investment income deposited to such Account; and then

(3) into the account in the Highway Bond Proceeds Fund for any outstanding Series of Additional Senior Bonds at such times and in such amounts as may be specified by the provisions of any subsequent Senior Bond Resolution, an amount equal to the unreimbursed amounts, if any, theretofore expended from such account for payment of principal of and interest on any Senior Bonds; and then

(4) into the Senior Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for payment of Bond Related Costs for any Additional Senior Bonds; and then

(5) into the Senior Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Senior Bond Resolution for deposit therein; and then

(6) into the Interest Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding an interest payment date on the Outstanding Subordinated Bonds, an amount equal to the interest payment due on such interest payment date on the Outstanding Subordinated Bonds and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any series of Additional Subordinated Bonds; and then

(7) into the Principal Account in the Subordinated Bond Fund, on or before the fifteenth day of the month preceding a principal payment date (whether at maturity or by mandatory sinking fund redemption) on the Outstanding Subordinated Bonds, an amount equal to the principal payment due on such principal payment date on the Outstanding Subordinated Bonds and on such dates and in such amounts as specified in any subsequent Subordinated Bond Resolution with respect to any series of Additional Subordinated Bonds; and then

(8) into the Subordinated Bond Related Costs Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution, for deposit therein for payment of Bond Related Costs for any Additional Subordinated Bonds; and then

(9) into the Subordinated Bond Reserve Fund, at such times and in such amounts, if any, specified in any subsequent Subordinated Bond Resolution for deposit therein; and then

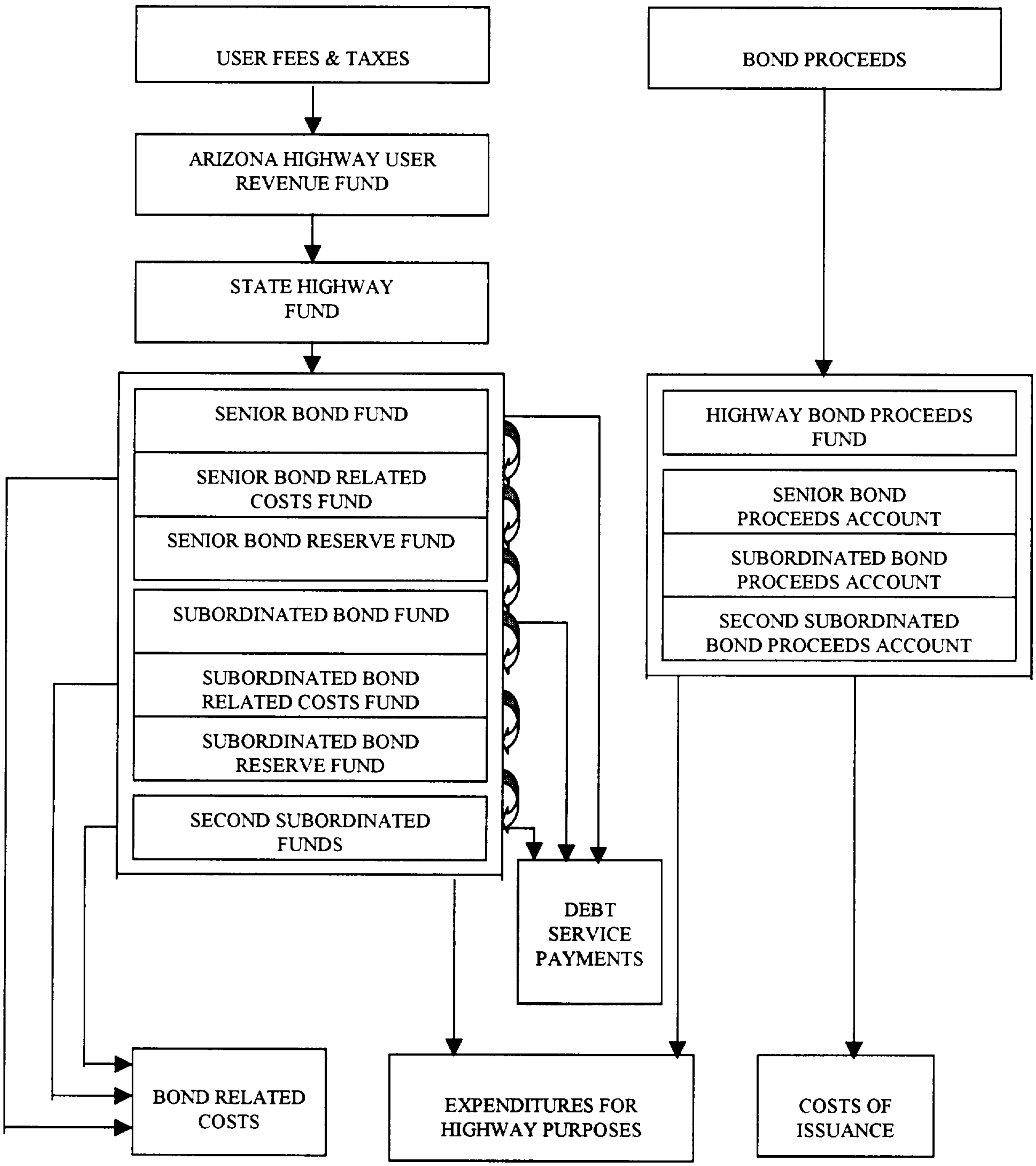
(10) into the Second Subordinated Funds, at such times and in such amounts, if any, specified pursuant to any subsequent resolution of the Board authorizing Second Subordinated Bonds for deposit therein; and then

(11) the remaining Pledged Revenues, if any, may be used and expended by the Board for any other lawful use of the State Highway Fund.

If there is a deficiency in the required deposit to any of the Bond Funds as provided above, and unless the Board uses lawfully available Pledged Revenues on deposit in the State Highway Fund or other lawfully available moneys to cure such deficiency, all additional Pledged Revenues deposited into the State Highway Fund shall be used to make up such deficiencies in such Bond Funds, but only in the priority of deposit set forth above, prior to making any deposits to any lower priority Bond Fund.

To the extent that earnings are credited to the Senior and Subordinated Bond Fund pursuant to the Bond Resolutions, subsequent deposits to the Senior and Subordinated Bond Fund shall be reduced by the amount so credited. The Bond Resolutions provide that, to the extent that moneys in the Senior Bond Fund, Senior Bond Related Costs Fund and Senior Bond Reserve Fund are insufficient to pay, when due, principal of and interest on the Senior Bonds, the Senior Bonds shall have a first claim on moneys in all Subordinated Funds for the payment of principal and interest on the Senior Bonds.

HIGHWAY REVENUE BONDS
FLOW OF FUNDS



REVENUES AND DEBT SERVICE COVERAGE

Historical Revenues

The following table sets forth the sources of revenues which were deposited into the Arizona Highway User Revenue Fund and the State Highway Fund for each of the last ten fiscal years ended June 30, 2001.

Sources of Revenues Deposited in the Arizona Highway User Revenue Fund and State Highway Fund (000's)

Fiscal Year Ended 6/30	Motor Vehicle Fuel Tax Revenues/1	Motor Vehicle Registration Fee Revenues/2	Motor Carrier Tax Revenues/3	Motor Vehicle Operators' License Fees and Misc. Fees and Revenues	Motor Vehicle License (In Lieu) Tax Revenues	Total Deposited to Arizona Highway User Revenue Fund	Percentage Change	Total Distributed to State Highway Fund/4
2001	$574,259	$132,269	$ 32,678	$40,147	$251,613	$1,030,966	1.10%	$530,637
2000	565,736	140,345	36,563	40,409	236,547	1,019,599	3.75	528,721
1999	557,775	131,952	34,150	38,775	220,126	982,779	10.74	509,935
1998	508,543	109,445	56,123	36,426	176,950	887,487	-1.06	468,240
1997	488,701	101,528	90,186	41,294	175,253	896,962	4.35	468,542
1996	473,741	97,601	85,433	42,654	160,145	859,575	7.43	429,825
1995	451,089	86,159	92,103	39,238	131,562	800,152	3.10	399,605
1994	422,556	83,826	118,530	37,161	113,990	776,063	8.17	385,844
1993	387,236	80,717	120,303	24,161	105,027	717,444	6.26	355,304
1992	369,789	74,180	109,573	25,507	96,146	675,195	-0.68	339,807

/1 Reflects $.08 per gallon surcharge on use fuel from January 1, 1994 through September 30, 1997. On January 1, 1998, the use fuel tax rate increased $.09 per gallon to $.27 per gallon for certain vehicles. On July 1, 2000 the use fuel tax rate decreased from $.27 to $.26 per gallon for certain vehicles.

/2 The implementation of Senate Bill 1144 on October 1, 1997 increased the weight and use registration fees charged to motor carriers.

/3 House Bill 2239 from the 1993 legislative session reduced motor carrier rates by an initial 24 percent and added an $.08 per gallon use fuel surcharge on January 1, 1994. On October 1, 1997, Senate Bill 1144 was implemented which eliminated the motor carrier tax based on weight and distance, and replaced it with a motor carrier fee based on weight.

/4 Net of 7% distributed to cities with a population greater than 300,000 persons from fiscal years 1992 to 1997. Includes certain motor vehicle license tax revenues distributed to the State Highway Fund from other than the Highway User Revenue Fund for fiscal years 1997 through 2001. Net of third party retainage.

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning.

Projected Revenues

Recognizing the need for formal, well documented forecasts, the Department has developed a long-range forecasting model for revenues to be deposited to the Arizona Highway User Revenue Fund and distributed to the State Highway Fund. This model reflects underlying economic and energy-related trends. These trends are important in forecasting growth rates in personal income, motor vehicle fuel efficiency, employment, and population, all of which in turn are major components of the revenue forecast which follows.

The model uses a disaggregated structural regression-based econometric modeling approach. The use of this technique provides a framework that allows for the complex interaction of economic, demographic, and technological factors which influence collections over the long term. The key variables incorporated in the model which influence growth in Arizona Highway User Revenue Fund collections are: (i) Arizona population, (ii) Arizona real per capita income, (iii) Arizona wage and salary employment, and (iv) Arizona vehicle fuel efficiency. Of these variables, Arizona population and Arizona real per capita income are the most important in projecting revenues.

In 1992, the Department expanded the capabilities of the model by retaining economic consultants to introduce a risk analysis process into the forecast development effort, thereby providing a means of dealing with the uncertainty concerning future values for the critical model variables. This procedure provides information concerning the range of potential future revenues and their probability of occurrence.

In October 1996, the Department commissioned a consultant to update the forecasting model. The new model was designed to incorporate certain economic data generated over the prior ten years which was not included in the original model. In addition, the consultant was asked to evaluate the inclusion of certain independent variables absent from the original model to enhance the model's forecasting accuracy. The consultant also eliminated some independent variables that were either not significant to the model or were not readily available. The model update was completed in September 1997 and takes into consideration 1997 legislative changes.

Over the years, the model has exhibited the ability to forecast revenues with a high degree of accuracy. For the twelve-month periods ended June 30, 2001, 2000 and 1999, the forecast of collections to be deposited to the Arizona Highway User Revenue Fund which was made at the start of each such period, was within (1.1%), (0.30%) and 4.6%, respectively, of actual collections in such periods. It should be noted during the forecast year of 1999, the Department utilized a more conservative 60% probability forecast rather than its more traditional 50% probability forecast.

The following table sets forth the Department's current forecast, as of December 2001, of revenues anticipated to be deposited into the Arizona Highway User Revenue Fund and the amounts to be distributed to the State Highway Fund for each of the ten fiscal years through June 30, 2011. The amounts shown for fiscal year 2002 and subsequent fiscal years reflect a number of factors, including:

- Anticipated growth in the amount of revenues deposited to the Arizona Highway User Revenue Fund;
- Increased funding of the Arizona Department of Public Safety from the Arizona Highway User Revenue Fund (see "Sources and Applications of Pledged Revenues - Recent Legislation"); and
- An assumption that no State General Fund amounts will be appropriated to the State Highway Fund to offset reductions in the motor vehicle license tax rate (see "Recent Legislation").

The Department's forecast of amounts anticipated to be collected in the Arizona Highway User Revenue Fund for fiscal year 2002 assumes, on average, a 3.4% growth over actual collections for fiscal year 2001. For the first seven months of fiscal year 2002, (July through January), the forecast assumes growth in the Arizona Highway User Revenue Fund over the comparable period in fiscal year 2001 of 3.6%. Actual growth in such revenues for the first seven months of fiscal year 2002 over the prior year's comparable period has averaged 4.5%.

In the view of the Department, the forecast included herein was prepared on a reasonable basis and represents the Department's current available forecast of future available Highway User Revenue Fund revenues. Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the forecasted financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for the forecasted financial information. THE ACTUAL REVENUES THAT WILL BE DEPOSITED IN THE ARIZONA HIGHWAY USER REVENUE FUND AND THE STATE HIGHWAY FUND MAY VARY FROM THE FORECAST BECAUSE OF FLUCTUATING ECONOMIC CONDITIONS, CHANGES IN LAW AND OTHER VARIABLES AFFECTING REVENUE GROWTH. SUCH VARIATIONS COULD BE MATERIAL.

Forecast of Revenues to be Deposited in the Arizona Highway User Revenue Fund and State Highway Fund
Fiscal Years ending June 30, 2002 through June 30, 2011
(000's)

Fiscal Year	Motor Vehicle Fuel Tax Revenues	Motor Vehicle Registration Fee Revenues	Motor Carrier Fee Revenues	Motor Vehicle Operators' License Fees and Misc. Fees and Revenues	Motor Vehicle License (In Lieu) Tax Revenues	Total Deposited to Arizona Highway User Revenue Fund	Total Distributed to State Highway Fund/1
2002	$589,700	$134,800	$33,100	$39,700	$268,500	$1,065,800	$517,864
2003	604,100	135,800	32,900	36,200	293,000	1,102,000	533,168
2004	624,100	138,800	33,700	38,100	313,800	1,148,500	567,102
2005	645,000	142,800	34,600	40,000	337,000	1,199,400	592,264
2006	666,500	147,800	35,700	41,900	364,300	1,256,200	620,310
2007	690,100	153,000	36,900	44,100	392,700	1,316,800	650,249
2008	711,400	157,900	38,000	46,200	422,200	1,375,700	679,304
2009	735,400	163,500	39,300	48,500	455,100	1,441,800	711,915
2010	759,600	168,900	40,500	50,800	489,800	1,509,600	745,343
2011	786,000	174,600	41,900	53,400	525,700	1,581,600	780,864

/1 Net of third party retainage.

Note: Totals may not add due to rounding.

Source: Arizona Department of Transportation, Office of Financial Planning.

Debt Service Requirements, Projected Pledged Revenues and Projected Debt Service Coverage

The debt service requirements of the outstanding Senior Bonds and Subordinated Bonds, and of the Series 2002A Bonds are set forth below. Based upon the Department's current forecasts of projected Pledged Revenues and debt service, the projected debt service coverage of the outstanding Senior Bonds and Subordinated Bonds and the Series 2002A Bonds (assuming no issuance of Additional Senior Bonds or Additional Subordinated Bonds) is as follows:

Twelve Months Ending July 1	Projected Pledged Revenues (1)	Outstanding Senior Bonds (2)	Series 2002A Bonds Principal Payments	Series 2002A Bonds Interest Payments (3)	Series 2002A Bonds Total Debt Service	Total Senior Bonds Debt Service	Projected Debt Service Coverage on Senior Bonds	Outstanding Subordinated Bonds (2)	Total Senior and Subordinated Debt Service Requirements	Projected Total Debt Service Coverage
2002	$517,864,000	$46,167,868		$ 970,674	$ 970,674	$47,138,542	10.99	$36,491,654	$83,630,196	6.19
2003	533,168,000	31,356,202	$ 5,785,000	3,717,475	9,502,475	40,858,677	13.05	42,418,614	83,277,291	6.40
2004	567,102,000	60,078,077	280,000	3,543,925	3,823,925	63,902,002	8.87	22,593,976	86,495,978	6.56
2005	592,264,000	47,271,942	285,000	3,537,625	3,822,625	51,094,567	11.59	34,720,456	85,815,023	6.90
2006	620,310,000	44,122,512	295,000	3,529,788	3,824,788	47,947,299	12.94	38,420,116	86,367,415	7.18
2007	650,249,000	42,436,167	300,000	3,520,938	3,820,938	46,257,104	14.06	38,416,756	84,673,860	7.68
2008	679,304,000	42,439,457	310,000	3,510,738	3,820,738	46,260,194	14.68	38,415,300	84,675,494	8.02
2009	711,915,000	42,431,012	325,000	3,499,578	3,824,578	46,255,589	15.39	38,423,700	84,679,289	8.41
2010	745,343,000	23,711,249	335,000	3,487,228	3,822,228	27,533,476	27.07	57,143,950	84,677,426	8.80
2011	780,864,000	23,707,534	350,000	3,474,163	3,824,163	27,531,696	28.36	57,144,700	84,676,396	9.22
2012		36,648,224	360,000	3,460,163	3,820,163	40,468,386			40,468,386	
2013		29,026,379	8,000,000	3,445,313	11,445,313	40,471,691			40,471,691	
2014		29,030,637	8,420,000	3,025,313	11,445,313	40,475,949			40,475,949	
2015		14,961,613	8,860,000	2,583,263	11,443,263	26,404,875			26,404,875	
2016		14,964,900	9,325,000	2,118,113	11,443,113	26,408,013			26,408,013	
2017		14,962,738	9,815,000	1,628,550	11,443,550	26,406,288			26,406,288	
2018		14,963,813	10,330,000	1,113,263	11,443,263	26,407,076			26,407,076	
2019		14,961,288	10,875,000	570,938	11,445,938	26,407,225			26,407,225	
2020		15,508,588				15,508,588			15,508,588	

(1) From Department's projections for 2002 to 2011 described under "Projected Revenues" above.

(2) Actual debt service on the outstanding Senior and Subordinated Bonds is net of debt service represented by the Bonds Being Refunded. Does not reflect debt service requirements on up to $330 million of bonds the Board currently anticipates issuing under the Bond Resolutions in the future to fund the current Five Year Capital Program. The issuance of such bonds may result in a decrease in the projected debt service coverage figures shown. Such bonds may only be issued by the Board, however, subject to meeting certain requirements of the Act and the Bond Resolutions. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002A BONDS - Additional Bonds" for a further discussion of such requirements.

(3) Net of accrued interest of $268,434.31.

PROGRAM RESPONSIBILITY AND MANAGEMENT

Arizona Transportation Board

The Board consists of seven members, with two members appointed from Transportation District 1 (Maricopa County) and one member from each of the other transportation districts within the State. Each member of the Board is appointed by the Governor of the State, subject to confirmation by the State Senate, for a term of six years expiring on a staggered basis on the third Monday in January. The Board is responsible for: (i) issuing bonds for State highway purposes; (ii) establishing a complete system of State highway routes; (iii) determining which State highway routes or portions thereof will be accepted into the State highway system, and which will be improved; (iv) establishing, operating, relocating, altering, vacating or abandoning any portion of a State route or State highway; (v) determining priority program planning with respect to highway transportation facilities and monitoring the status of such programs; and (vi) distributing money appropriated from the State Aviation Fund for planning, design, development, acquisition of interests in land, and construction and improvement of publicly owned and operated airport facilities in the counties, cities and towns of the State.

The following sets forth information with respect to each member of the Board:

Name and Transportation District Represented	City of Residence	Term Expires January
Katie Dusenberry, Chair Transportation District 2 Pima County	Tucson	2003
Ingo Radicke, Vice Chair Transportation District 4 Gila, Graham and Pinal Counties	Globe	2004
Bill Jeffers, Member Transportation District 5 Navajo, Apache and Coconino Counties	Holbrook	2005
Dallas "Rusty" Gant, Member Transportation District 1 Maricopa County	Wickenburg	2006
Richard Hileman, Member Transportation District 6 Yavapai, Yuma, Mohave and La Paz Counties	Lake Havasu	2006
James W. Martin, Member Transportation District 3 Cochise, Greenlee and Santa Cruz Counties	Willcox	2007
Joe Lane, Member Transportation District 1 Maricopa County	Phoenix	2008

Arizona Department of Transportation

General.

The Department was established by the State Legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the State Department of Aeronautics (originally established in 1952). The Department's mission is to provide a safe and efficient transportation system together with the means of revenue collection and licensing for Arizona.

Responsibilities and Organization.

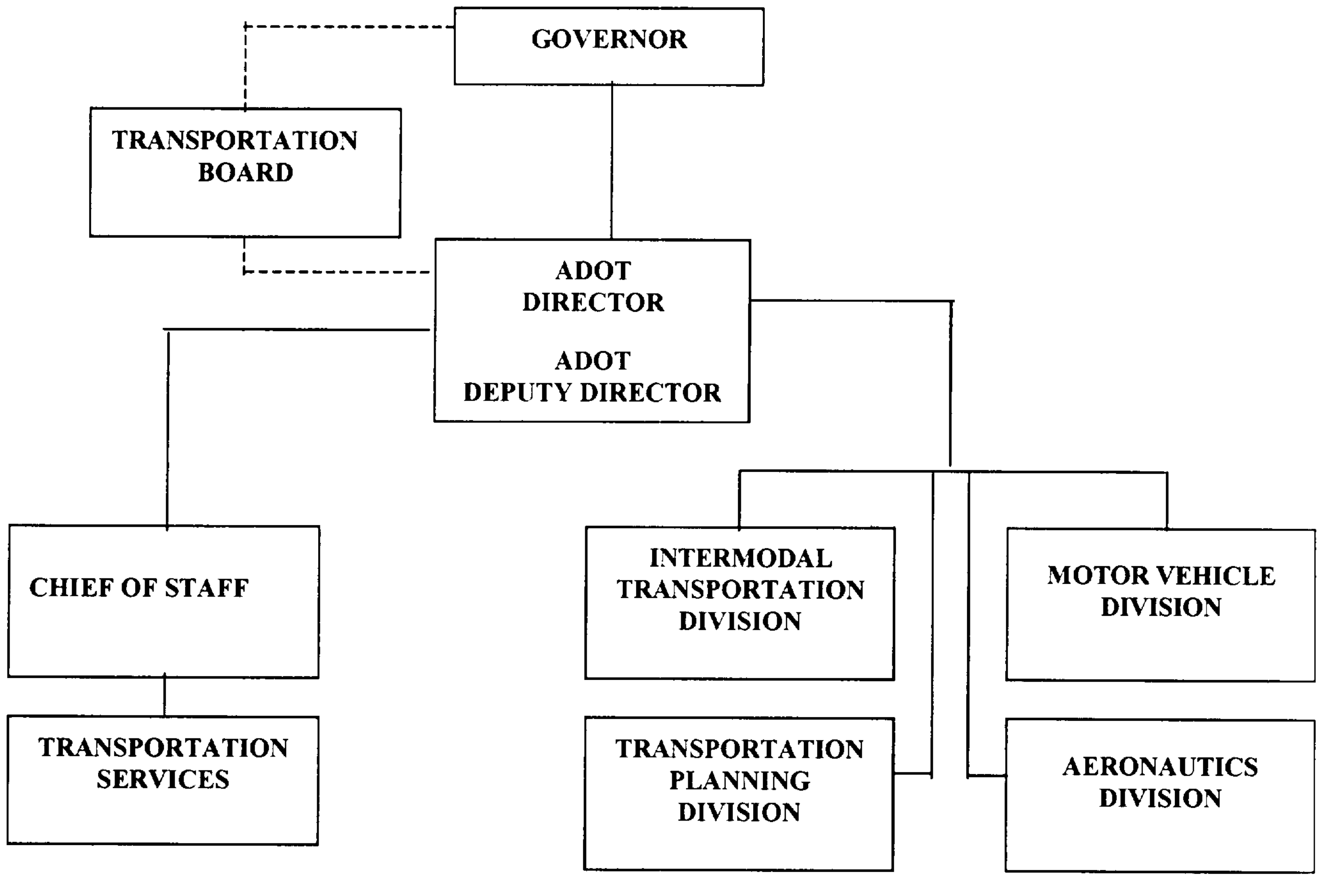
The Department administers the State highway system. The Department's responsibilities also include: (i) registration of motor vehicles and aircraft; (ii) transportation planning, coordination of transportation planning with local governments and annual development of a priority program of capital improvements for both highway and aviation transportation modes; (iii) design and construction of transportation facilities in accordance with a priority plan, and maintenance and operation of the State highway system; and (iv) research and evaluation of new transportation systems and cooperative efforts with and advice to local governments concerning the development and operation of public transit systems.

The Department's operating budget and capital outlay budget for buildings are reviewed by the Governor's office and funds for these purposes are appropriated by the State Legislature. The Department's capital outlay budget for the acquisition of land and the development, construction and improvement of the State highway system is approved by the Board. The recommended budgeting of funds for the Maricopa County Regional Freeway Plan is determined by the Department taking into consideration the priorities recommended by the Maricopa Association of Governments. The funds are allocated by the Board as part of the statewide Five Year Capital Program.

The Director of the Department serves as the Chief Administrative Officer of the Department. The Director is appointed by the Governor and confirmed by the Senate, and is directly responsible to the Governor. The Department has organized itself into three operating divisions plus a planning division: Intermodal Transportation Division, Motor Vehicle Division, Aeronautics Division and Transportation Planning Division. In addition, the Transportation Services Group under the direction of the Chief of Staff contains units for Financial Management, Information Systems, General Services, Human Resources, Community Relations, Affirmative Action, Audit and Analysis, Safety, Training and Arizona Highways Magazine. The Transportation Services Group supports the Department's operating and planning divisions.

The Department's table of organization and a brief description of each of the divisions is set forth below:

ARIZONA DEPARTMENT OF TRANSPORTATION



Intermodal Transportation Division. The Intermodal Transportation Division is the largest of the four divisions of the Department. The Intermodal Transportation Division is responsible for the management and maintenance of the existing State highway system and related facilities as well as the location, design and construction of new highways and facilities that are a part of the State highway system.

Motor Vehicle Division. The Motor Vehicle Division regulates motor vehicles in the State. The Motor Vehicle Division also collects motor vehicle fuel taxes, registration fees, motor carrier fees, motor vehicle operators' license fees and miscellaneous fees and revenues. The Motor Vehicle Division annually processes motor vehicle registrations and records, issues certificates of title for motor vehicles and processes drivers' license applications. The Motor Vehicle Division also operates 23 port-of-entry stations.

Transportation Planning Division. The Transportation Planning Division is responsible for the planning of the statewide transportation system including highways and airports. Its functions include traffic and travel studies and projections, five-year construction priority studies and coordination with local and regional transportation planning agencies. The Transportation Planning Division produces an annually updated Five Year Capital Program for the Board, from which the Board establishes the priorities for highway and airport projects within the State.

Aeronautics Division. The Aeronautics Division coordinates general aviation in the State. The Aeronautics Division also is responsible for registering and licensing all general aviation aircraft, conducting the Local Airports Grant Program and representing the State at air service hearings.

Staff of the Department.

Information concerning the primary administrative personnel of the Department is set forth below:

VICTOR MENDEZ
Director

Mr. Mendez was appointed Director of the Department on October 23, 2001. Prior to his appointment as Director, Mr. Mendez served as Deputy Director of the Department since September 1999. As Deputy Director, Mr. Mendez assisted the director on the implementation of policy and coordinated each division to achieve the goals of the organization. Mr. Mendez has been with the Department since 1985. Prior to serving as Deputy Director, he served as Deputy State Engineer in charge of the Valley Transportation Group, a position he held since 1997. Previous to that, Mr. Mendez was an Assistant State Engineer in charge of statewide project management.

Mr. Mendez is a registered professional civil engineer and holds a Master of Business Administration degree from Arizona State University and a Bachelor of Science (Civil Engineering) degree from the University of Texas at El Paso.

DEBRA BRISK
Deputy Director

Ms. Brisk was appointed the Deputy Director of the Department on February 18, 2002. Prior to her appointment as Deputy Director, Ms. Brisk served as the Kingman District Engineer of the Department since January 1997. As the District Engineer for the Kingman District, Ms. Brisk coordinated and managed predominately the northwestern area of Arizona for maintenance activities, construction programs and the implementation of policies and procedures, including implementing a pro-active public outreach for the Department with all stakeholders in that area of the state. Ms. Brisk has been with the Department since 1985. Prior to serving as the District Engineer, she served as a Senior Resident Engineer for the Kingman District and the Globe District, positions she held since 1994. Previous to that, Ms. Brisk was a Design Team Leader within the roadway design area of the Department.

Ms. Brisk is a registered professional civil engineer and holds a Master of Organization Management degree from the University of Phoenix, and a Bachelor of Science (Civil Engineering) degree from South Dakota State University.

EDWARD D. WRIGHT
State Engineer

Mr. Wright assumed the role of State Engineer in September 1999 after serving as Deputy Director of the Department since March 1998. Mr. Wright also served as the Acting State Engineer during this time. Mr. Wright began his career at the Department in 1960 and served in a variety of positions until 1985. For the next ten years he worked for a major contracting firm in Phoenix and later for a consulting engineering firm based in Los Angeles. When he returned to the Department in 1995, he served as District Engineer in Prescott and later as Deputy State Engineer over the Valley Transportation Group which oversees development of the Maricopa Freeway Program. In March 1997 he was named Deputy State Engineer for Operations, a post he held until his appointment as Deputy Director of the Department.

JOHN BOGERT
Chief of Staff

Mr. Bogert joined the Department in 1989 as chief auditor. Prior to joining the Department, Mr. Bogert was vice president of internal audit for Del Webb Corporation. His prior experience includes nine years with national and local public accounting firms and three years of teaching at Arizona State University and Fort Lewis College.

As Chief of Staff, Mr. Bogert oversees the Transportation Services Group which includes most of the Department's staff functions. In addition, Mr. Bogert assists the Director and Deputy Director in the day-to-day operations of the Department and is responsible for establishing administrative and program policy in support of the Department's strategic plan.

Mr. Bogert obtained a Bachelor of Business Administration degree in Accounting from Eastern New Mexico University and a master's degree in Accounting from Arizona State University, and is a Certified Public Accountant.

JOHN MCGEE
Chief Financial Officer

Mr. McGee was named Chief Financial Officer for the Department in May 1999. Prior to assuming this position, he served as Finance Manager for the Department since December 1988. As Chief Financial Officer for the Department, he has oversight responsibility for the financial management of the Board's capital program, as well as responsibility for management of the Board's bond financing programs and financial planning activities. Prior to joining the Department, he was employed for sixteen years in various financial and managerial positions with a major Phoenix-based development company. Mr. McGee holds a bachelor's degree from Brigham Young University and a master's degree in Business Administration from Arizona State University.

JOHN FINK
Finance Administrator

Mr. Fink joined the Department in October 2001. As Finance Administrator, he assists the Chief Financial Officer with management of the Board's bond financing programs and is responsible for management of the state infrastructure bank program. Prior to joining the Department, Mr. Fink managed the state infrastructure bank and bond financing programs for the Oregon Department of Transportation. Mr. Fink holds a Bachelor of Science degree in Chemical Engineering from the University of Michigan and a master's degree in Business Administration from Vanderbilt University.

MARY LYNN TISCHER
Division Director, Transportation Planning Division

Ms. Tischer was appointed as the Director of the Transportation Planning Division in September 1999. The Division is responsible for a broad range of transportation planning issues including priority programming, local government coordination, transportation safety and other related functions.

Prior to joining the Department, Ms. Tischer was the Director of the Office of System and Economic Assessment at the Volpe National Transportation Systems Center in Cambridge, Massachusetts since 1997. Prior to that, she worked for eight years as the Director of the Office of Policy Analysis, Evaluation and Intergovernmental Relations at the Virginia Department of Transportation. She has published numerous articles and papers, and has been appointed to the National Academy of Sciences.

Ms. Tischer holds a Doctorate in Political Science from the University of Maryland, a Master of Arts in Political Science from American University and a Bachelor of Arts degree from Rosemont College.

GARY ADAMS
Division Director, Aeronautics Division

Mr. Adams was appointed Director of the Aeronautics Division in September 1988. He previously served as Deputy Director of the Aeronautics Division since 1981 and has been employed within the Aeronautics Division since 1978. He is also an Adjunct Faculty member at Embry-Riddle Aeronautical University. Mr. Adams is a graduate of Arizona State University and received a master's degree in Public Administration from Golden Gate University.

Funding the Department

The Department has several major sources of revenue available for financing its capital program and day-to-day operations. The operating budget, which is appropriated by the State Legislature, is funded primarily by the Department's share of revenues deposited in the Arizona Highway User Revenue Fund. Included in the highway operating budget are maintenance, operation of the Motor Vehicle Division, general engineering activities, administrative functions and all other highway related operating expenses.

The Board's Five-Year Capital Program (the "Five-Year Capital Program") is funded from three primary sources: federal highway apportionments, highway user revenues, and the revenues generated by a one-half cent transportation excise (sales) tax levied in Maricopa County to construct urban freeways in the greater Phoenix metropolitan area. Debt financing supplements these three sources of revenues to ensure timely and cost effective accomplishment of the Five-Year Capital Program. The Five-Year Capital Program identifies the improvements to be made by the Department to the State Highway System during the next five fiscal years and contains detailed information about each project including location, description, estimated cost and timing. Improvements are scheduled based primarily upon project priority, funding availability and engineering and construction considerations.

The Five-Year Capital Program is updated annually by the Board in accordance with a statutorily defined and scheduled process designed to assure that the improvements to the State Highway System that are of highest priority to the State are made and funded in an orderly way, consistent with statutory guidelines and Board policies. Initially, a preliminary Five-Year Capital Program is developed by the Director of the Department based upon the Board's guidelines and input from transportation professionals at the state and local level, from state and local elected officials and from the general public. Also considered in determining the priority of the projects to be included in the Five-Year Capital Program are user benefits, public need, land use, safety, road conditions, continuity of improvements and availability of funds. Each update to the Five-Year Capital Program includes projects to be scheduled for the fifth year of the forthcoming five year period as well as modifications to the Program dictated by changing priorities, funding availability and other considerations. The Board adopts the revised Five-Year Capital Program on or before June 30 of each year following a series of public meetings throughout the State.

Summary of Revenues, Expenditures and Changes in Fund Balances

Set forth on the following pages is a table which summarizes certain information for the Department's last three fiscal years ended June 30, 2001, derived from its audited financial statements. The information for the fiscal year ended June 30, 2001, should be read in conjunction with the audited financial statements of the Department for the fiscal year ended June 30, 2001, and the notes therein included as Appendix A.

Arizona Department of Transportation
State Highway Fund
Summary of Revenues, Expenditures, and Changes in Fund Balances
Fiscal years ended June 30, 1999 through June 30, 2001

	1999	2000	2001
Revenues:			
Vehicle registration, title, license and related fees	$242,091,224	$245,943,047	$210,086,489
Fuel and motor carrier taxes and fees	297,803,534	275,661,282	300,354,146
Reimbursement of construction Expenditures – federal aid	354,209,698	372,411,938	360,869,634
Other federal grants and reimbursements	6,819,799	5,180,895	4,879,115
Reimbursements from Arizona counties, cities and other state agencies	2,094,452	3,111,760	2,900,099
State appropriations	868,443	179,690	255,991
Interest	10,992,565	12,284,145	13,844,679
Other	16,774,282	8,373,555	16,689,696
Total revenues	932,253,997	923,146,312	909,879,849
Expenditures:			
Current:			
Transportation – appropriated by State legislature:			
Administration	44,648,035	47,847,296	48,149,597
Highway	42,034,947	42,302,275	43,116,888
Highway Maintenance	79,304,434	83,397,548	89,400,095
Motor Vehicle Division	67,143,631	71,345,034	73,442,885
Other	1,388,360	654,856	1,021,429
Total Transportation – appropriated by State legislature	234,519,407	245,547,009	255,130,894
Transportation – not appropriated by State legislature	18,666,099	6,751,022	6,360,624
Capital Outlay:			
Highway construction	554,026,432	682,094,083	620,188,336
Land, buildings and improvements – appropriated by State legislature	11,441,954	10,956,144	5,418,193
Contracts and capital leases payable	282,248	2,577,187	909,714
Arizona Department of Public Safety Distributions – appropriated by State legislature	12,500,000	12,500,000	12,500,000
Year 2000 computer projects	6,527,900	-	-
Distribution to Arizona counties, cities and other state agencies	461,718	19,756	-
Interest on Loans Payable	-	-	3,052,152
Total Expenditures	838,425,758	960,445,201	903,559,913
Excess (deficiency) of revenues over (under) expenditures	93,828,239	(37,298,889)	6,319,936

Arizona Department of Transportation
State Highway Fund
Summary of Revenues, Expenditures, and Changes in Fund Balances
Fiscal years ended June 30, 1999 through June 30, 2001
(Continued)

	1999	2000	2001
Other financing sources (uses):			
Proceeds from contracts and capital leases payable	282,248	2,577,187	909,714
Operating transfers in	2,783,180	67,255,008	84,939,201
Operating transfers out:			
Debt service	(74,192,405)	(76,483,277)	(86,529,221)
Other	(39,142,086)	(61,195)	(20,007,142)
Total other financing (uses)	(110,269,063)	(6,712,277)	(20,687,448)
(Deficiency) of revenues and other financing sources (under) expenditures and other financing uses	(16,440,824)	(44,011,166)	(14,367,512)
Fund balances, July 1	302,562,068	286,381,008	242,369,800
Fund balances, June 30	**$286,121,244**	**$242,369,842**	**$228,002,288**

Source: Provided by the Arizona Department of Transportation, Financial Management Services, from audited financial statements of the Department.

Sunset Laws

In order to encourage systematic legislative review of State agencies and statutes, State law provides for automatic termination of State agencies and statutes pursuant to a statutory schedule unless the State Legislature takes affirmative action to continue the agencies' or statutes' existence. The Department and the Board are scheduled for termination on July 1, 2008, and Title 28, Arizona Revised Statutes, which contains most of the transportation laws of the State, including the provisions relating to the fees and taxes pertaining to the registration, operation and use of motor vehicles and motor vehicle fuel taxes, the Arizona Highway User Revenue Fund and the State Highway Fund, as well as traffic laws, is scheduled for termination on January 1, 2009. In addition, the Motor Vehicle Division of the Department is scheduled for termination on July 1, 2005 and the statutory provisions related to the Motor Vehicle Division are scheduled to terminate on January 1, 2006.

The termination statutes, commonly known as sunset laws, provide a system for automatic committee and legislative review of agencies and statutes prior to their termination. Since the enactment of the sunset laws, the Department's authority and the provisions relating to the fees and taxes pertaining to the registration, operation and use of motor vehicles and motor vehicle fuel taxes have been reviewed twice and the existence of each was continued. While it is impossible at this time to predict what action, if any, the State Legislature will take, the Department is not aware of any factual matter which would cause the State Legislature to discontinue the existence of the Department or the Board or to discontinue the effects of or to amend Title 28 in such a manner as to be detrimental to the Bondholders on or prior to their respective termination dates.

To protect holders of the outstanding Senior Bonds and Subordinated Bonds, including the Series 2002A Bonds, the Arizona statutes provide that if the Act is repealed pursuant to the sunset laws, so long as there are any debts or other obligations payable from the Arizona Highway User Revenue Fund and provision has not been made for payment of those debts or obligations, the provisions of the Act regarding the Arizona Highway User Revenue Fund, the pledge of revenues from that fund and the liens on that fund to pay the debts or other obligations remain in full force and effect until the debts or other obligations have been fully paid and satisfied (or provision is made therefor). In the opinion of Bond Counsel, in the event that the State Legislature fails to take affirmative action to continue the existence of the Department and the Board or the Act, on or prior to their respective termination dates, the State would be obligated to assume and make payments on the Series 2002A Bonds from Pledged Revenues under the terms and conditions for payment contained in the Senior Bond Resolution.

LITIGATION

There is no litigation or administrative action pending in any court or, to the best knowledge of the Department and the Board, threatened, which would restrain or enjoin the issuance, sale or delivery of the Series 2002A Bonds or in any way contest or affect the validity of the Series 2002A Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Series 2002A Bonds or the levy, pledge or application of Pledged Revenues, or the pledge and application of any funds provided for their payment, or which contests the powers of the State, including the Department and the Board, with respect to the foregoing.

On August 5, 1999, in *Hurley Trucking Co., Inc. v. State*, the Tax Court of the State, overturning an order by a Department Administrative Law Judge, ruled in favor of a refund claim for motor vehicle use fuel (diesel) taxes and motor carrier taxes (based on vehicle weight and mileage) paid to the State (the "Disputed Revenues"). Several trucking companies have additionally filed refund claims. The claimants assert that the applicable statutes at the time did not permit the State to collect Disputed Revenues for certain tax years prior to 1997 relating to travel on state maintained roads crossing federal lands. The Arizona Legislature subsequently clarified the statutes in 1997. On appeal, the Arizona Court of Appeals on January 29, 2002, reversed the Tax Court judgment and remanded the case with directions to affirm the Administrative Law Judge's order. The plaintiff has petitioned the Arizona Supreme Court to review the decision of the appellate court. The Department disputes the claimants' interpretation of the applicable statutes and intends to continue a vigorous defense. However, if the plaintiff in the *Hurley* case were to prevail, the maximum potential amount of the claim is difficult to predict with certainty because the amount of each claim would vary based on the nature of the actual roads used and mileage of each claimant. If the plaintiff were to prevail on both counts and all existing claimants were to receive a lump sum payment in a single fiscal year, the Department does not believe that the maximum potential payment from the Arizona Highway User Revenue Fund would reduce the amount of Pledged Revenues by more than ten percent (10%) for the single fiscal year in which such payment were made.

The Office of the Attorney General of the State has reviewed the status of pending lawsuits affecting the State and the Department in connection with their operations, including the *Hurley* case described above, and has reported that there are several proceedings in which the Department is either a plaintiff or defendant and which are generally incidental to the operations of the Department. The ultimate disposition of such pending legal proceedings cannot be predicted or determined at present. With regard to such pending litigation, it is the opinion of the Office of the Attorney General of the State that such pending litigation will not be finally determined so as to result, individually or in the aggregate, in a final judgment against the State or the Department which would materially and adversely affect the Department, its ability to pay debt service on the Senior Bonds and Subordinated Bonds, its continued operations or its financial position.

LEGAL INVESTMENT

To the extent governed by Arizona law, the Act provides that the Series 2002A Bonds are securities in which all public officers and bodies of the State and all municipalities and political subdivisions of the State, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries and all other persons authorized to invest in bonds or other obligations of the State, may properly and legally invest money, including capital in their control or belonging to them. The Series 2002A Bonds are also securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and political subdivisions of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

TAX EXEMPTION

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) interest on the Series 2002A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations, and (ii) such interest is exempt from Arizona state income tax. Bond Counsel will express no opinion as to any other tax consequences regarding the Series 2002A Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications as to facts, circumstances, estimates and expectations and compliance with certain covenants of the Board and the Department to be contained in the supplemental resolution for the Series 2002A Bonds and the transcript of proceedings and which are intended to evidence and assure the foregoing, including that the Series 2002A Bonds are and will remain obligations, the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the Board and the Department.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the issuer to the federal government, require future or continued compliance after issuance of the obligations in order for the interest to be and to remain to be so excluded from the date of issuance. Noncompliance with these requirements could cause the interest on the Series 2002A Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to the date of their issuance. The Board has covenanted to take all such actions that may be required of it for the interest on the Series 2002A Bonds to be and to remain excluded from gross income for federal income tax purposes and not to take any actions that would adversely affect that exclusion.

Under Code provisions applicable only to corporations (as defined for federal income tax purposes), a portion of the excess of adjusted current earnings (which includes interest on all tax-exempt bonds, including interest on the Series 2002A Bonds) over other alternative minimum taxable income is included in alternative minimum taxable income which may be subject to a corporate alternative minimum tax. In addition, the interest on the Series 2002A Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes can have certain adverse federal income tax consequences on items of income, deductions or credits for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations and individuals otherwise eligible for the earned income credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2002A Bonds. Bond Counsel expresses no opinion regarding those consequences.

Original Issue Discount/Original Issue Premium

The Series 2002A Bonds maturing in 2004 through and including 2012 are being offered and sold to the public at an original issue discount ("OID") ("Discount Bonds"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of such Discount Bonds. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant interest rate method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of the Discount Bond (i) is interest excludable from that purchaser's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as to other interest on the Series 2002A Bonds, and (ii) is added to that owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that

Discount Bond. A purchaser of a Discount Bond at its issue price in the initial public offering who holds such Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

The Series 2002A Bonds maturing in 2003 and 2013 through and including 2019 are being offered and sold to the public at an issue price in excess of their stated redemption price (the principal amount) at maturity ("Premium Bonds"). This excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond, compounded semiannually. No portion of such bond premium is deductible by an owner of Premium Bonds. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in a Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes upon the sale of a Premium Bond for an amount equal to or less than the amount paid by that owner for the Premium Bond. A purchaser of a Premium Bond at its issue price in the initial public offering who holds such Premium Bond to maturity will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount Bonds or Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of the OID or amortizable bond premium properly accruable in any period with respect to the Discount Bonds or Premium Bonds and as to other federal tax consequences and the treatment of the OID or amortizable bond premium for state and local tax purposes.

INDEPENDENT AUDITORS

The general purpose financial statements of the Department as of and for the year ended June 30, 2001 included in this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein. The auditors' report in Appendix A refers to certain schedules (combining, individual fund, and account group financial statements and statistical data) all of which are not included in this document.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the Board and the Department will execute a written Continuing Disclosure Undertaking, dated as of March 1, 2002 (the "Disclosure Undertaking"), substantially in the form set forth as Appendix C, wherein the Board and the Department will agree, for the benefit of the beneficial owners of the Series 2002A Bonds, to provide, or cause to be provided, certain annual financial information and operating data generally consistent with the information contained under the heading "REVENUES AND DEBT SERVICE COVERAGE – Historical Revenues" herein, and notice of the occurrence of certain events or failures to take certain required actions with respect to the Series 2002A Bonds.

The Board and the Department may from time to time choose to provide notice of the occurrence of other events, in addition to those required in the Disclosure Undertaking, but the Board and the Department do not undertake to commit to provide any notice of the occurrence of any event except those events listed in the Disclosure Undertaking, if material.

The obligations of the Board and the Department described in the Disclosure Undertaking will remain in effect until the Series 2002A Bonds are no longer outstanding (within the meaning of the Senior Bond Resolution) or the Rule no longer applies to the Series 2002A Bonds. The Disclosure Undertaking may be amended or waived upon receipt by the Board and the Department of an opinion of independent counsel to the effect that the amendment or waiver would not, in and of itself, cause the Disclosure Undertaking to violate the Rule.

A beneficial owner of a Series 2002A Bond may seek to enforce the undertakings of the Board and the Department in the Disclosure Undertaking by an action for specific performance in any court of competent jurisdiction after providing the Board and the Department with 30 days prior written notice of its failure to perform. Any failure of the Board or the Department to comply with any of its obligations in the Disclosure Undertaking shall not be a default or Event of Default with respect to the Series 2002A Bonds under the Senior Bond Resolution.

Continuing disclosure undertakings previously entered into by the Board and the Department called for the filing of certain annual financial information related to debt obligations of the Board by February 1, 2000. The Board and the Department filed the required information on April 20, 2000. Further, the Board and the Department filed notice of an upgrade in the credit rating of certain of its debt obligations approximately twelve months after such upgrade became effective. The Board and the Department are otherwise in material compliance with each and every disclosure undertaking into which they have entered pursuant to the Rule.

RATINGS

The Series 2002A Bonds have been rated "AAA" and "Aa1", respectively, by Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc., and Moody's Investors Service. Such ratings reflect only the views of the rating organizations, and any explanation of the meaning or significance of the ratings may only be obtained from the rating agency. The Board and the Department furnished to the rating agencies certain information and materials, some of which have not have been included in this Official Statement, relating to the Series 2002A Bonds and the Board and the Department. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by a rating agency if in their judgment circumstances so warrant. Any lowering or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series 2002A Bonds.

The Board and the Department expect to furnish each rating agency with information and materials that it may request. The Board and the Department, however, assume no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of the debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Series 2002A Bonds.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 2002A Bonds and with regard to the exclusion of interest from gross income for Federal income tax purposes (see "TAX EXEMPTION") are subject to the legal opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, whose legal services have been retained by the Board. The signed legal opinion, dated and premised on law in effect as of the date of original delivery of the Series 2002A Bonds, will be delivered to the Board at the time of original delivery. The text of that opinion will be printed on the Series 2002A Bonds.

The proposed text of the legal opinion of Bond Counsel is set forth as Appendix B. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date.

In its capacity as Bond Counsel, Bond Counsel has participated in the preparation of, and has reviewed those portions of, this Official Statement pertaining to the Series 2002A Bonds, the Senior Bond Resolution, the Subordinated Bond Resolution and the tax-exempt status of interest on the Series 2002A Bonds (except for outstanding amounts of Senior Bonds and Subordinated Bonds), contained under the captions "INTRODUCTION", "THE SERIES 2002A BONDS", "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2002A BONDS", SOURCES AND APPLICATION OF PLEDGED REVENUES" (excluding "—Recent Legislation," "—Proposed Legislation" and financial data), "LEGAL INVESTMENT", "TAX EXEMPTION", "CONTINUING DISCLOSURE UNDERTAKING" (excluding the last paragraph thereunder), "APPENDIX B – PROPOSED FORM OF BOND COUNSEL OPINION" and "APPENDIX C – FORM OF CONTINUING DISCLOSURE UNDERTAKING" herein. Bond Counsel has not been retained to pass upon, and will not express any opinion upon, any other information in this Official Statement or any other information pertaining to the Series 2002A Bonds or the Board or the Department that may be made available to the prospective purchasers of the Series 2002A Bonds or to others.

In addition to rendering the legal opinion, Bond Counsel will assist in the preparation of and advise the Board concerning documents for the bond transcript. Certain legal matters will be passed upon for the Underwriters by their counsel, Snell & Wilmer L.L.P.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2002A Bonds from the Board at a price of $77,332,267.10 plus accrued interest. Based upon the initial offering yields of the Series 2002A Bonds as shown on the inside cover hereof, the Underwriters will receive compensation of $295,835. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2002A Bonds to dealers (including dealers depositing the Series 2002A Bonds into investment trusts) and others at prices lower than such initial public offering prices. The Underwriters will be obligated to purchase all of the Series 2002A Bonds if any are purchased.

MISCELLANEOUS

The Department and the Board have furnished the information in this Official Statement relating to the Department, the Board, the Arizona Highway User Revenue Fund and the State Highway Fund.

Copies of the Senior Bond Resolution and the Subordinated Bond Resolution discussed herein may be obtained from the Department's Chief Financial Officer, located at 206 South 17th Avenue, Phoenix, Arizona 85007 (telephone: 602-712-7441). All communications concerning this offering should be directed to Mr. John McGee, Chief Financial Officer.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such opinions or the like will be realized. The agreements of the Board and the State are fully set forth in the Senior Bond Resolution in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the Board, the Department or the State, and the purchasers or Owners of any of the Series 2002A Bonds.

This Official Statement is submitted in connection with the sale of the Series 2002A Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the Board and the Department and duly executed and delivered on their behalf by the officials signing below.

ARIZONA TRANSPORTATION BOARD

/s/ Katie Dusenberry
Katie Dusenberry, Chair

ARIZONA DEPARTMENT OF TRANSPORTATION

/s/ Victor M. Mendez
Victor M. Mendez, Director

APPENDIX A

ARIZONA DEPARTMENT OF TRANSPORTATION
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001
WITH REPORT OF INDEPENDENT AUDITORS

(THIS PAGE INTENTIONALLY LEFT BLANK)

Deloitte & Touche LLP
Suite 1200
2901 North Central Avenue
Phoenix, Arizona 85012-2799

Tel: (602) 234-5100
Fax: (602) 234-5186
www.us.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

The Director and Members of the
Transportation Board of the Arizona Department of Transportation

We have audited the accompanying financial statements of Arizona Department of Transportation (the "Department") as of June 30, 2001, and for the year then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Department. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 to the financial statements, the financial statements of the Department are intended to present the financial position and results of its operations and the cash flows of proprietary fund types of only that portion of the funds and account groups of the State of Arizona that is attributable to the transactions of the Department.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Department as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Department. These financial statements and schedules are also the responsibility of the management of the Department. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

The statistical data is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Department. Such additional information has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, a report has been issued on consideration of the State of Arizona's internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts, and grants for which ADOT is a department. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 3, 2001

Deloitte
Touche
Tohmatsu

Arizona Department of Transportation
Combined Balance Sheet - All Fund Types and Account Groups
June 30, 2001
(With comparative totals at June 30, 2000)

	Governmental Fund Types			Proprietary Fund Type
	Special Revenue	Debt Service	Capital Projects	Enterprise
Assets:				
Cash and cash equivalents on deposit with the State Treasurer:				
Restricted (Note 4)	$ 81,830,804	$ -	$ -	$ -
Unrestricted	341,404,745	18,275,447	270,552,513	2,396,073
Receivables:				
Subscriptions (net of allowance for uncoll	-	-	-	474,595
Notes and loans (Note 5)	46,642,263	-	-	-
Accrued interest	3,182,819	1,812,454	1,706,946	5,750
Taxes and fees	-	-	-	-
Other	19,203,397	793	-	45,672
Due from U.S. Government for reimbursable construction costs	56,729,799	-	-	-
Due from other Arizona Department of Transportation funds (Note 6)	76,908,684	-	-	-
Due from Arizona counties, cities and other state agencies	22,770,802	-	-	-
Inventories	4,090,591	-	-	2,924,776
Prepaid items	-	-	-	721,810
Advances to other Arizona Department of Transportation funds (Note 6)	20,000,000	-	-	-
Fixed assets - net of accumulated depreciation (Note 7)	-	-	-	1,755,773
Other debits:				
Amount available in debt service funds for retirement of general long-term debt	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
Total assets and other debits	**$ 672,763,904**	**$ 20,088,694**	**$ 272,259,459**	**$ 8,324,449**

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

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
Internal Service	Agency	General Fixed Assets	General Long-Term Debt	2001	2000
-	$ 3,416,319	$ -	$ -	$ 85,247,123	$ 97,602,207
5,439,547	104,812,670	-	-	742,880,995	559,297,868
-	-	-	-	474,595	358,776
-	-	-	-	46,642,263	71,475,088
54,976	459,966	-	-	7,222,911	8,744,396
-	71,335,049	-	-	71,335,049	149,085,188
49,905	277,293	-	-	19,577,060	12,557,832
-	-	-	-	56,729,799	39,617,335
265,644	15,344,752	-	-	92,519,080	129,600,202
533,673	90,120	-	-	23,394,595	21,416,747
2,449,028	-	-	-	9,464,395	9,082,012
-	-	-	-	721,810	668,778
-	-	-	-	20,000,000	20,000,000
44,211,338	-	224,593,943	-	270,561,054	242,707,393
-	-	-	20,088,694	20,088,694	19,345,409
-	-	-	1,562,386,909	1,562,386,909	1,328,453,809
53,004,111	$ 195,736,169	$ 224,593,943	$ 1,582,475,603	$ 3,029,246,332	$ 2,694,082,988

(Continued)

Arizona Department of Transportation
Combined Balance Sheet - All Fund Types and Account Groups
June 30, 2001
(With comparative totals at June 30, 2000)

	Governmental Fund Types			Proprietary Fund Type
	Special Revenue	**Debt Service**	**Capital Projects**	**Enterprise**
Liabilities, equity and other credits				
Liabilities:				
Contracts and retainage payable	$ 70,696,574	$ -	$ 20,767,742	$ -
Accounts payable	8,597,052	-	601,104	127,527
Accrued payroll and other accrued expenditures/expenses	5,579,160	-	-	183,525
Due to other Arizona Department of Transportation funds (Note 6)	685,245	-	-	75
Due to Arizona counties, cities and other state agencies	101,348,198	-	-	-
Deferred revenue	-	-	-	4,420,885
Surety and rental deposits	-	-	-	-
Federal arbitrage rebate	-	-	-	-
Advances from other Arizona Department of Transportation funds (Note 6)	20,000,000	-	-	-
Notes payable (Note 9)	40,190,611	-	-	-
Bonds payable (Note 9)	-	-	-	-
Capital leases payable (Note 9)	-	-	-	-
Long-term accrued vacation leave (Note 9)	-	-	-	-
Total liabilities	247,096,840	-	21,368,846	4,732,012
Equity and other credits:				
Contributed capital	-	-	-	1,038,698
Investment in general fixed assets	-	-	-	-
Retained earnings:				
Reserved for replacement of equipment	-	-	-	-
Unreserved	-	-	-	2,553,739
Fund balances:				
Reserved for:				
Highway construction	172,260,918	20,088,694	250,890,613	-
Repayment of advance	20,000,000	-	-	-
Inventories	4,090,591	-	-	-
Loans and other financial assistance	80,790,551	-	-	-
Unreserved, undesignated	148,525,004	-	-	-
Total equity and other credits	425,667,064	20,088,694	250,890,613	3,592,437
Total liabilities, equity and other cred	**$ 672,763,904**	**$ 20,088,694**	**$ 272,259,459**	**$ 8,324,449**

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

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
Internal Service	Agency	General Fixed Assets	General Long-Term Debt	2001	2000
-	$ -	$ -	$ -	$ 91,464,316	$ 40,360,359
197,427	1,780,678	-	-	11,303,788	37,862,184
783,946	-	-	-	6,546,631	6,631,922
485	91,833,275	-	-	92,519,080	129,600,202
6,549	100,083,742	-	-	201,438,489	247,235,293
-	-	-	-	4,420,885	4,484,216
-	2,038,474	-	-	2,038,474	2,056,717
-	-	-	-	-	1,512,260
-	-	-	-	20,000,000	20,000,000
7,482,690	-	-	-	47,673,301	68,362,765
-	-	-	1,572,161,784	1,572,161,784	1,337,108,423
-	-	-	1,370,161	1,370,161	2,065,773
-	-	-	8,943,658	8,943,658	8,625,022
8,471,097	195,736,169	-	1,582,475,603	2,059,880,567	1,905,905,094
6,322,179	-	-	-	7,360,877	7,331,935
-	-	224,593,943	-	224,593,943	194,956,023
-	-	-	-	-	9,985,210
38,210,835	-	-	-	40,764,574	30,339,291
-	-	-	-	443,240,225	312,300,184
-	-	-	-	20,000,000	20,000,000
-	-	-	-	4,090,591	3,961,476
-	-	-	-	80,790,551	55,508,591
-	-	-	-	148,525,004	153,795,142
44,533,014	-	224,593,943	-	969,365,765	788,177,894
53,004,111	**$ 195,736,169**	**$ 224,593,943**	**$ 1,582,475,603**	**$ 3,029,246,332**	**$ 2,694,082,988**

Arizona Department of Transportation
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Governmental Fund Types			Totals (Memorandum Only)	
	Special Revenue	Debt Service	Capital Projects	2001	2000
Revenues:					
Transportation excise taxes	$ 264,722,440	$ -	$ -	$ 264,722,440	$ 248,595,990
Vehicle registration, title, license and related fees	219,745,920	-	-	219,745,920	255,087,892
Fuel and motor carrier taxes and fees	300,749,961	-	-	300,749,961	276,188,840
Reimbursements of construction expenditures - Federal aid	421,577,938	-	-	421,577,938	402,266,192
Other federal grants and reimbursements	6,711,805	-	-	6,711,805	11,748,776
State [illegible]	-	-	-	-	396,600
Reimbursements from Arizona counties, cities and other state agencies	16,894,425	-	-	16,894,425	18,608,709
State appropriations	255,991	-	-	255,991	179,690
Interest on loans receivable	92,913	-	-	92,913	1,591,725
Interest	27,242,634	8,478,825	8,833,990	44,555,449	39,942,195
Other	27,692,530	793	-	27,693,323	18,011,577
Total revenues	1,285,686,557	8,479,618	8,833,990	1,303,000,165	1,272,618,116
Expenditures:					
Current:					
[illegible] - appropriated by State legislature	260,699,265	-	-	260,699,265	250,508,766
[illegible] - not appropriated by State legislature	6,597,216	-	-	6,597,216	6,820,619
Capital outlay:					
Highway construction	789,270,170	-	219,319,580	1,008,589,750	941,913,498
Land, buildings and improvements - appropriated by State legislature	5,418,193	-	-	5,418,193	10,956,144
Contracts and capital leases payable	909,714	-	-	909,714	2,577,187
Arizona Department of Public Safety distributions - appropriated by State legislature	12,500,000	-	-	12,500,000	12,500,000
Debt service:					
Principal	-	208,920,000	-	208,920,000	175,075,000
Interest	-	78,501,394	-	78,501,394	76,603,575
Bond issuance costs	-	-	-	-	308,200
Federal [illegible]	-	-	-	-	155,863
Distributions to Arizona counties, cities and other state agencies	24,352,489	-	-	24,352,489	30,070,861
Interest on loans payable	5,509,064	-	-	5,509,064	1,679,790
Other	-	116,582	-	116,582	172,834
Total expenditures	1,105,256,111	287,537,976	219,319,580	1,612,113,667	1,509,342,337
Excess <deficiency> of revenues over <under> expenditures	180,430,446	<279,058,358>	<210,485,590>	<309,113,502>	<236,724,221>
Other financing sources <uses>:					
Proceeds from sale of bonds	-	-	454,380,594	454,380,594	250,499,349
Proceeds from refunding bonds	-	-	-	-	26,172,174
Payment to refunded bond escrow agent	-	-	-	-	<25,115,000>
Proceeds from contracts and capital leases payable	909,714	-	-	909,714	2,577,187
Operating transfers in	107,067,394	280,692,617	-	387,760,011	294,626,329
Operating transfers out					
Debt service	<280,692,617>	-	-	<280,692,617>	<227,118,977>
Other	<65,179,076>	<890,974>	<40,997,344>	<107,067,394>	<67,507,352>
Total other financing sources <uses>	<237,894,585>	279,801,643	413,383,250	455,290,308	254,133,710
Excess <deficiency> of revenues and other financing sources over <under> expenditures and other financing uses	<57,464,139>	743,285	202,897,660	146,176,806	17,409,489
Fund balances, July 1	483,881,203	19,345,409	47,992,953	551,219,565	534,560,076
Residual equity transfers	<750,000>	-	-	<750,000>	<750,000>
Fund balances, June 30	**$ 425,667,064**	**$ 20,088,694**	**$ 250,890,613**	**$ 696,646,371**	**$ 551,219,565**

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

Exhibit 3

Arizona Department of Transportation
Combined Statement of Revenues and Expenditures - Budget and Actual (Budget Basis)
Budgeted Special Revenue Funds
For the fiscal year ended June 30, 2001

	Special Revenue Funds		
	Budget	**Actual Non-GAAP**	**Variance - Favorable <Unfavorable>**
Revenues:			
Vehicle registration, title, license and related fees	$ 254,869,500	$ 239,404,114	$ <15,465,386>
Fuel and motor carrier taxes and fees	292,012,000	291,674,063	<337,937>
Interest	1,824,000	1,385,078	<438,922>
Flight property taxes	7,472,000	6,693,590	<778,410>
Grand Canyon National Park Airport	664,000	1,880,755	1,216,755
Other	10,000	120,936	110,936
Total revenues	556,851,500	541,158,536	<15,692,964>
Expenditures appropriated by State legislature in FY 2001 budget:			
Transportation:			
Administration	48,775,600	47,834,431	941,169
Highway	43,855,400	43,227,766	627,634
Highway Maintenance	91,877,779	89,425,237	2,452,542
Motor Vehicle Division	79,845,300	76,296,928	3,548,372
Aeronautics Division	1,741,500	1,501,823	239,677
Air Quality Program	46,400	46,400	-
Public Transit Program	36,832,200	36,829,643	2,557
Total transportation	302,974,179	295,162,228	7,811,951
Capital outlay - land, buildings and improvements:			
Highway	17,866,411	5,418,193	12,448,218
Arizona Department of Public Safety transfers	12,500,000	12,500,000	-
Expenditures appropriated by State legislature by carryover of previous years' unexpended budgets	1,435,828	723,995	711,833
Total expenditures	334,776,418	313,804,416	20,972,002
Excess of revenues over expenditures	**$ 222,075,082**	**$ 227,354,120**	**$ 5,279,038**

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

Arizona Department of Transportation
Combined Statement of Revenues, Expenses and Changes in Retained Earnings
All Proprietary Fund Types
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	**Internal Service**	**2001**	**2000**
Operating revenues:				
Equipment rentals	$ -	$ 26,312,583	$ 26,312,583	$ 26,104,08
Equipment sales	-	111,405	111,405	504,74
Magazine sales	6,105,620	-	6,105,620	6,223,93
Sales of related products	4,101,576	-	4,101,576	4,489,02
Inter-agency	-	2,893,457	2,893,457	3,504,23
Other	371,875	1,400,518	1,772,393	596,40
Total operating revenues	10,579,071	30,717,963	41,297,034	41,422,42
Operating expenses:				
Equipment operations	-	22,573,790	22,573,790	22,548,00
Cost of sales	9,551,682	-	9,551,682	10,177,57
General and administrative	1,212,552	-	1,212,552	1,253,53
Depreciation	313,615	7,161,742	7,475,357	8,465,91
Total operating expenses	11,077,849	29,735,532	40,813,381	42,445,02
Operating income <loss>	<498,778>	982,431	483,653	<1,022,59
Non-operating revenues <expenses>:				
Interest	151,891	305,467	457,358	395,84
Loss on sale/disposal of fixed assets	<938>	-	<938>	<68,95
Legislative transfer out	-	<500,000>	<500,000>	
Total non-operating revenues <expenses>	150,953	<194,533>	<43,580>	326,88
Net income <loss>	<347,825>	787,898	440,073	<695,70
Retained earnings, July 1	2,901,564	37,422,937	40,324,501	41,020,21
Retained earnings, June 30	**$ 2,553,739**	**$ 38,210,835**	**$ 40,764,574**	**$ 40,324,50**

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

Exhibit 5

Arizona Department of Transportation
Combined Statement of Cash Flows
All Proprietary Fund Types
For the fiscal year ended June 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	**Internal Service**	**2001**	**2000**
Cash flows from operating activities:				
Operating income <loss>	$ <498,778>	$ 982,431	$ 483,653	$ <1,022,596>
Adjustments to reconcile operating income <loss> to net cash provided by <used for> operating activities:				
Depreciation	313,615	7,161,742	7,475,357	8,465,913
Changes in assets and liabilities:				
Accounts receivables	<85,601>	186,880	101,279	22,882
Due from other Arizona Department of Transportation funds	-	<197,528>	<197,528>	1,707,231
Due from other state agencies	-	<533,673>	<533,673>	20,254
Inventories	<138,646>	<114,622>	<253,268>	255,496
Prepaid expenses	<53,032>	-	<53,032>	<62,487>
Accounts payable	<36,129>	197,427	161,298	<639,742>
Accrued payroll and other accrued expenses	2,258	56,854	59,112	<238,382>
Due to other Arizona Department of Transportation funds	75	485	560	<1,808>
Due to other state agencies	-	6,549		
Deferred revenue	<63,331>	-	<63,331>	226,605
Net cash provided by <used for> operating activities	<559,569>	7,746,545	7,180,427	8,715,913
Cash flows from capital and related financing activities:				
Acquisition of fixed assets	<5,238>	<8,842,418>	<8,847,656>	<10,050,449>
Proceeds from sale of fixed assets	-	1,108,231	1,108,231	1,035,668
Reduction of contributed capital	<500,000>	-	<500,000>	-
Increase of contributed capital	-	528,942	528,942	-
Legislative transfer out	-	<500,000>	<500,000>	-
Net cash used for capital and related financing activities	<505,238>	<7,705,245>	<8,210,483>	<9,014,781>
Cash flows from investing activities:				
Earnings on investments	151,891	305,467	457,358	413,293
Net cash provided by investing activities	151,891	305,467	457,358	413,293
Net increase <decrease> in cash and cash equivalents	<912,916>	346,767	<566,149>	114,425
Cash and cash equivalents, July 1	3,308,989	5,092,780	8,401,769	8,287,344
Cash and cash equivalents, June 30	**$ 2,396,073**	**$ 5,439,547**	**$ 7,835,620**	**$ 8,401,769**

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

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 of the State of Arizona Department of Transportation (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 Department is responsible for the construction and maintenance of all State highways. The Department cooperates with the various cities and counties within the State in the construction and maintenance of State roads and with the Federal Highway Administration in the construction and maintenance of interstate highways. Assistance in the development of local airports, registering motor vehicles and aircraft, licensing drivers and the publishing of the *Arizona Highways Magazine* are also responsibilities of the Department.

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 general purpose financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The more significant of the Department's accounting policies are described below.

Fund accounting

The accounts of the Department 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 equity, revenues, and expenditures or expenses, as appropriate. 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 funds of the Department are grouped, in the financial statements, into six fund types and two account groups within four categories as follows:

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the Department's expendable financial resources and the related current liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds (special revenue, debt service, and capital projects). All governmental funds are accounted for using a current financial resources measurement focus.

Governmental funds are, in essence, accounting segregations of financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "Fund Balance."

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds - Special revenue funds, excluding the State Highway Fund, are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State Highway Fund is used to account for all financial transactions applicable to the general operations of the Department, including road and bridge repairs, maintenance and construction, planning and development, engineering, and administration. Revenues are received from the following primary sources: fuel and motor carrier taxes and fees; vehicle registration, title, licenses and related fees; and Federal grants. Other special revenue funds of the Department include the State Aviation Fund, Safety Enforcement and Transportation Infrastructure Fund, Motor Vehicle Liability Insurance Enforcement Fund, Vehicle Inspection and Title Enforcement Fund, Grant Anticipation Notes Fund, Highway Expansion and Extension Loan Program Fund, Local Agency Deposits Fund, Maricopa Regional Area Road Construction Fund, and Motor Carrier Safety Revolving Fund,.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Debt service funds include the Highway Revenue Bond Principal Redemption and Interest Fund which accounts for the State of Arizona highway revenue bonds, the Maricopa Regional Area Road Bond Fund which accounts for the State of Arizona transportation excise tax revenue bonds, and the Grant Anticipation Notes Bond Fund which accounts for revenues received from the Federal Highway Administration.

Capital Projects Funds – The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The capital projects funds of the Department are the Highway Revenue Bond Proceeds Fund, which accounts for transactions related to the issuance and use of the proceeds from Arizona Transportation Board Highway Revenue Bonds, the Maricopa Regional Area Road Bond Proceeds Fund, which accounts for the issuance and use of the proceeds from the State of Arizona Transportation Excise Tax Revenue Bonds, and the Grant Anticipation Notes Bond Proceeds Fund, which accounts for issuance and use of the proceeds from the State of Arizona Grant Anticipation Notes.

PROPRIETARY FUNDS

Proprietary funds are used to account for the Department's on-going organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the Department's business and quasi-business activities, where net income and capital maintenance are measured, are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position and cash flows.

Enterprise Fund - An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Department is that the costs (including depreciation) of providing goods and/or services to the general public on a continuing basis be financed from sales or other revenues. The only enterprise fund of the Department is the Arizona Highways Magazine Fund. The fund publishes a monthly magazine, *Arizona Highways Magazine,* as well as a number of books and sells several related products.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal Service Fund – An internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies, or to other governments, on a cost-reimbursement basis. The internal service fund of the Department is the Equipment Fund.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Agency Funds

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds of the Department include the Privilege Tax Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Underground Storage Tank Fund, Highway Properties Fund, and Economic Strength Project Fund.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the Department's general fixed assets and unmatured principal of its general long-term debt.

General Fixed Assets - Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group rather than in governmental funds.

General Long-Term Debt - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group.

Basis of accounting

The modified accrual basis of accounting is used for all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized 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 be used to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. Reimbursements of construction expenditures, due primarily from the Federal government on a percentage of costs incurred basis, are recognized when the related obligation is incurred.

Those revenues susceptible to accrual are Federal grants, and reimbursable county, city and other state agency 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.

All proprietary funds are accounted for using the accrual basis of accounting. Under this basis, revenues are recorded when they are earned and expenses are recorded when incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and budgetary accounting

Biennial budgets for the operating expenditures and capital outlay including land, building and improvements for the State Highway Fund, Aviation Fund, Safety Enforcement and Transportation Infrastructure Fund, Motor Vehicle Liability Insurance Enforcement Fund and Vehicle Inspection and Title Enforcement Fund are submitted to the Governor in accordance with State law. The budgets are legally enacted as appropriations after approval by the Legislature and signature by the Governor. The legal level of control is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures and all other operating expenditures are specifically budgeted within most divisions. In certain divisions, other specific programs are budgeted in addition to these categories. Revenue budgets are developed internally by the Department and are not a part of the appropriation process

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation by program, the allocation of funds between personal services, employee-related expenses, and other operating expenses is an internal decision for the program manager. Accordingly, transfers between line items such as personal services and other operating expenses within a particular program may be done by the program manager. Transfers of funds between programs require the approval of the Joint Legislative Budget Committee. Absent an amendment to the Department's appropriated amount by the full legislature, expenditures may not exceed appropriations.

All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the next calendar month are charged against the prior fiscal year's budget. The Department's appropriations lapse at year end.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for those operations subject to legislative appropriation.

A legal limitation is adopted for capital outlay including land, building and improvements for the State Highway Fund, Aviation Fund, and Safety Enforcement and Transportation Infrastructure Fund. Any balances and collections in these three funds in excess of the specific amounts appropriated in the general appropriations act are appropriated to the Department. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board. A legal limitation is not adopted for the other special revenue funds, the debt service funds, capital projects funds, proprietary funds and fiduciary funds.

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 Department as a budgetary control mechanism. However, outstanding encumbrances lapse at year end. Accordingly, no reserve for encumbrances is reflected in the accompanying financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of FASB pronouncements to proprietary activities

The Department has elected, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

Cash and cash equivalents

The Department's 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 Department'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 cost, which approximates fair value.

State statutes require the State Treasurer to maintain separate investment accounts for the portions of the Highway Revenue Bond Proceeds Fund relating to the highway revenue bond issues and the Maricopa Regional Area Road Bond Proceeds Fund relating to the transportation excise tax revenue bond issues. These funds may be invested by the Treasurer in the State's investment pool.

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments (investments with original maturities of three months or less).

The Department's investments are included in the State investment pool and these investments are not shown in the Department's name. Therefore, the Department 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.*

Inventories

The State Highway Fund inventory is valued at cost, which approximates market, using the first-in, first-out (FIFO) method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

Proprietary fund inventories are stated at the lower of cost or market. Costs of enterprise fund inventories consisting of resale products and supplies are generally determined by moving average cost and specific identification methods, respectively. Costs of internal service fund's inventories (consisting of vehicle parts and supplies, fuels and lubricants, and other supplies) are determined by moving average cost methods.

Fixed assets

General fixed assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the General Fixed Assets Account Group. Land is recorded primarily at cost. If cost is not determinable based on previously acquired property, estimated cost is used. Other general fixed assets are stated at either actual or estimated costs. Contributed fixed assets are recorded in the General Fixed Assets Account Group at estimated fair value on the date received. Public domain (infrastructure) general fixed assets consisting of roads and bridges are not capitalized, as these assets are immovable and of value only to the government. No depreciation is provided on general fixed assets.

Property and equipment of the proprietary funds are stated at cost, or estimated historical cost if original cost is not available; and, if donated, are stated at estimated fair value on the date received.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is provided using the straight-line method based on estimated useful life as follows:

Buildings	40 years
Buildings improvements	20 years
Furniture and fixtures	5 years
Mobile equipment	3-15 years
Shop tool, office and computer equipment and software	5 years

The cost of additions, improvements, and renewals which substantially extend the useful life of a particular asset are capitalized in the property accounts. Repairs and maintenance expenditures are charged to operations as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are eliminated from the property accounts and any resultant gain or loss is recognized as income or expense.

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.

Deferred revenue

Deferred revenue relates to unearned subscription income associated with the enterprise fund. Unearned subscription income is recorded when subscription orders are received and is amortized into income over the terms of the related subscriptions. Costs associated with the procurement of subscriptions are expensed in the year incurred.

Long-term obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group.

Compensated absences

Effective July 1, 1998, State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours, upon retirement directly from State service. The benefit value is calculated by taking the State hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is $30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Expendable Trust Fund. As of June 30, 2001, employees had accumulated $28,201,384 of nonvested unpaid sick leave.

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. An accrual for vacation leave has been made and the current portion is included under

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the caption "Accrued payroll and other accrued expenditures/expenses." For governmental funds, the portion of the vacation normally taken in the first sixty days of the next fiscal year is recorded as a current liability. The amount of long-term accrued vested vacation leave recorded in the General Long-Term Debt Account Group represents that portion which is not expected to be liquidated with expendable available financial resources. For proprietary funds, all of the outstanding vacation accrual is recorded as a current liability.

Administrative expenditures

The Department renders certain services (primarily administrative services as trustee or agent) to counties and cities of Arizona as well as to other agencies of the State of Arizona, the costs of which are accounted for in the State Highway Fund, a special revenue fund. No charges are made for these services. The Department receives certain services (primarily claims processing and treasury services) without cost from other Arizona state agencies.

The Arizona Highways Magazine Fund provides promotional magazines to other Arizona state agencies without charge.

Transactions between funds

Transactions that would be treated as revenue, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenue, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements to a fund for expenditures or expenses initially made from that fund which are applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

Nonrecurring or nonroutine transfers of equity between funds are treated as residual equity transfers and are reported as additions to or deductions from the fund balance of governmental funds. Residual equity transfers to proprietary funds are treated as contributed capital, and such transfers from proprietary funds are reported as reductions of retained earnings or contributed capital as is appropriate in the circumstances. All other transactions are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

Certain services, including accounting and investment services and claims, are furnished to certain funds by various other funds of the Department without charge.

Operations of the internal service fund are conducted in facilities recorded in the General Fixed Assets Account Group, the costs of which are accounted for in the State Highway Fund, a special revenue fund of the Department. The internal service fund pays the costs of repairs and maintenance of those facilities, but no rental charges are made to the funds for the use thereof.

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.

Memorandum and comparative totals

Total columns for 2001 and 2000 included in the accompanying combined financial statements are captioned memorandum only to indicate they are presented only to facilitate financial analysis. The

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

information in the columns is not intended to present financial position, results of operations or cash flows of its proprietary fund types 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.

Reclassifications

Certain 2000 amounts have been reclassified to conform to the 2001 presentation. Adjustments were made for Local Agency Deposits Fund and Privilege Tax Fund. The Local Agency Deposits Fund was shown as an Agency Fund in fiscal year 2000 and has been reclassified as a Special Revenue Fund in fiscal year 2001. The Privilege Tax Fund was shown as a Special Revenue Fund in fiscal year 2000 and has been reclassified as an Agency Fund in fiscal year 2001.

New accounting pronouncement

The Department's financial statements are in compliance with Statement No. 33 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Nonexchange Transactions, effective for fiscal year 2001.

NOTE 2. BUDGET BASIS OF ACCOUNTING

The Department prepares its annual budget on a basis that differs from GAAP. The budget and the actual results of transactions are presented in accordance with the Department's method (budget basis) in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budget Basis) - Budgeted Special Revenue Funds in order to provide a meaningful comparison of actual results with the budget. The adjustments required to convert the revenues and expenditures for the budgeted special revenue funds from the GAAP basis to the budgetary basis consist of accrual to cash basis adjustments and the exclusion of funds not budgeted through legislative appropriation.

NOTE 2. BUDGET BASIS OF ACCOUNTING (Continued)

Adjustments necessary to convert the deficiency of revenues and other financing sources under expenditures and other financing uses for the year ended June 30, 2001, on a GAAP basis to budget basis are as follows:

	Special Revenue Funds
Deficiency of revenues and other financing sources under expenditures and other financing uses — GAAP basis	$ <57,464,139>
Basis differences	
Net increase in accounts payable, accrued payroll and other accruals not recognized as expenditures on budget basis	<35,187,802>
Net increase in receivables related to fuel and motor carrier taxes and fees, vehicle registration, title, license, and related fees not recognized as revenue on budget basis	11,513,009
Total basis differences	<23,674,793>
Perspective differences	
Revenues and other financing sources not recognized on budget basis:	
Reimbursements of construction expenditures - Federal aid	<360,869,634>
Other Federal grants and reimbursements	<4,879,297>
Reimbursements from Arizona counties, cities, and other state agencies	<2,900,099>
State appropriations	<255,991>
Interest	<13,798,461>
Other	<17,640,143>
Proceeds from contracts and capital leases payable	<909,714>
Operating transfers in	<84,939,589>
Expenditures and other financing uses not recognized on budget basis:	
Transportation - not appropriated by State legislature	6,360,624
Capital outlay - highway construction	621,346,580
Capital outlay - contracts and capital leases payable	909,714
Distributions to Arizona counties, cities and other state agencies	16,863,659
Interest	3,052,152
Debt service transfer out	86,529,221
Other operating transfers out	20,016,934
Total perspective differences	268,885,956
Entity differences	
Less excess of revenues over expenditures for funds for which no annual budgets are prepared	39,607,096
Excess of revenues over expenditures — budget basis	$ 227,354,120

NOTE 2. BUDGET BASIS OF ACCOUNTING (Continued)

Throughout the fiscal year, the Legislature may revise the budget. The following schedule reflects the original budgeted expenditures, subject to legislative limitations and cumulative revisions during the current fiscal year:

	Special Revenue Funds
Original Budget	$ 294,999,139
Cumulative Revisions	39,777,279
Revised Budget	$ 334,776,418

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 assignment on securities aggregating $23,037,219, and $3,589,732 in lieu of contractor retentions for construction in the special revenue funds, and capital projects fund, respectively. Additional securities aggregating $361,909 were on deposit but not assigned to a specific project. These additional securities are not reflected in the accompanying financial statements.

NOTE 4. RESTRICTION OF USE OF THE STATE HIGHWAY FUND CASH

Effective July 1, 1981, State law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the State Highway Fund (special revenue fund) from the Highway User Revenue Fund (agency fund) for the design, purchase of right-of-way or construction of controlled-access highways which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). At June 30, 2001, approximately $82,000,000 including interest, of the fund balance was reserved, representing such unspent monies.

NOTE 5. NOTES AND LOANS RECEIVABLES

Notes receivable represent 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. Loans receivable represent loans made pursuant to Loan Repayment Agreements in the Highway Expansion and Extension Loan Program Fund. Twenty loans have been authorized and ten loans were outstanding as of June 30, 2001, to ADOT and other cities and towns.

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

A summary of interfund receivables and payables at June 30, 2001, follows:

	Interfund Receivables	Interfund Payables
Special Revenue Funds:		
State Highway Fund:		
Due from Highway User Revenue Fund for taxes and fees	$ 76,063,377	$ -
Due to Highway Expansion and Extension Loan Program Fund	-	241,301
Other	335,080	443,537
Total State Highway Fund	76,398,457	684,838
State Aviation Fund	59,625	157
Safety Enforcement and Transportation Infrastructure Fund	67,267	10
Motor Vehicle Liability Insurance Enforcement Fund	63,282	165
Vehicle Inspection and Title Enforcement Fund	42,192	75
Highway Expansion and Extension Loan Program Fund	241,301	-
Maricopa Regional Area Road Construction Fund	36,560	-
Total Special Revenue Funds	76,908,684	685,245
Enterprise Funds:		
Arizona Highways Magazine Fund	-	75
Internal Service Funds:		
Equipment Fund	265,644	485
Agency Funds:		
Motor Vehicle Division Clearing Fund	524,684	15,682,535
Highway User Revenue Fund	12,946,037	76,150,740
Underground Storage Tank Fund	1,874,031	-
Total Agency Funds	15,344,752	91,833,275
Total All Funds	**$ 92,519,080**	**$ 92,519,080**

Advances

Senate Bill 1201 authorized the transfer of $20,000,000 from the State Highway Fund in fiscal year 2000. This amount is shown as Advances to other Arizona Department of Transportation funds in the State Highway Fund and Advances from other Arizona Department of Transportation funds in the Highway Expansion and Extension Loan Program Fund. The advance is due no later than December 31, 2008.

NOTE 7. FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 2000	Additions (1)	Disposals	Balance June 30, 2001
Land	$ 13,499,044	$ 2,947,523	$ <100>	$ 16,446,467
Buildings and improvements	133,198,724	1,894,193	-	135,092,917
Improvements other than buildings	9,403,527	1,655,049	-	11,058,576
Airport facilities	-	19,569,077	-	19,569,077
Machinery and equipment	38,854,728	7,771,048	<4,198,870>	42,426,906
Total General Fixed Assets	$ 194,956,023	$ 33,836,890	$ <4,198,970>	$ 224,593,943

Summary of proprietary fund type fixed assets at June 30, 2001:

	Enterprise Fund	Internal Service Fund
Land	$ 7,900	$ -
Buildings	981,156	-
Shop tools, office and computer equipment, and software	2,427,692	2,542,510
Mobile equipment	-	110,376,195
	3,416,748	112,918,705
Less accumulated depreciation	<1,660,975>	<68,707,367>
Total proprietary fund fixed assets	$ 1,755,773	$ 44,211,338

(1) The acquisition of assets includes the transfer of $19,569,077 in facilities located at the Grand Canyon National Park Airport from the Grand Canyon Airport Authority in fiscal year 2001.

NOTE 8. FUND EQUITY

Fund equity for the proprietary funds consists of the following:

Enterprise Fund:

	Arizona Highways Magazine Fund			
	Contributed Capital	Retained Earnings	Totals 2001	Totals 2000
Balance, July 1, 2000	$ 1,538,698	$ 2,901,564	$ 4,440,262	$ 4,945,657
Reduction of contributed capital	<500,000>	-	<500,000>	-
Net loss	-	<347,825>	<347,825>	<505,395>
Balance, June 30, 2001	$ 1,038,698	$ 2,553,739	$ 3,592,437	$ 4,440,262

NOTE 8. FUND EQUITY (Continued)

Arizona Revised Statutes, Section 28-7315, established an Arizona Highways Magazine Fund. The Fund consists of monies appropriated by the Legislature from the State Highway Fund, a special revenue fund, not to exceed $500,000 annually, in addition to all Arizona Highways Magazine revenues received less expenses. The balance of contributed capital represents contributions from the State Highway Fund of $38,698 and $2,000,000 during 1991 and 1990, respectively, less a reduction of $500,000 in fiscal years 1999 and 2001. Balances remaining in the Fund at the end of the fiscal year do not revert to the State of Arizona General Fund or the State Highway Fund.

	Equipment Fund				
	Contributed Capital	Reserved Retained Earnings	Unreserved Retained Earnings	Totals 2001	Totals 2000
Balance, July 1, 2000	$ 5,793,237	$ 9,985,210	$ 27,437,727	$ 43,216,174	$43,406,488
Reduction of reserved retained earnings	-	<9,985,210>	9,985,210	-	-
Increase in contributed capital	528,942	-	-	528,942	-
Net income <loss>	-	-	787,898	787,898	<190,314>
Balance, June 30, 2001	$ 6,322,179	$ -	$ 38,210,835	$ 44,533,014	$43,216,174

The Equipment Fund was established by Arizona Revised Statutes, Section 28-7006. The Fund consists of monies appropriated by the Legislature from the State Highway Fund. In fiscal years 1999 and 2001, Senate Bill 1003 required a transfer of $500,000 each year to the Department of Public Safety. These transfers were recorded as legislative transfer out and not a return of contributed capital.

In fiscal year 2001 the State Highway Fund purchased $528,942 of capital assets for the Equipment Fund. This amount is recorded as an increase in fixed assets and contributed capital.

Residual equity transfer

A residual equity transfer occurs when nonroutine transfers are made from one fund to another. During fiscal years 2000 and 2001, fund transfers were based upon Senate Bill 1001 passed during the 1999 First Special Session. The residual equity transfers of $750,000 were made in each fiscal year from the Safety Enforcement and Transportation infrastructure Fund to the Department of Public Safety.

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS

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 /Refundings	Amortization of Discount	Balance June 30, 2001
Bonds & Notes:					
Highway Revenue Bonds:					
1991 Series A, Subordinated	$ 10,495,000	$ -	$ -	$ -	$ 10,495,000
1992 Series A, Subordinated, Refunding	25,205,000	-	25,205,000	-	-
1992 Series B, Subordinated	36,560,000	-	-	-	36,560,000
1993 Series, Refunding	124,260,000	-	11,385,000	-	112,875,000
1993 Series A, Subordinated, Refunding	226,620,000	-	2,010,000	-	224,610,000
1993 Series B, Subordinated, Refunding	35,000,000	-	-	-	35,000,000
1999 Series	150,540,000	-	13,455,000	-	137,085,000
2001 Series	-	143,655,000	-	-	143,655,000
Transportation Excise Tax Revenue 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	-	113,690,000	21,495,000	-	92,195,000
Grant Anticipation Notes:					
2000 Series A	-	39,405,000	-	-	39,405,000
2001 Series A	-	142,890,000	-	-	142,890,000
Total Bonds & Notes Payable	1,337,108,423	439,640,000	208,920,000	4,333,361	1,572,161,784
Other long-term liabilities:					
Contracts and capital leases payable	2,065,773	909,714	1,605,326	-	1,370,161
Long-term accrued vacation leave	8,625,022	318,636	-	-	8,943,658
Total General Long-Term Debt	**$1,347,799,218**	**$ 440,868,350**	**$ 210,525,326**	**$ 4,333,361**	**$ 1,582,475,603**

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Bonds payable

Bonds payable are due in varying annual principal amounts plus varying semiannual interest amounts, except for the 1988 Series A Capital Appreciation Bonds which are due in annual installments of $21,500,000 in 2002 through 2004 with the balance of $8,500,000 due in 2005. Bonds payable at June 30, 2001, are comprised of the following individual issues:

Issue	Interest Rates	Final Maturity Date	Balance at June 30, 2001
State of Arizona Highway Revenue Bonds:			
1991 Series A, Subordinated	8.8%	7/1/2004	$ 10,495,000
1992 Series B, Subordinated	6.1% - 8.0%	7/1/2006	36,560,000
1993 Series, Refunding	4.7% - 5.3%	7/1/2009	112,875,000
1993 Series A, Subordinated, Refunding	4.3% - 6.0%	7/1/2011	224,610,000
1993 Series B, Subordinated, Refunding	5.1% - 6.0%	7/1/2011	35,000,000
1999 Series	4.5% - 6.3%	7/1/2019	137,085,000
2001 Series	3.8% - 5.5%	7/1/2020	143,655,000
Total Highway Revenue Bonds			700,280,000
State of Arizona Transportation Excise Tax Revenue Bonds:			
1988 Series A Capital Appreciation Bonds (maturity value of $73,000,000)	7.3% - 7.5%	7/1/2005	62,251,784
1992 Series A, Refunding	5.4% - 5.8%	7/1/2005	86,850,000
1992 Series B	5.4% - 5.8%	7/1/2005	11,455,000
1993 Series, Subordinated, Refunding	4.4% - 5.6%	7/1/2005	113,175,000
1995 Series A, Subordinated	4.5% - 6.5%	7/1/2005	63,515,000
1995 Series B, Subordinated, Refunding	4.5% - 6.5%	7/1/2005	85,940,000
1998 Series A	4.0% - 5.0%	7/1/2005	98,150,000
1999 Series, Subordinated	4.8% - 5.3%	7/1/2005	76,055,000
2000 Series	4.4% - 5.8%	7/1/2005	92,195,000
Total Transportation Excise Tax Revenue Bonds			689,586,784
State of Arizona Grant Anticipation Notes:			
2000 Series A	4.8% - 5.6%	1/1/2004	39,405,000
2001 Series A	4.0% - 5.3%	1/1/2008	142,890,000
Total Grant Anticipation Notes			182,295,000
Total Bonds and Notes Payable			$1,572,161,784

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes of the State Highway Fund, a special revenue fund. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, from exceeding one billion dollars.

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

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 Grant Anticipation Notes are secured by revenues received from the Federal Highway Administration and certain other Federal-aid revenues.

Bonds aggregating $562,685,000 ($410,105,00 of Highway Revenue Bonds, $113,175,000 of Transportation Excise Tax Revenue Bonds, and $39,405,000 of Grant Anticipation Notes, respectively) 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 various 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 $1,020,225,000 are not subject to redemption prior to maturity.

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 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, 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.

On July 11, 2000, the Department issued $39,405,000 in Grant Anticipation Notes (Series 2000A) to (i) pay a portion of the costs of acquiring right-of-way for, design and construction of certain controlled-access highways in the City of Phoenix, Arizona, and (ii) a portion of the costs of issuing the Series 2000A Notes. The Series 2000A Notes are due January 1, 2003, and January 1, 2004. Net proceeds totaled $39,200,196 (after payment of $34,804 original issue discount and $170,000 underwriting fees).

On September 15, 2000, the Department issued $113,690,000 in Transportation Excise Tax Revenue Bonds (2000 Series) 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 2000 Series Bonds. The 2000 Series Bonds are due July 1, 2001, through 2005. Net proceeds totaled $115,001,157 (after receipt of $1,960,638 of reoffering premium and payment of $649,481 in underwriting fees).

On January 15, 2001, the Department issued $143,655,00 of Highway Revenue Bonds (Series

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

2001) to (i) finance portions of the Transportation Board's Five Year Capital Program, and (ii) pay costs of issuing the 2001 Series Bonds. The 2001 Series Bonds are due July 1, 2007, through 2020. Net proceeds totaled $150,000,853 (after receipt of $7,278,759 of reoffering premium and payment of $932,906 in underwriting fees).

On May 1, 2001, the Department issued $142,890,000 in Grant Anticipation Notes (Series 2001A) to (i) pay a portion of the costs of design and construction of certain controlled-access highways within Maricopa County, Arizona, and (ii) a portion of the costs of issuing the Series 2001A Notes. The Series 2001A Notes are due January 1, 2004, through January 1, 2008. Net proceeds totaled $147,248,251 (after receipt of $5,420,281 of reoffering premium and payment of $1,061,760 in underwriting fees).

Future debt service requirements of bonds and notes outstanding at June 30, 2001, are as follows:

Fiscal	Highway Revenue Bonds		Transportation Excise Tax Revenue Bonds		Grant Anticipation Notes		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	$ 37,790,000	$ 37,819,589	$ 163,455,000	$ 33,442,329	$ -	$ 10,180,858	$ 201,245,000	$ 81,442,776
2003	39,595,000	36,001,478	171,110,000	25,789,218	13,150,000	8,683,403	223,855,000	70,474,099
2004	41,465,000	33,651,876	178,675,000	18,223,485	36,755,000	7,488,470	256,895,000	59,363,831
2005	44,315,000	31,287,180	187,095,000	9,804,902	49,000,000	5,400,850	280,410,000	46,492,932
2006	46,760,000	28,842,361	-	-	38,540,000	3,209,175	85,300,000	32,051,536
2007	56,460,000	26,249,382	-	-	37,000,000	1,307,500	93,460,000	27,556,882
2008	59,285,000	23,426,215	-	-	7,850,000	196,250	67,135,000	23,622,465
2009	62,600,000	20,111,170	-	-	-	-	62,600,000	20,111,170
2010	65,805,000	16,906,657	-	-	-	-	65,805,000	16,906,657
2011	69,420,000	13,288,691	-	-	-	-	69,420,000	13,288,691
2012	16,595,000	9,814,682	-	-	-	-	16,595,000	9,814,682
2013	17,515,000	8,893,806	-	-	-	-	17,515,000	8,893,806
2014	18,505,000	7,904,719	-	-	-	-	18,505,000	7,904,719
2015	19,560,000	6,849,474	-	-	-	-	19,560,000	6,849,474
2016	20,675,000	5,736,825	-	-	-	-	20,675,000	5,736,825
2017	21,850,000	4,560,288	-	-	-	-	21,850,000	4,560,288
2018	23,045,000	3,364,762	-	-	-	-	23,045,000	3,364,762
2019	24,305,000	2,103,726	-	-	-	-	24,305,000	2,103,726
2020	14,735,000	773,588	-	-	-	-	14,735,000	773,588
	$ 700,280,000	$ 317,586,469	$ 700,335,000	$ 87,259,934	$ 182,295,000	$ 36,466,506	$ 1,582,910,000	$ 441,312,909

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Refunded bonds

In prior years, the Transportation Board 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 financial statements of the Department.

Refunded bonds of the Department outstanding at June 30, 2001, are as follows:

Original Issue Date	Type	Escrow Maturity Date	Balance Outstanding
1991 Series A, Subordinated	Highway Revenue Bonds	July 1, 2001	$ 160,645,000
1992 Series B, Subordinated	Highway Revenue Bonds	July 1, 2002	52,350,000
1988 Series A	Transportation Excise Tax Revenue Bonds		
	Capital Appreciaiton Bonds	July 1, 2005	8,996,156
	Total refunded bonds outstanding		**$ 221,991,156**

Capital leases payable

Modular buildings and other equipment totaling $3,895,054 acquired through purchase contracts are recorded in the General Fixed Assets Account Group. Payments are due in monthly installments through March 2006 with interest rates ranging from 4.71 percent to 5.89 percent.

At June 30, 2001, remaining annual principal payments under purchase contracts were as follows:

Fiscal Year	Amount
2002	$ 466,977
2003	498,941
2004	296,714
2005	185,798
2006	64,435
Total minimum lease payments	1,512,865
Less: amount representing interest	<142,204>
Present value of minimum lease payment	$ 1,370,661

NOTE 9. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Notes payable

Notes payable represent $32,662,040 in the State Highway Fund for the Highway Expansion and Extension Loan Program (HELP) Fund loans, $7,528,571 in Maricopa Regional Area Road (RARF) Construction Fund for a City of Mesa construction loan, and $7,482,690 in the Equipment Fund for heavy equipment purchases with third party financing. The RARF loan is based on actual draw downs from the City of Mesa construction loan account used to fund actual construction expenditures. The HELP loan principal and interest payments are due monthly, with interest rates varying from 1.75 percent to 3.92 percent per annum. The final loan repayments are due in 2005. 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. The Equipment Fund loan payments are due in monthly installments through January 2005 with interest rates ranging from 4.71 percent to 5.41 percent per annum.

Equipment Fund	
Fiscal Year	Amount
2002	$ 2,151,789
2003	2,261,521
2004	2,376,863
2005	692,517
Total Outstanding	$ 7,482,690

NOTE 10. OPERATING LEASES

The Department leases data processing and other equipment and certain facilities from various lessors. The majority of the leases are for a one-year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the year ended June 30, 2001, approximated $4,361,000.

In fiscal year 2000, the Department entered into a long-term lease for a facility located on Washington Street in Phoenix. The future operating lease commitments are as follows:

2002	$ 1,206,772
2003	1,247,679
2004	1,288,586
2005	1,329,494
2006	1,370,401
2007	1,411,309
Future operating leasing commitments	$ 7,854,241

NOTE 10. OPERATING LEASES (Continued)

Various funds also rent mobile equipment from the Equipment Fund on an as-needed basis. Rental income for mobile equipment for the fiscal year ended June 30, 2001, is as follows:

State Highway Fund	$ 26,113,140
Arizona Highways Magazine Fund	30,978
Other	168,465
Total rental income	**$ 26,312,583**

NOTE 11. RETIREMENT PLANS

The Arizona State Retirement System Board administers the Arizona State Retirement Plan (Plan), a cost sharing multi-employer defined benefit pension plan, for the benefit of Arizona employees and employees of certain other governmental entities. Plan provisions, including death, disability, and retirement benefits, are established by State statute. Substantially all employees of the Department are covered by the Plan.

The Arizona State Retirement System (System) issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P. O. Box 33910, Phoenix, Arizona 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the year ended June 30, 2001, was computed to be 2.66 percent of covered payroll by an actuarial valuation performed at June 30, 1999. Contributions for the years ended June 30, 1999, 2000 and 2001 were $4,705,156, $3,877,921 and $4,032,399, respectively, for both the employees and the Department, which were equal to the required contributions for each year.

NOTE 12. CONTINGENT LIABILITIES

Risk management insurance losses

The Department is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the State's self-insurance program, and, in the opinion of the Department's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the State of Arizona's Comprehensive Annual Financial Report.

NOTE 12. CONTINGENT LIABILITIES (Continued)

Grants

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 Department expects such amounts, if any, to be immaterial.

Claims

The Department has a variety of claims pending against it that arose during the normal course of its activities. Management of the Department believes, based on the advice of legal counsel, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department's fund types.

On August 5, 1999, in *Hurley Trucking Co., Inc. v. State (Hurley)*, the Tax Court of the State ruled in favor of a refund claim for motor vehicle use fuel (diesel) taxes and motor carrier taxes (based on vehicle weight and mileage) paid to the State (the "Disputed Revenues"). Several trucking companies have additionally filed refund claims. The claimants asserts that the applicable statutes at the time did not permit the State to collect Disputed Revenues for certain tax years prior to 1997 relating to travel on state maintained roads crossing Federal lands. The Arizona Legislature subsequently clarified the statutes in 1997. The State filed its notice of appeal to the Arizona Court of Appeals on September 3, 1999. Oral argument was held May 23, 2000. The Department disputes the claimants' interpretation of the applicable statutes and intends to assert a vigorous defense. However, if the plaintiff in the *Hurley* case were to prevail, the maximum potential amount of the claim is difficult to predict with certainty because the amount of each claim would vary based on the nature of the actual roads used and mileage of each claimant. If the plaintiff were to prevail on both counts and all existing claimants were to receive a lump sum payment in a single fiscal year, the Department does not believe that the maximum potential payment from the Arizona Highway User Revenue Fund would reduce the amount of State Highway Fund revenues by more than ten percent (10%) for the single fiscal year in which such payment were made.

Commitments under construction contracts

The Department's outstanding commitments under construction contracts were approximately $974,163,000 at June 30, 2001.

NOTE 13. SUBSEQUENT EVENTS

On October 15, 2001, the Department issued $66,010,000 in Transportation Excise Tax Revenue Bonds (2001 Series) to (i) finance the costs of design, right-of-way purchase, or construction of certain controlled-access highways within Maricopa County, Arizona and (ii) pay costs of issuing the 2001 Series Bonds. The 2001 Series 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).

APPENDIX B

PROPOSED FORM OF BOND COUNSEL OPINION

To: Arizona Transportation Board
Phoenix, Arizona

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Arizona Transportation Board (the "Board") of its $74,250,000 aggregate principal amount of bonds designated the Arizona Transportation Board, Highway Revenue Refunding Bonds, Series 2002A (the "Series 2002A Bonds"), dated as of March 1, 2002. The Series 2002A Bonds are issued under Title 28, Chapter 21, Article 1, Arizona Revised Statutes, as amended (the "Act"), and pursuant to a resolution adopted by the Board on December 14, 2001 and amended on February 15, 2002, which supplemented the Resolution adopted on May 1, 1980, as supplemented to date (collectively, the "Resolutions"). The documents in the Transcript include a certified copy of the Resolutions. All capitalized terms not defined herein shall have the meanings set forth in the Resolutions. We have also examined a conformed copy of a Series 2002A Bond of the first maturity.

Based on this examination, we are of the opinion that, under existing law:

1. The Series 2002A Bonds and the Resolutions are valid, legal, binding and enforceable in accordance with their respective terms, subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Series 2002A Bonds constitute special obligations of the Board, and the principal of, premium, if any, and interest (collectively, "debt service") on the Series 2002A Bonds, together with debt service on the Outstanding Senior Bonds and on any Additional Senior Bonds that may subsequently be issued under the Resolutions on a parity with the Outstanding Senior Bonds and the Series 2002A Bonds (collectively, "Senior Bonds"), as provided in the Resolutions, are payable from and secured solely by the moneys paid into the State Highway Fund that constitute Pledged Revenues (as defined in the Resolutions). The Series 2002A Bonds and the payment of debt service thereon are not secured by an obligation or pledge of any moneys raised by taxation other than the Pledged Revenues, and the Series 2002A Bonds do not represent or constitute a general obligation or a pledge of the full faith and credit of the Board or the State of Arizona.

3. The Resolutions create a valid lien and pledge on the moneys that constitute Pledged Revenues paid into the State Highway Fund for the Senior Bonds, which lien and pledge is subject to no prior liens or pledges granted under the Act.

4. The interest on the Series 2002A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Series 2002A Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Series 2002A Bonds.

Under the Code, portions of the interest earned on the Series 2002A Bonds by certain corporations (as defined for federal income tax purposes) may be subject to a corporate alternative minimum tax, and interest on the

Series 2002A Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinions, we have assumed and relied upon compliance with the Board's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Board contained in the Transcript. The accuracy of those representations and certifications, and the compliance by the Board with those covenants, may be necessary for the interest on the Series 2002A Bonds to be and to remain excluded from gross income for federal income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain of those covenants subsequent to issuance of the Series 2002A Bonds could cause interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2002A Bonds.

Respectfully submitted,

[To be signed "Squire, Sanders & Dempsey L.L.P."]

APPENDIX C

FORM OF CONTINUING DISCLOSURE UNDERTAKING

THIS CONTINUING DISCLOSURE UNDERTAKING ("Undertaking"), dated as of March 1, 2002, is executed and delivered by the ARIZONA TRANSPORTATION BOARD (the "Board") and the ARIZONA DEPARTMENT OF TRANSPORTATION (the "Department" which, together with the Board, is referred to as the "Issuer"), in connection with the issuance by the Board of its $74,250,000 Highway Revenue Refunding Bonds, Series 2002A, dated as of March 1, 2002 (the "Bonds").

The Board and the Department each covenants and agrees as follows:

Section 1. Purpose of this Undertaking. This Undertaking is executed and delivered by the Issuer, as of the date set forth above, in accordance with the Rule (defined below) for the benefit of the beneficial owners of the Bonds.

Section 2. Definitions. The terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

"*Annual Information*" means the type of financial information and operating data set forth under the heading "REVENUES AND DEBT SERVICE COVERAGE – Historical Revenues" in the final Official Statement, dated March 7, 2002 for the Bonds.

"*Audited Financial Statements*" means the audited general purpose financial statements of the Department, prepared in conformity with generally accepted accounting principles.

"*Filing Date*" means the first day of the eighth month following the end of each Fiscal Year (or the next succeeding business day if that day is not a business day), beginning February 1, 2003.

"*Fiscal Year*" means each fiscal year of the Department.

"*MSRB*" means the Municipal Securities Rulemaking Board.

"*NRMSIRs*" means, as of any date, any Nationally Recognized Municipal Securities Information Repository then recognized by the Securities and Exchange Commission for purposes of the Rule. As of the date of this Undertaking, the NRMSIRs are:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
e-mail: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
700 William Street
New York, NY 10038
Phone: (212) 771-6899
Fax: (212) 771-7390
e-mail: NRMSIR@ftid.com

Standard & Poor's J.J. Kenny Repository
55 Water Street, 45^{th} Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
e-mail: nrmsir_repository@sandp.com

DPC Data, Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
e-mail: NRMSIR@dpcdata.com

"Rule" means Rule 15c2-12, as adopted by the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"SID" means any public or private repository designated by the State as the state repository and recognized as such by the Securities and Exchange Commission for purposes of the Rule. As of the date of this Agreement, no SID exists within the State.

"Specified Event" means the occurrence of any of the events with respect to the Bonds set forth in Exhibit I hereto.

"State" means the State of Arizona.

Section 3. Filing of Annual Information and Audited Financial Statements. The Issuer is the only Obligated Person (as defined in the Rule) for the Bonds. The Issuer hereby agrees to provide or cause to be provided to each NRMSIR and to any SID:

(a) Annual Information for the preceding Fiscal Year and unaudited financial statements of the Board if Audited Financial Statements are not provided at the same time, not later than the Filing Date for each Fiscal Year; and

(b) Audited Financial Statements for the preceding Fiscal Year, not later than the later of the Filing Date for each Fiscal Year or 30 days after receipt thereof by the Department.

Audited Financial Statements are expected to be available together with the Annual Information. The Issuer is required to deliver, or cause to be delivered, such information in such manner and by such time so that such entities receive the information on or before the date specified.

Section 4. Notice of Material Specified Events and Failure to Provide Annual Information. The Issuer agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB, and to any SID:

(a) notice of the occurrence of any Specified Event with respect to the Bonds, if that Specified Event is material; and

(b) notice of its failure to provide or cause to be provided the Annual Information on or prior to the applicable Filing Date.

Notwithstanding the foregoing, (i) notice of Specified Events consisting of optional calls or defeasances need not be given under this subsection any earlier than the notice of the underlying event is given to the registered owners of the affected Bonds pursuant to the terms of the Bonds, and (ii) notice of the occurrence of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, is not required if the terms of the redemption under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Bonds will be redeemed in the case of a partial redemption (such as mandatory sinking fund redemption).

If the responsible officials of the Issuer become aware of the occurrence of a Specified Event, the Issuer shall diligently proceed to determine whether that Specified Event is material and, if so, the Issuer shall prepare and provide or cause to be provided notice of the occurrence of that material Specified Event in accordance with this Section.

Section 5. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information or providing notice of the occurrence of an event, in addition to that which is required by this Undertaking. If the Issuer chooses to include any information from any document or notice of occurrence of an event in addition to that which is specifically required by this Undertaking, the Issuer shall have no obligation under this Undertaking to update such information or include it in any future Annual Information or notice of material Specified Events.

Section 6. Failure to Perform. The Issuer agrees that its agreements set forth in Sections 3 and 4 of this Undertaking are intended to be for the benefit of the beneficial owners from time to time of the Bonds. Any beneficial owner of a Bond may enforce the Issuer's obligation to provide or cause to be provided a filing that is due to each NRMSIR and any SID in accordance with Section 3 or to each NRMSIR or to the MSRB and any SID in accordance with Section 4 hereof by commencing an action in a court of competent jurisdiction in Phoenix, Arizona, to seek specific performance by court order to compel the Issuer to make such filings; provided that any beneficial owner seeking to require the Issuer to comply with this Undertaking shall first provide at least 30 days' prior written notice to the Board and the Department of the Issuer's failure, giving reasonable detail of such failure, following which notice the Issuer shall have 30 days to comply. The right of a beneficial owner to enforce any provision of this Undertaking shall be limited to a right to obtain specific enforcement of the Issuer's obligations hereunder and provided further that any failure of the Issuer to comply with any provisions of this Undertaking shall not be a default or an Event of Default with respect to the Bonds under the Bond Resolution (as defined in the Bonds).

Section 7. Amendments; Waiver. Notwithstanding any other provision of this Undertaking, the Issuer may amend this Undertaking, and any provision of this Undertaking may be waived, if such amendment or waiver is supported by a legal opinion, addressed to the Issuer, of an independent counsel who is expert in federal securities laws selected by the Department, to the effect that such amendment or waiver would not, in and of itself, cause this Undertaking to violate the Rule. The Annual Information prepared immediately following any amendment or waiver shall explain the reason for the amendment or waiver and the impact of the change in the type of information being provided.

Section 8. Termination of Undertaking. This Undertaking shall terminate when (a) the Bonds are no longer outstanding (within the meaning of the Bond Resolution) or (b) the Rule no longer applies to these Bonds.

Section 9. Dissemination Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 10. Beneficiaries. This Undertaking shall inure solely to the benefit of the Issuer and the beneficial owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 11. Recordkeeping. The Issuer shall maintain records of all Annual Information and notice of material Specified Events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

Section 12. Governing Law. This Undertaking shall be governed by the laws of the State.

Dated: March 1, 2002

ARIZONA TRANSPORTATION BOARD

By ______________________________

Its Chair

ARIZONA DEPARTMENT OF TRANSPORTATION

By ______________________________

Its Director

<u>EXHIBIT I</u>

<u>SPECIFIED EVENTS</u>

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties; *
5. Substitution of credit or liquidity providers, or their failure to perform; *
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities; and
11. Rating changes.

---

* The Issuer has not obtained or provided any credit enhancement or liquidity providers for the Bonds.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

The following information concerning DTC and DTC's book-entry system is based solely on information provided by DTC. Accordingly, the Board takes no responsibility for the accuracy thereof. The Beneficial Owners should confirm this information with DTC or the DTC participants.

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 2002A Bonds. The Series 2002A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2002A Bond certificate will be issued for each maturity of the Series 2002A Bonds, totaling in the aggregate the principal amount of the Series 2002A Bonds, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2002A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2002A Bonds on DTC's records. The ownership interest of each actual purchaser of a beneficial interest in a Series 2002A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2002A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2002A Bonds, except in the event that use of the book-entry system for the Series 2002A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2002A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2002A Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2002A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2002A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2002A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2002A Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond Resolutions. Beneficial Owners of Series 2002A Bonds may wish to ascertain that the nominee holding the Series 2002A Bond for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent by the Paying Agent to Cede & Co. If less than all of a Series 2002A Bond within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in such Series 2002A Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2002A Bonds. Under its usual procedures, DTC mails an Omnibus proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

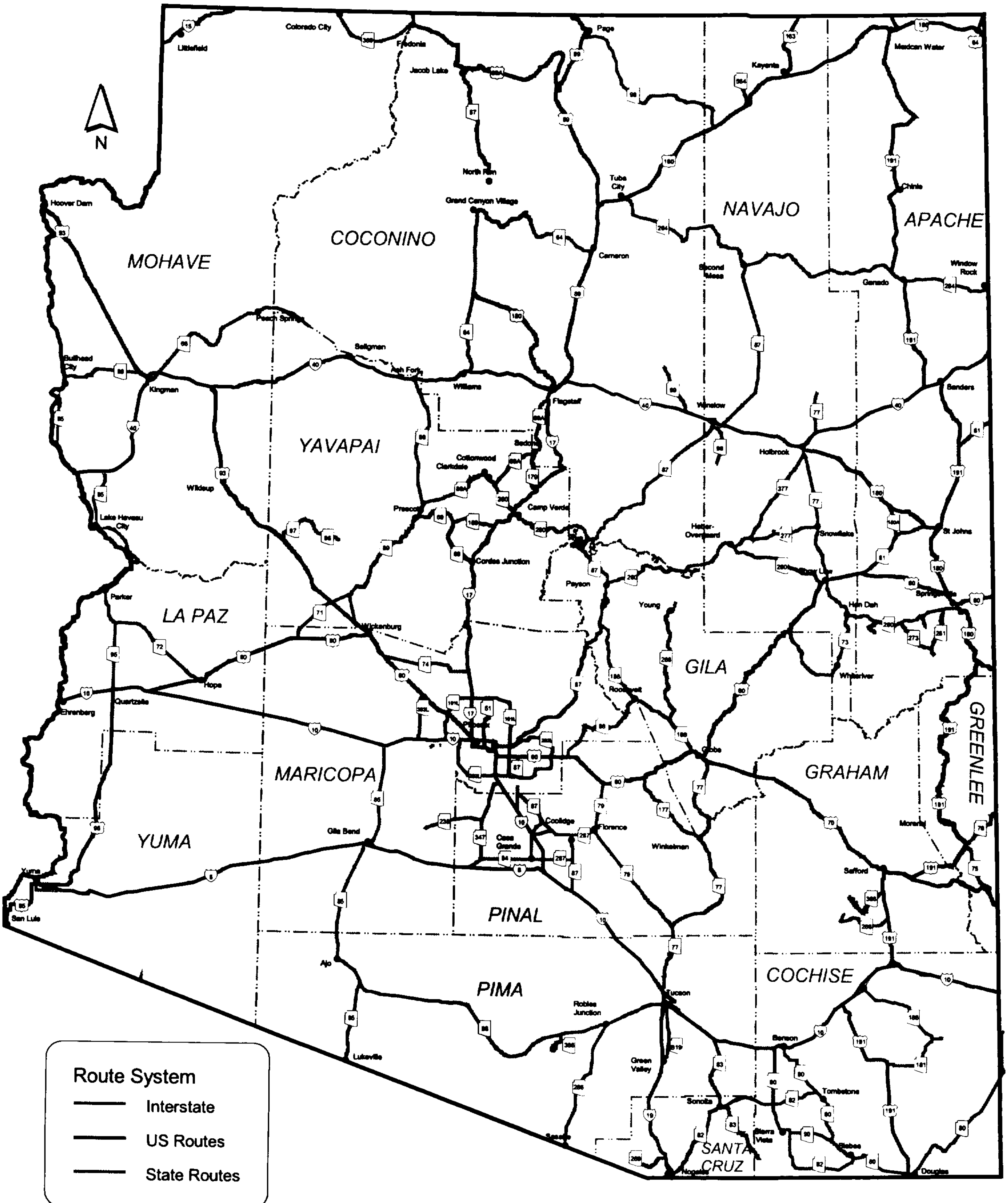
Principal, redemption premium and interest payments on the Series 2002A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium and interest to DTC is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2002A Bonds at any time by giving reasonable notice to the Board and the Board may remove or replace DTC. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2002A Bond certificates are required to be printed and delivered, as provided in the Senior Bond Resolution.

The above information concerning DTC and DTC's book-entry system is based solely on information provided by DTC. Accordingly, the Board takes no responsibility for the accuracy thereof. The Beneficial Owners should confirm the foregoing information with DTC or the DTC participants.

THE BOARD WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR TO INDIRECT PARTICIPANTS OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP IN THE SERIES 2002A BONDS UNDER OR THROUGH DTC OR ANY PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR AS THE REGISTERED OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2002A BONDS UNDER THE SENIOR BOND RESOLUTION; (III) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, REDEMPTION PREMIUM OR INTEREST DUE WITH RESPECT TO THE SERIES 2002A BONDS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2002A BONDS; OR (V) ANY OTHER MATTERS.

State Highway System



0 25 50 75 100 Miles

0 40 80 120 160 Kilometers

Arizona Department Of Transportation
Transportation Planning Division
GIS Team

tpd/jg/az_mp.apr/10-01