OFFICIAL STATEMENT

NEW ISSUE – BOOK ENTRY ONLY

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

$185,055,000
ARIZONA TRANSPORTATION BOARD
HIGHWAY REVENUE BONDS
SERIES 2003

Dated: April 1, 2003 **Due: July 1, as shown on the inside cover page hereof**

The Highway Revenue Bonds, Series 2003 (the "Series 2003 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 2003 Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2004, 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 2003 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 2003 Bonds are shown on the reverse side of this cover page.

The Series 2003 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 2003 Bonds. Purchases of beneficial interests in such Series 2003 Bonds will be made in book-entry only form. Purchasers will not receive certificates representing the ownership interest in the Series 2003 Bonds purchased by them. So long as the Series 2003 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 2003 Bonds will be made directly by the Paying Agent to Cede & Co., as nominee of DTC. See "THE SERIES 2003 BONDS – General Description" and "APPENDIX D – BOOK-ENTRY-ONLY SYSTEM" herein.

The Series 2003 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 2002B, Series 2002A, Series 2002, Series 2001, Series 1999 and Series 1993 Senior Bonds (as defined herein) of the Board to be outstanding after issuance of the Series 2003 Bonds in the aggregate principal amount of $697,355,000, and any additional Senior Bonds subsequently issued on a parity therewith.

Proceeds of the Series 2003 Bonds are intended to be used to (i) finance portions of the Board's Five-Year Capital Program, (ii) refund portions of the Board's outstanding Senior Bonds, and (iii) pay costs of issuing the Series 2003 Bonds. See "PLAN OF FINANCE" herein.

The Series 2003 Bonds are subject to optional redemption prior to maturity as more fully described herein.

The Series 2003 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 2003 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 continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Series 2003 Bonds is exempt from Arizona state income tax. Interest on the Series 2003 Bonds 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 2003 Bonds and the security therefor. It is not a summary of material information with respect to the Series 2003 Bonds. Investors should read the entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 2003 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, Greenberg Traurig, LLP. It is expected that the Series 2003 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York, on or about May 22, 2003.

April 23, 2003

BEAR, STEARNS & CO. INC.

CITIGROUP **JPMORGAN**

$185,055,000
ARIZONA TRANSPORTATION BOARD
HIGHWAY REVENUE BONDS
SERIES 2003

MATURITY SCHEDULE

Year (July 1)	Amount	Interest Rate	Yield	CUSIP
2004	$16,350,000	2.00%	1.10%	040654KJ3
2005	2,700,000	2.00	1.42	040654KY0
2005	14,435,000	6.00	1.42	040654KK0
2006	910,000	2.50	1.75	040654KZ7
2006	13,440,000	5.00	1.75	040654KL8
2007	3,145,000	2.50	2.19	040654LA1
2007	11,905,000	5.00	2.19	040654KM6
2008	15,725,000	5.25	2.55	040654KN4
2009	16,550,000	5.00	2.85	040654KP9
2015*	9,415,000	5.00	3.87	040654KQ7
2016*	9,885,000	5.00	3.96	040654KR5
2017*	10,380,000	5.00	4.05	040654KS3
2018*	10,900,000	5.00	4.15	040654KT1
2019*	11,440,000	5.00	4.25	040654KU8
2020*	12,015,000	5.00	4.34	040654KV6
2021*	12,615,000	5.00	4.42	040654KW4
2022	2,225,000	4.40	4.49	040654LB9
2022*	11,020,000	5.00	4.49	040654KX2

(Accrued interest to be added)

* Priced to July 1, 2013 Par Call.

STATE OF ARIZONA

Janet Napolitano
Governor

ARIZONA TRANSPORTATION BOARD

Ingo Radicke
Chair

Bill Jeffers
Vice Chair

Richard Hileman
Member

Joe Lane
Member

Dallas "Rusty" Gant
Member

James Martin
Member

Si Schorr
Member

STATE OF ARIZONA DEPARTMENT OF TRANSPORTATION

Victor Mendez
Director

Debra Brisk
Deputy Director

Vacant
State Engineer

John Bogert
Chief of Staff

Vacant
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 2003 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 2003 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 2003 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 2003 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

OFFICIAL STATEMENT

relating to

$185,055,000

Arizona Transportation Board
Highway Revenue Bonds
Series 2003

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 Bonds, Series 2003 (the "Series 2003 Bonds").

The Series 2003 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 November 15, 2002 (the "2003 Resolution") authorizing the Series 2003 Bonds (collectively, the "Senior Bond Resolution").

Proceeds of the Series 2003 Bonds are intended to be used for the purposes of (i) financing portions of the Board's Five-Year Capital Program (as described below), (ii) refunding portions of the Board's outstanding Senior Bonds (as defined below) in the aggregate principal amount of $98,495,000, and (iii) paying costs of issuing the Series 2003 Bonds (see "PLAN OF FINANCE").

The Series 2003 Bonds are special obligations of the Board. The principal of, premium, if any, and interest (collectively, "Debt Service") on the Series 2003 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 2003 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 2003 Bonds, the outstanding Senior Bonds and Additional Senior Bonds are collectively referred to as the "Senior Bonds."

The Series 2003 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 2003 Bonds are issued on a parity as to security and source of payment with the Board's outstanding Highway Revenue Bonds, Series 2002B (the "Series 2002B Bonds"), Highway Revenue Refunding Bonds, Series 2002A (the "Series 2002A Bonds"), 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 2003 Bonds will be $697,355,000 after giving effect to the refunding of certain currently outstanding Senior Bonds, as more fully described under "PLAN OF FINANCE".

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 is currently outstanding is $279,835,000. 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 $1,300,000,000 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 2003 Bonds will be $977,190,000.

Payments on the Series 2003 Bonds are not subject to annual appropriation by the Legislature of the State nor are payments on the Series 2003 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 2003 BONDS – Pledged Revenues."

This Official Statement describes the terms of and security for the Series 2003 Bonds and the use of proceeds of the Series 2003 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. Capitalized terms not defined herein shall have the meanings set forth in the Bond Resolutions. Copies of the Bond Resolutions may be obtained as set forth under "MISCELLANEOUS."

THE SERIES 2003 BONDS

General Description

The Series 2003 Bonds are issuable as fully registered bonds. The Series 2003 Bonds will bear interest from April 1, 2003, 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 2003 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 2003 Bonds, all payments on the Series 2003 Bonds will be made directly to DTC.

So long as Cede & Co. is the registered Owner of the Series 2003 Bonds, as nominee for DTC, references herein to "Owners" or registered owners of the Series 2003 Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of such Series 2003 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 2003 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 2003 Bonds will be payable on each January 1 and July 1 (each such date is referred to herein as an "Interest Payment Date"), commencing January 1, 2004, and will accrue from their dated date. Interest on the Series 2003 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 2003 Bonds will be payable upon presentation and surrender thereof at the designated office of the paying agent, initially Bank One Trust Company, Arizona, N.A. 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 2003 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 2003 Bonds maturing on or prior to July 1, 2013, are not subject to optional redemption prior to maturity. The Series 2003 Bonds maturing on or after July 1, 2014 are subject to optional redemption, prior to maturity, at the election of the Board, in whole or in part, at any time, on or after July 1, 2013, at a redemption price equal to the principal amount of the Series 2003 Bonds to be redeemed plus accrued interest to the date fixed for redemption, but without premium.

Notice of Redemption.

The Bond Registrar shall give notice by mail of the redemption of the Series 2003 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 2003 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 2003 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 2003 Bonds of like maturity are to be redeemed, the particular Series 2003 Bonds or portions thereof to be redeemed. Any defect in the notice to the Owner of any Series 2003 Bond which is to be redeemed shall not affect the validity of the proceedings for the redemption of any other Series 2003 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 2003 Bond to notify the Beneficial Owner shall not affect the validity of the redemption of such Series 2003 Bond.

So long as the Series 2003 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 2003 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 2003 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 2003 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 2003 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 2003 Resolution) sufficient to redeem all the Series 2003 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 2003 Bonds shall not be optionally redeemed unless such moneys or Defeasance Obligations are so deposited.

Exchange and Transfer

If the Series 2003 Bonds are not in book-entry-only form, the following paragraph will be applicable.

The registration of any Series 2003 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 2003 Bond at the designated 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 2003 Bond may be exchanged at the designated office of the Bond Registrar for new Series 2003 Bonds of any authorized denomination, aggregate principal amount and maturity as the surrendered Series 2003 Bond. The Bond Registrar will not charge an administrative fee for any new Series 2003 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 2003 Bond during the period commencing on June 15 and December 15 of each year and ending on the subsequent July 1 or January 1, respectively.

Defeasance

If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all outstanding Series 2003 Bonds or Series 2003 Bonds of a particular maturity or a particular Series 2003 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 2003 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 2003 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 2003 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 2003 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 2003 Bonds, for the purpose of paying the principal of, premium, if any, and interest on such Series 2003 Bonds, as the same shall mature, come due or become payable upon prior redemption. Upon such deposit, the Series 2003 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 Services and Moody's Investors Service, respectively.

PLAN OF FINANCE

Approximately $102,950,000 of the proceeds received from the sale of the Series 2003 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, redemption premium, and the principal of the following described outstanding Senior Bonds (the "Bonds Being Refunded") to the redemption date 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
5-1-93	Senior Series 1993 Bonds	$183,040,000	7-1-04 to 7-1-09	$98,495,000	7-1-03	2.00%

The moneys deposited in the depository trust will be held by the Escrow Trustee irrevocably in trust for the payment of the principal of, redemption premium, 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 Resolutions, and will be considered paid in accordance with their terms.

Approximately $95,000,000 of the proceeds received from the sale of the Series 2003 Bonds are intended to be used to finance portions of the Board's Five-Year Capital Program. Such proceeds may, but are not intended to, be used to pay interest on any bonds of the Board issued for highway purposes. The remaining portion of the proceeds received from the sale of the Series 2003 Bonds will be used for paying costs of issuing the Series 2003 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of the (a) computation of anticipated receipts of principal and interest on the Treasury Obligations and the anticipated payments of principal, redemption premium, and interest to redeem the Bonds Being Refunded, and (b) computation of the yields on the Series 2003 Bonds and the Treasury Obligations was examined by The Arbitrage Group Inc. Such computations were based upon certain assumptions and information supplied by RBC Dain Rauscher Inc. on behalf of the Board. The Arbitrage Group Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS

Legal Authority

The Series 2003 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 $1,300,000,000 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 2003 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 2003 Bonds, and after giving effect to the refunding of the Bonds Being Refunded, there will be $697,355,000 of Senior Bonds outstanding.

General

Payments of principal and interest on the Series 2003 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 2003 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 2003 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 2003 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 2003 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 2003 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 to 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 motor vehicle license (in lieu) 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 are outstanding Senior Bonds in the aggregate principal amount of $697,355,000 after giving effect to the issuance of the 2003 Bonds and the refunding of the Bonds Being Refunded. The Bond Resolutions provide that any outstanding Senior Bonds enjoy a pledge of and a claim upon Pledged Revenues prior to the claim in favor of any Subordinated Bonds.

Under the 2003 Resolution, Additional Senior Bonds may be issued on a parity with the outstanding Series 2003 Bonds only when the Board certifies that:

(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 $508 million over the remainder of the current Five-Year Capital Program (ending FY 2007) 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 are outstanding Subordinated Bonds in the aggregate principal amount of $279,835,000. 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 $1,300,000,000 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 2003 Bonds, and after giving effect to the refunding of the Bonds Being Refunded, will be $977,190,000. 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 12 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 2003 Resolution

The Board may amend the 2003 Resolution pursuant to which the Series 2003 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 2003 Resolution or other existing Senior Bond Resolutions; (2) to grant to or confer upon the Owners of the Series 2003 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 2003 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 2003 Bonds.

Exclusive of the amendments described above, the 2003 Resolution or other existing Senior Bond Resolutions, and the rights and obligations of the Board and of the Owners of the Series 2003 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 2003 Bonds; provided, however, that no such modification or amendment shall, without the express written consent of the Owner of each Series 2003 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 2003 Resolution shall be binding upon the Owners of all of the Series 2003 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 2003 Bonds at their addresses appearing on the registration books, briefly describing the proposed amendment.

SOURCES AND APPLICATION OF PLEDGED REVENUES

The Series 2003 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.

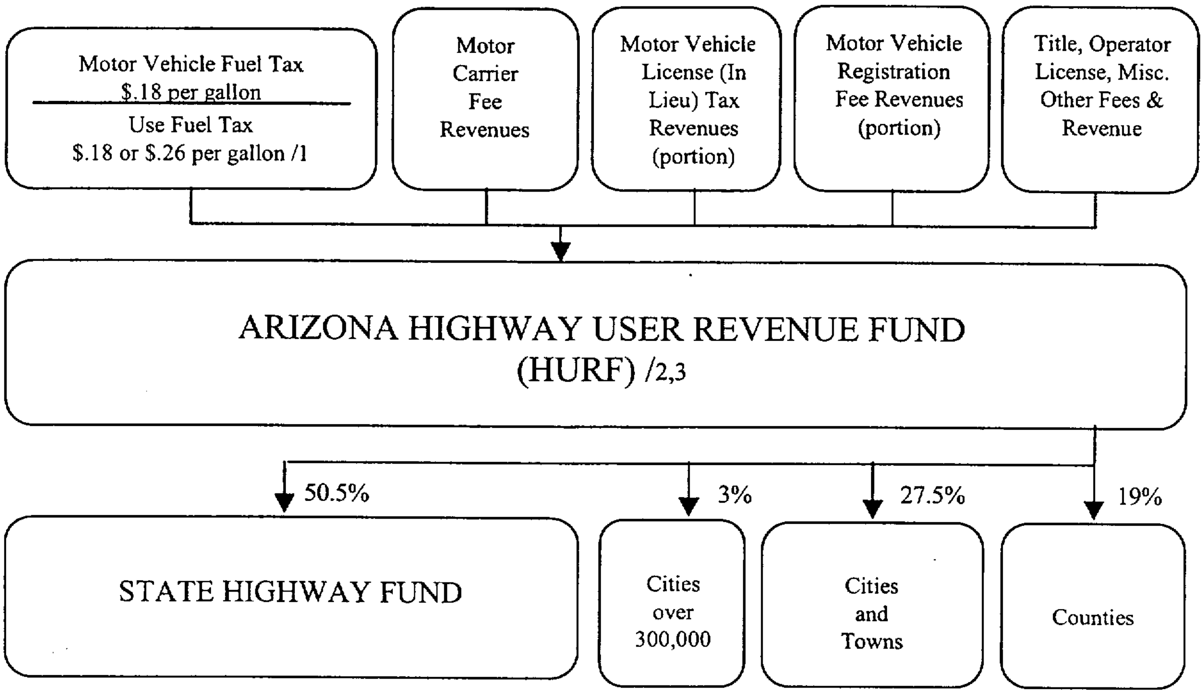
Arizona Highway User Revenue Fund

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 2003 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 For fiscal year 2003, the Legislature has authorized the transfer of $0.5 million to the Economic Strength Project Fund to be expended for highway projects that provide economic benefits to the State or a local jurisdiction and $0.5 million for the Board to award grants to small communities to be used as match for federal funding to provide air service and airport upgrades.

/3 The Legislature has currently authorized a distribution of $54.5 million in fiscal year 2003 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 2003 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, 2002.

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
2002	2,415,654	687,591	3,103,245	4.1%
2001	2,324,443	657,627	2,982,069	2.9
2000	2,272,983	624,396	2,897,379	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	400,219	2,151,483	4.7

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, 2002.

Motor Vehicle Registrations/1

Calendar Year	Passenger Vehicles	Trucks/1	Buses and Taxis	Trailers	Motorcycles	Total
2002	3,808,204	441,820	3,386	420,146	84,604	4,758,160
2001	3,739,081	456,188	3,568	397,157	78,978	4,674,972
2000	3,638,250	419,186	3,791	353,241	73,340	4,487,808
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

1/ Includes commercial and non-commercial.

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. Pursuant to current Arizona statutes, 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 Arizona Highway User Revenue Fund purposes. The above distribution percentages are blended since the tax rates vary between new and renewal vehicles.

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

From time to time legislation is enacted that alters or modifies the deposits of monies into, and the distribution of monies from, the Arizona Highway User Revenue Fund and/or the State Highway Fund, or otherwise affects the Department's capital and financing programs. The information provided below reflects the more significant legislative enactments that have occurred since 2000.

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 for fiscal year 2001 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.

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). SB 1243 and HB 2631 contained appropriations from the Arizona Highway User Revenue Fund to DPS totaling $26.9 million in fiscal year 2002. The new money distributed to the DPS from the Arizona Highway User Revenue Fund under SB 1243 is for additional patrol personnel and equipment. Prior to the passage of these legislative acts, the amount to be distributed from the Arizona Highway User Revenue Fund in the fiscal year was $10 million.

In the March 2002 special session, legislation was enacted (HB 2003) that increased the Arizona Highway User Revenue Fund distribution to the DPS by an additional $10 million in fiscal year 2002. Another special session bill was enacted (HB 2004) that transferred $15 million in fiscal year 2002 from the Arizona Highway User Revenue Fund to the State General Fund for reimbursement of fiscal year 2001 highway patrol costs. Overall, the total amount distributed from the Arizona Highway User Revenue Fund to the DPS and the State General Fund in fiscal year 2002 totaled $51.9 million (resulting in an overall decrease in distributions to the State Highway Fund for fiscal year 2002 of $26.2 million).

During the 2002 regular session, legislation was enacted (HB 2588) which increased the amount of highway revenue bonds that may be outstanding at any one time (including Senior Bonds and Subordinated Bonds) from $1 billion to $1.3 billion. Another bill enacted during this session (HB 2706) included an increase in the Arizona Highway User Revenue Fund distribution to the DPS from $16.1 million to $28.9 million in fiscal year 2003.

In the March 2003 special session, legislation was enacted (HB 2001) that increased the Arizona Highway User Revenue Fund distribution to DPS by an additional $10 million in fiscal year 2003. As a result of the 2002 regular session and March 2003 special session legislation, and including $15.5 million from the 2001 legislation (SB 1243), the total amount required to be distributed from the Arizona Highway User Revenue Fund to the DPS in fiscal year 2003 is $54.5 million (resulting in a decrease in distributions to the State Highway Fund for fiscal year 2003 of $27.5 million).

Proposed Legislation

The Governor and the Joint Legislative Budget Committee (JLBC) have each introduced plans designed to eliminate a forecasted State General Fund deficit in fiscal year 2004. Both plans propose a one-time transfer to the State General Fund in fiscal year 2004 of $128 million of motor vehicle license (in lieu) tax revenues that would otherwise have been deposited in the State Highway Fund from the Arizona Highway User Revenue Fund. The $128 million represents approximately 90% of the motor vehicle license (in lieu) tax revenues forecasted by the Department to be distributed to the State Highway Fund in fiscal year 2004.

The Governor's plan also proposes to increase the Arizona Highway User Revenue Fund transfer to DPS to $75 million in fiscal year 2004, while the JLBC proposal includes a $46.7 million Arizona Highway User Revenue Fund transfer to DPS. In addition, the JLBC proposes transferring $79.8 million of funding for the Department's Motor Vehicle Division from the State Highway Fund to the Arizona Highway User Revenue Fund in fiscal year 2004. For a discussion of the impact of possible revenue transfers on forecasted Pledged Revenues and projected debt service coverage, see "REVENUES AND DEBT SERVICE COVERAGE – Impact of Possible Revenue Transfers" herein.

Until legislation, if any, is enacted into law, the actual impact on the Arizona Highway User Revenue Fund and the amount deposited to the State Highway Fund in fiscal year 2004 cannot be determined. However, the distribution of moneys to the State Highway Fund for use by the Department in fiscal year 2004 will be decreased by 50.5% of the increased funding to the DPS and other funding transferred from the Arizona Highway User Revenue Fund, if any, and by 100% of the amount of motor vehicle license (in lieu) tax revenue transferred to the State General Fund, if any.

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 2003 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

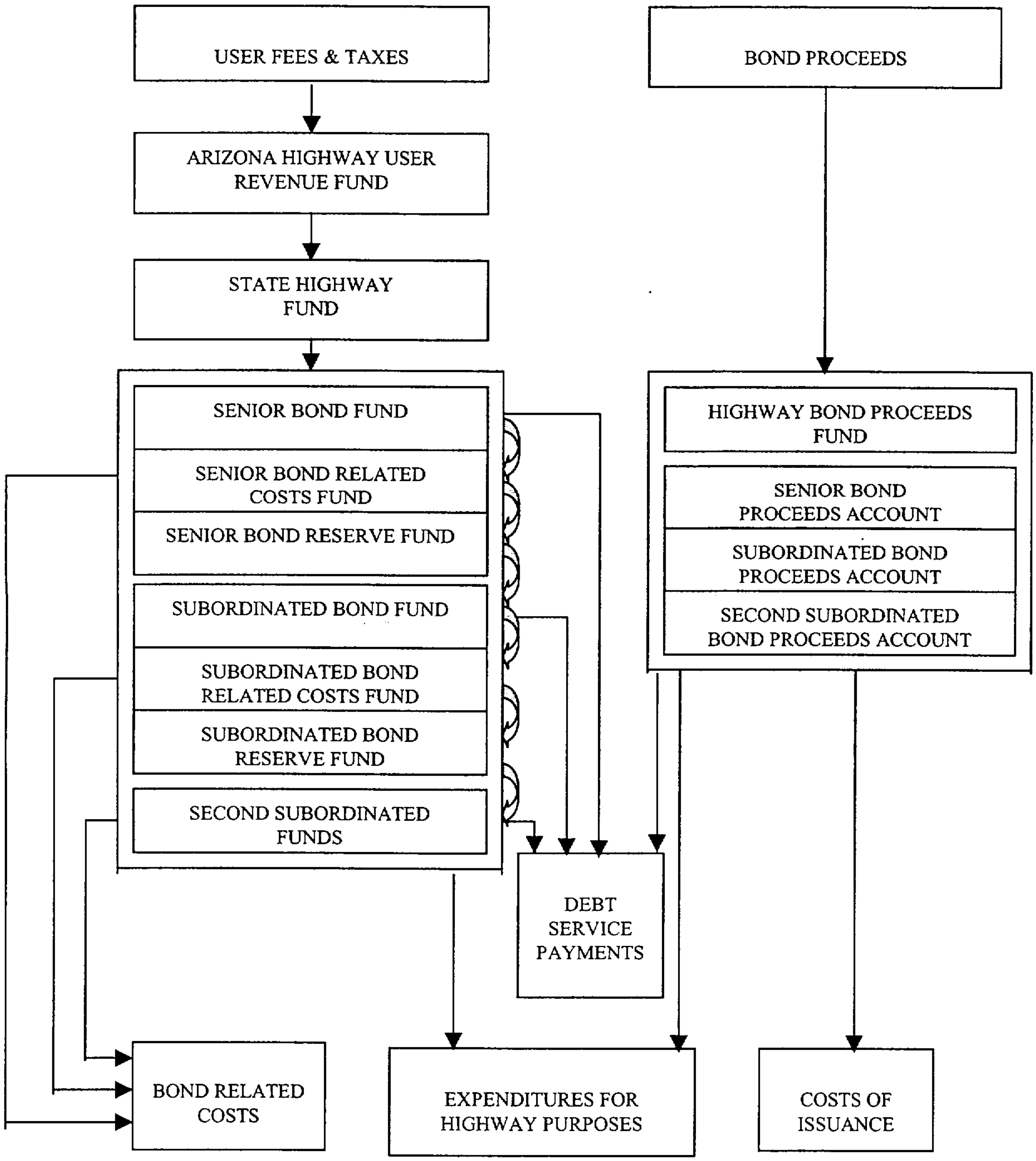
(10) into the Second Subordinated Funds, at such times and in such amounts, if any, specified pursuant to any subsequent resolution of the Board authorizing Second Subordinated Bonds for deposit therein; and then

(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, 2002.

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
2002	$596,325	$138,210	$29,347	$41,873	$270,641	$1,076,395	4.41%	$510,210
2001	574,259	132,269	32,678	40,147	251,612	1,030,965	1.11	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	101,722	63,846	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

/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 Subject to certain adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. Adjustments may include other distributions from the Arizona Highway User Revenue Fund as required by legislative enactments and amounts paid to third party collection agents. See "SOURCES AND APPLICATION OF PLEDGED REVENUES" herein. For fiscal years 1993 through 1997, net of 7% distributed to cities with a population greater than 300,000 persons. For fiscal years 1997 through 2001, includes certain motor vehicle license tax revenues distributed to the State Highway Fund from other than the Highway User Revenue Fund.

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 12-month periods ended June 30, 2002, 2001 and 2000, 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 1.0%, (1.1%), and (0.3%), respectively, of actual collections in such periods.

The following table sets forth the Department's current forecast, as of November 2002, 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 five fiscal years through June 30, 2007. The amounts shown for fiscal year 2003 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; and
- 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")

The prospective financial information included in this Official Statement has been prepared by, and is the responsibility of, the Department. The prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, however, there is no requirement that such prospective financial information be prepared in accordance with such guidelines. In the view of the Department, the forecast included herein was prepared on a reasonable basis and represents the Department's forecast of revenues expected to be deposited in the Arizona Highway User Revenue Fund and State Highway Fund based on current law. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective 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, and disclaim any association with, the prospective 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 CHANGES IN LAW, FLUCTUATING ECONOMIC CONDITIONS AND OTHER VARIABLES AFFECTING REVENUE GROWTH. SUCH VARIATIONS COULD BE MATERIAL. For a discussion of proposed legislation and the impact of possible revenue transfers on forecasted Pledged Revenues, see "SOURCES AND APPLICATION OF PLEDGED REVENUES – Proposed Legislation" herein and "Impact of Possible Revenue Transfers" below.

Forecast of Revenues to be Deposited in the Arizona Highway User Revenue Fund and State Highway Fund Fiscal Years ending June 30, 2003 through June 30, 2007 (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/1,2
2003	$614,300	$137,900	$31,800	$42,600	$281,100	$1,107,700	$523,362
2004	631,200	142,300	32,800	44,500	300,300	1,151,100	567,915
2005	651,400	147,000	33,900	46,700	320,500	1,199,500	591,829
2006	671,800	151,000	34,700	49,000	343,300	1,249,800	616,636
2007	693,700	155,600	35,800	51,600	368,300	1,305,000	643,857

/1 Subject to certain adjustments, 50.5% of revenues deposited to the Arizona Highway User Revenue Fund are distributed to the State Highway Fund. Adjustments may include other distributions from the Arizona Highway User Revenue Fund as required by legislative enactments and amounts paid to third party collection agents. See "SOURCES AND APPLICATION OF PLEDGED REVENUES" herein.

/2 For a discussion of the impact of possible revenue transfers in fiscal year 2004 on forecasted Pledged Revenues, see "Impact of Possible Revenue Transfers" herein.

Note: Totals may not add due to rounding.

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

Impact of Possible Revenue Transfers

As noted under "SOURCES AND APPLICATION OF PLEDGED REVENUES – Proposed Legislation", the State is facing a significant projected general fund budget deficit in fiscal year 2004. Both the Governor and the Joint Legislative Budget Committee (the "JLBC") have introduced plans designed to address the fiscal year 2004 projected deficit, which plans include a potential significant transfer of Arizona Highway User Revenue Fund and/or State Highway Fund monies to the State General Fund in fiscal year 2004.

If enacted as proposed, the Governor's plan would result in a one-time reduction to forecasted Pledged Revenues in fiscal year 2004 from $567.9 million to approximately $415 million. As a result of this proposed reduction, the "Projected Debt Service Coverage on Senior Bonds" and "Projected Total Debt Service Coverage" shown on the table on the following page for fiscal year 2004 would be 5.37 and 4.15, respectively. If enacted as proposed, the JLBC's plan would result in a one-time reduction to forecasted Pledged Revenues in fiscal year 2004 from $567.9 million to approximately $389 million. As a result of this proposed reduction, the "Projected Debt Service Coverage on Senior Bonds" and "Projected Total Debt Service Coverage" shown on the table on the following page for fiscal year 2004 would be 5.03 and 3.89, respectively. Assuming no further issuance of Bonds, these coverage levels would also represent the coverage of forecasted Pledged Revenues for fiscal year 2004 to outstanding maximum annual debt service.

Until legislation is enacted into law, the actual impact on forecasted distributions to the State Highway Fund and on forecasted Pledged Revenues for fiscal year 2004 cannot be determined.

Debt Service Requirements, Forecasted Pledged Revenues and Projected Debt Service Coverage(1)

The debt service requirements of the outstanding Senior Bonds and Subordinated Bonds, and of the Series 2003 Bonds are set forth below. Based upon the Department's current forecasts of Pledged Revenues and debt service, the projected debt service coverage of the outstanding Senior Bonds and Subordinated Bonds and the Series 2003 Bonds (assuming no issuance of Additional Senior Bonds or Additional Subordinated Bonds) is as follows:

Twelve Months Ending July 1	Forecasted Pledged Revenues(2)	Outstanding Senior Bonds(3)	Series 2003 Bonds Principal Payments	Series 2003 Bonds Interest Payments	Series 2003 Bonds Total Debt Service	Total Senior Bonds Debt Service(3)	Projected Debt Service Coverage on Senior Bonds(3)	Outstanding Subordinated Bonds (3)	Total Senior and Subordinated Debt Service Requirements(3)	Projected Total Debt Service Coverage(3)
2003	$523,362,000	$44,003,199				$44,003,199	11.89	$42,418,614	$86,421,813	6.06
2004	567,915,000	50,041,289	$16,350,000	$10,937,734	$27,287,734	77,329,023	7.34	22,593,976	99,922,999	5.68
2005	591,829,000	37,231,854	17,135,000	8,423,188	25,558,188	62,790,041	9.43	34,720,456	97,510,498	6.07
2006	616,636,000	37,788,586	14,350,000	7,503,088	21,853,088	59,641,674	10.34	38,420,116	98,061,790	6.29
2007	643,857,000	37,841,441	15,050,000	6,808,338	21,858,338	59,699,779	10.78	38,416,756	98,116,535	6.56
2008		37,794,794	15,725,000	6,134,463	21,859,463	59,654,256		38,415,300	98,069,556	
2009		37,987,814	16,550,000	5,308,900	21,858,900	59,846,714		38,423,700	98,270,414	
2010		37,392,164		4,481,400	4,481,400	41,873,564		57,143,950	99,017,514	
2011		37,320,384		4,481,400	4,481,400	41,801,784		57,144,700	98,946,484	
2012		58,394,574		4,481,400	4,481,400	62,875,974			62,875,974	
2013		58,396,854		4,481,400	4,481,400	62,878,254			62,878,254	
2014		58,401,999		4,481,400	4,481,400	62,883,399			62,883,399	
2015		44,332,150	9,415,000	4,481,400	13,896,400	58,228,550			58,228,550	
2016		44,335,275	9,885,000	4,010,650	13,895,650	58,230,925			58,230,925	
2017		44,335,725	10,380,000	3,516,400	13,896,400	58,232,125			58,232,125	
2018		44,334,038	10,900,000	2,997,400	13,987,400	58,231,438			58,231,438	
2019		44,335,488	11,440,000	2,452,400	13,892,400	58,227,888			58,227,888	
2020		33,434,825	12,015,000	1,880,400	13,895,400	47,330,225			47,330,225	
2021		17,929,050	12,615,000	1,279,650	13,894,650	31,823,700			31,823,700	
2022		17,929,338	13,245,000	648,900	13,893,900	31,823,238			31,823,238	

(1) For a discussion of the impact of possible revenue transfers in fiscal year 2004 on forecasted Pledged Revenues and projected debt service coverage, see "Impact of Possible Revenue Transfers" on prior page.

(2) From Department's forecasts for 2003 to 2007 described under "Projected Revenues" above.

(3) Actual Debt Service on the outstanding Senior Bonds is net of debt service represented by the Bonds Being Refunded. Does not reflect debt service requirements on up to $508 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 2003 BONDS - Additional Bonds" for a further discussion of such requirements.

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
Ingo Radicke, Chair Transportation District 4 Gila, Graham and Pinal Counties	Globe	2004
Bill Jeffers, Vice Chair 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
Si Schorr, Member Transportation District 2 Pima County	Tucson	2009

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.

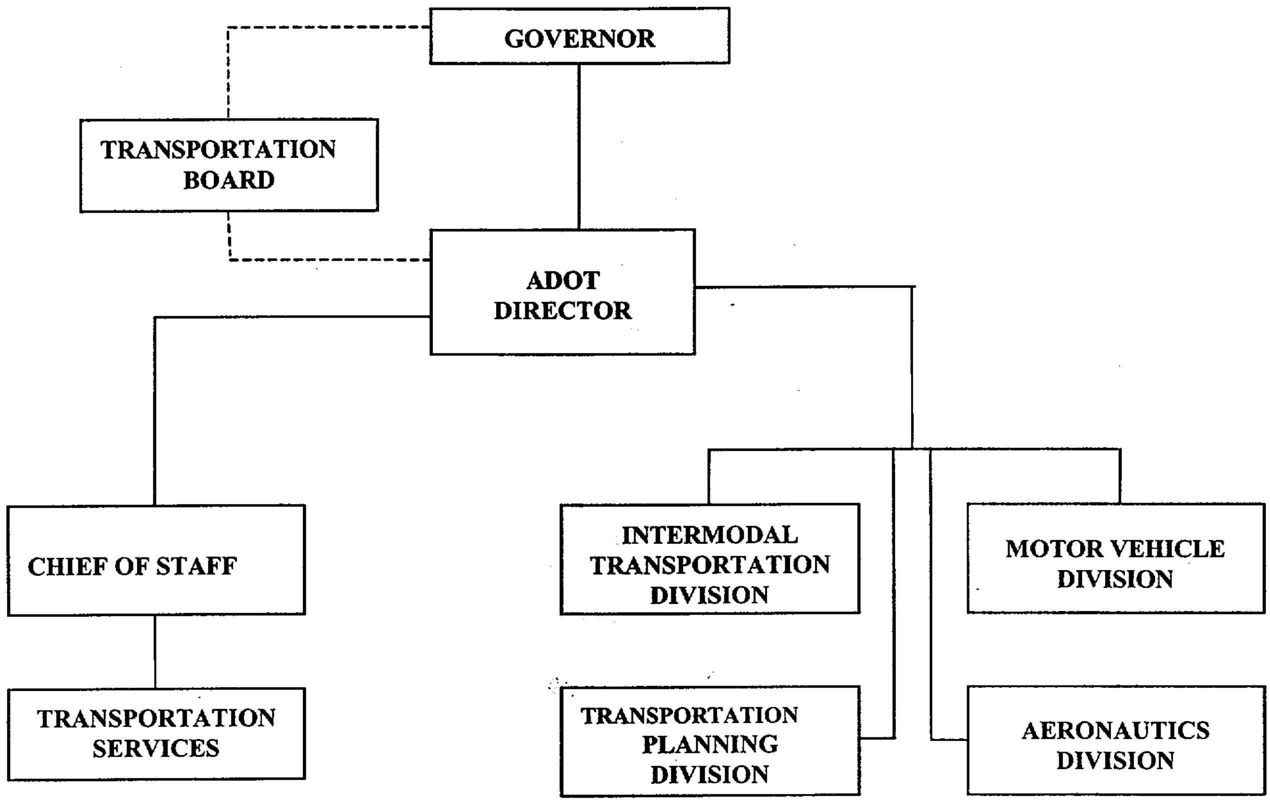
The Department administers the State highway system. The Department's responsibilities also include: (i) registration of motor vehicles and aircraft; (ii) transportation planning, coordination of transportation planning with local governments and annual development of a priority program of capital improvements 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.

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.

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, 2002, derived from its audited financial statements. The information for the fiscal year ended June 30, 2002, should be read in conjunction with the audited basic financial statements of the Department for the fiscal year ended June 30, 2002, 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, 2000 through June 30, 2002

	2000	2001	2002
Revenues:			
Vehicle registration, title, license and related fees	245,943,047	$210,086,489	$228,894,803
Fuel and motor carrier taxes and fees	275,661,282	300,354,146	294,144,373
Reimbursement of construction expenditures – federal aid	372,411,938	360,869,634	479,443,294
Other federal grants and reimbursements	5,180,895	4,879,115	5,388,898
Reimbursements from Arizona counties, cities and other state agencies	3,111,760	2,900,099	5,634,123
State appropriations	179,690	255,991	317,478
Interest on loans receivable	-	-	418,467
Interest on investments	12,284,145	13,844,679	14,388,418
Other	8,373,555	16,689,696	17,101,259
Total revenues	923,146,312	909,879,849	1,045,731,113
Expenditures:			
Current:			
Transportation – appropriated by State legislature:			
Administration	47,847,296	48,149,597	56,229,911
Highway	42,302,275	43,116,888	43,578,170
Highway Maintenance	83,397,548	89,400,095	89,314,437
Motor Vehicle Division	71,345,034	73,442,885	77,613,135
Other	654,856	1,021,429	2,091,895
Total Transportation – appropriated by State legislature	245,547,009	255,130,894	268,827,548
Transportation – not appropriated by State legislature	6,751,022	6,360,624	7,479,691
State appropriations	-	-	3,863,067
Capital Outlay:			
Highway construction	682,094,083	620,188,336	701,666,645
Land, buildings and improvements – appropriated by State legislature	10,956,144	5,418,193	-
Contracts and capital leases payable	2,577,187	909,714	-
Arizona Department of Public Safety Distributions – appropriated by State legislature	12,500,000	12,500,000	25,017,100
Distribution to Arizona counties, cities and other state agencies	19,756	-	232,500
Interest on Loans Payable	-	3,052,152	1,228,358
Total Expenditures	960,445,201	903,559,913	1,008,314,909
Excess (deficiency) of revenues over (under) expenditures	(37,298,889)	6,319,936	37,416,204

Arizona Department of Transportation
State Highway Fund
Summary of Revenues, Expenditures, and Changes in Fund Balances
Fiscal years ended June 30, 2000 through June 30, 2002
(Continued)

	2000	2001	2002
Other financing sources (uses):			
Proceeds from contracts and capital leases payable	2,577,187	909,714	-
Operating transfers in	67,255,008	84,939,201	6,701,604
Operating transfers out:			
Debt service	(76,483,277)	(86,529,221)	(83,617,343)
Other	(61,195)	(20,007,142)	(175,058)
Total other financing (uses)	(6,712,277)	(20,687,448)	(77,090,797)
Net change in fund balance	(44,011,166)	(14,367,512)	(39,674,593)
Fund balances, July 1	286,381,008	242,369,800	228,002,288
Fund balances, June 30	**$242,369,842**	**$228,002,288**	**$188,327,695**

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 2003 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 2003 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 2003 Bonds or in any way contest or affect the validity of the Series 2003 Bonds, or which concerns the proceedings of the Board taken in connection with the issuance and sale of the Series 2003 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.

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, 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 2003 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 2003 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 2003 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 federal 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 2003 Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants of the Board to be contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2003 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 those certifications and representations.

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 require future or continued compliance after issuance of the obligations in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Board may cause the interest on the Series 2003 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 the actions required of it for the interest on the Series 2003 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 the Code, a portion of the interest on the Series 2003 Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. In addition, the interest on the Series 2003 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 may have certain adverse federal income tax consequences on items of income, deduction or credit 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 and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2003 Bonds. Bond Counsel will express no opinion regarding those consequences.

Purchasers of the Series 2003 Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should consult their own tax advisers regarding other tax considerations such as the consequences of market discount.

Original Issue Discount/Original Issue Premium

Certain of the Series 2003 Bonds as indicated on the inside cover of this Official Statement were 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 a Discount Bond. 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 yield 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 purchased in the initial offering at the initial price for that Discounted Bond indicated on the inside cover of this Official Statement (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 2003 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.

Certain of the Series 2003 Bonds as indicated on the inside cover of this Official Statement were offered and sold to the public at a 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 that bond premium is deductible by an owner of a Premium Bond. 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 the 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 from the sale or other disposition 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 and 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 and bond premium for purposes of state and local taxes on, or based on, income.

INDEPENDENT AUDITORS

The basic financial statements of the Department as of and for the year ended June 30, 2002 included in this Official Statement in Appendix A have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein. The auditors' report refers to certain sections (introductory) and schedules (combining and individual 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 April 1, 2003 (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 2003 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 2003 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 2003 Bonds are no longer outstanding (within the meaning of the Senior Bond Resolution) or the Rule no longer applies to the Series 2003 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 2003 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 2003 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 2003 Bonds have been rated "AAA" and "Aa1", respectively, by Standard & Poor's Rating Services, 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 2003 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 2003 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 2003 Bonds.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 2003 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 2003 Bonds, will be delivered to the Board at the time of original delivery. The text of that opinion will be printed on the Series 2003 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 2003 Bonds, the Senior Bond Resolution, the Subordinated Bond Resolution and the tax-exempt status of interest on the Series 2003 Bonds (except for outstanding amounts of Senior Bonds and Subordinated Bonds), contained under the captions "INTRODUCTION", "THE SERIES 2003 BONDS", "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 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 2003 Bonds or the Board or the Department that may be made available to the prospective purchasers of the Series 2003 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, Greenberg Traurig, LLP.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2003 Bonds from the Board at a price of $198,356,980.61 plus accrued interest. Based upon the initial offering yields of the Series 2003 Bonds as shown on the inside cover hereof, the Underwriters will receive compensation of $602,733.24. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2003 Bonds to dealers (including dealers depositing the Series 2003 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 2003 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 2003 Bonds.

This Official Statement is submitted in connection with the sale of the Series 2003 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/ Ingo Radicke
Ingo Radicke, 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, 2002
WITH REPORT OF INDEPENDENT AUDITORS

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 Honorable Jane Dee Hull
Governor of the State of Arizona, and
Members of the Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arizona Department of Transportation (the "Department") as of and for the year ended June 30, 2002, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions 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 opinions.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position and cash flows of only that portion of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information that is attributable to the transactions of the Department.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4 to the basic financial statements, in fiscal year 2002, the Department adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis, budgetary comparison information and infrastructure assets reported using the modified approach information on pages 3 through 12, 51 through 54 and 55 through 59 are not a required part of the basic financial statements and are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financials statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, a report has been issued on the 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 Arizona Department of Transportation 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

November 15, 2002

As management of the Arizona Department of Transportation (Department), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with the letter of transmittal, which can be found on pages i-v and the Department's financial statements, which begin on page 13 with the accompanying notes and required supplementary information (RSI). Because fiscal year 2002 represents the first year in which the Department implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, this discussion and analysis provides few comparisons with the previous year. Future reports are required to include extensive comparisons.

Financial Highlights

Government-wide:

- The assets of the Department exceeded its liabilities at the close of the fiscal year by $9.7 billion (reported as *total net assets*). Of this amount, $221.2 million (*unrestricted net assets*) may be used to meet the Department's ongoing obligations to citizens and creditors.

- The Department's investment in capital assets, net of related debt, is $9.0 billion, resulting from the implementation of GASB 34. GASB 34 requires the Department to include all capital assets ($10.7 billion) net of its related debt ($1.7 billion).

Fund Level:

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of $413.0 million. Approximately $90.6 million (22 percent) is available for spending at the government's discretion (unreserved fund balance). At the end of the fiscal year, unreserved fund balance for the General Fund was $67.3 million.

- The proprietary funds reported net assets at year end of $86.3 million, an increase of $1.9 million during the year.

Non-Current Liabilities

- The Department's non-current liabilities increased by 8 percent during the fiscal year to $1.9 billion. This increase can be attributed to issuance of $100.0 million in Board Funding Obligations ($60.0 million to the State Highway Fund and $40.0 million the Highway Expansion and Extension Loan Program Fund (HELP)), $25.7 million in construction loans from the City of Mesa to Maricopa Regional Area Road Construction Fund, and $94 million in HELP loans to the State Highway Fund. The bonded debt decreased by $63.6 million (4 percent) as a result of new issuances, refundings, and repayments.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction of the Department's basic financial statements. The Department's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

For the first time, this report includes government-wide financial statements as required by GASB Statement No. 34.

Government-wide Financial Statements (Reporting the Department as a Whole)

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

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

- An increase or decrease in the Department's net assets from one year to the next is an indicator of whether its financial health is improving or declining.
- Other indicators of the Department's financial health include the condition of its roads and highways (infrastructure), and economic trends affecting the Department's future tax revenues.

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

The statement of net assets and the statement of activities divide the Department's activities into two types:

Governmental Activities

The Department's basic services are reported here, including administration, aeronautics, highway, highway maintenance, motor vehicle division and other activities. Taxes, fees, and federal grants finance most of these activities.

Business-Type Activities

Activities for which the Department charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The Department's *Arizona Highways Magazine* and Highway Expansion and Extension Loan Program (HELP) are reported here.

The government-wide financial statements can be found on pages 13-14 of this report.

This report includes two schedules (Exhibit 3.1 and Exhibit 4.1) that reconcile the amounts reported on the governmental fund financial statements (prepared using the modified accrual basis of accounting) with governmental activities (prepared using the accrual basis of accounting) on the appropriate government-wide statements. The following summarizes the impact of converting to GASB 34 reporting:

- Capital assets used in governmental activities are not reported on governmental fund statements.

- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.

- Internal service fund is reported as governmental activities, but reported as proprietary funds in the fund financial statements.

- Deferred issuance costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.

- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, notes payable and others, only appear as liabilities on the government-wide statements.

- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.

- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.

- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

Fund Financial Statements (Reporting the Department's Major Funds)

The fund financial statements begin on page 15 and provide detailed information about the major individual funds. A fund is an accounting entity with a self-balancing set of accounts that the Department uses to keep track of specific sources of funding and spending for a particular purpose. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

The Department maintains sixteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Debt Service Fund and Capital Projects Fund which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The legislature appropriates an annual budget for the Department's General Fund. The Schedule of Revenues and Expenditures – Budget and Actual has been provided for the General Fund to demonstrate compliance with this budget and is presented as required supplementary information.

The governmental funds financial statements can be found on pages 15-22 of this report.

Proprietary Funds. When the Department charges customers for the services it provides – whether to outside customers, other agencies or to other divisions of the Department – these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting; the same method used by private sector businesses. Enterprise funds report activities that provides supplies and services to the general public. The Department's enterprise funds are the *Arizona Highways Magazine* Fund and Highway Expansion and Extension Loan Program Fund. The internal service fund reports activities that provide supplies and services for the Department's other programs and activities and other state agencies. The Equipment Fund is the Department's only internal service fund. The internal service fund is reported as governmental activities on the government-wide statements.

The proprietary funds financial statements can be found on pages 23-25 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs.

The fiduciary fund financial statement can be found on pages 26-27.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-50 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the Department's Schedule of Revenues and Expenditures – Budget and Actual for the General Fund and the modified approach to reporting infrastructure assets. Required supplementary information can be found on pages 51-59 of this report.

Other Supplementary Information. Other supplementary information includes the combining statements for the non-major governmental funds and internal service fund are presented immediately following the required supplementary information on budget and infrastructure assets. Combining and individual fund statements and schedules can be found on pages 60-66 of this report.

Government-wide Financial Analysis

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

The Department's combined net assets increased by $861.0 million over the course of this fiscal year's operations. The net assets of the governmental activities increased by $859.1 million or 99.8 percent and business-type activities increased by $1.9 million or 0.2 percent.

The following table reflects the condensed Statement of Net Assets as of June 30, 2002:

	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 833,488,297	$235,245,607	$ 1,068,733,904
Capital assets	10,733,547,800	1,439,057	10,734,986,857
Total assets	11,567,036,097	236,684,664	11,803,720,761
Other liabilities	213,447,052	4,760,226	218,207,278
Non-current liabilities	1,734,806,233	145,670,558	1,880,476,791
Total liabilities	1,948,253,285	150,430,784	2,098,684,069
Net assets:			
Invested in capital assets, net of related debt	8,998,741,567	1,439,057	9,000,180,624
Restricted	400,315,381	83,292,829	483,608,210
Unrestricted	219,725,864	1,521,994	221,247,858
Total net assets	$ 9,618,782,812	$ 86,253,880	$ 9,705,036,692

The total assets of the Department were $11.8 billion, while total liabilities were $2.1 billion, resulting in a net assets balance of $9.7 billion. By far, the largest portion of the Department's net assets, $9.0 billion (93 percent), were invested in capital assets (e.g., land, infrastructure, buildings, machinery and equipment), net of any related debt used to acquire those assets. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

As of June 30, 2002, the Department is able to report positive balances in all three categories of net assets, both for the governmental and business-type activities.

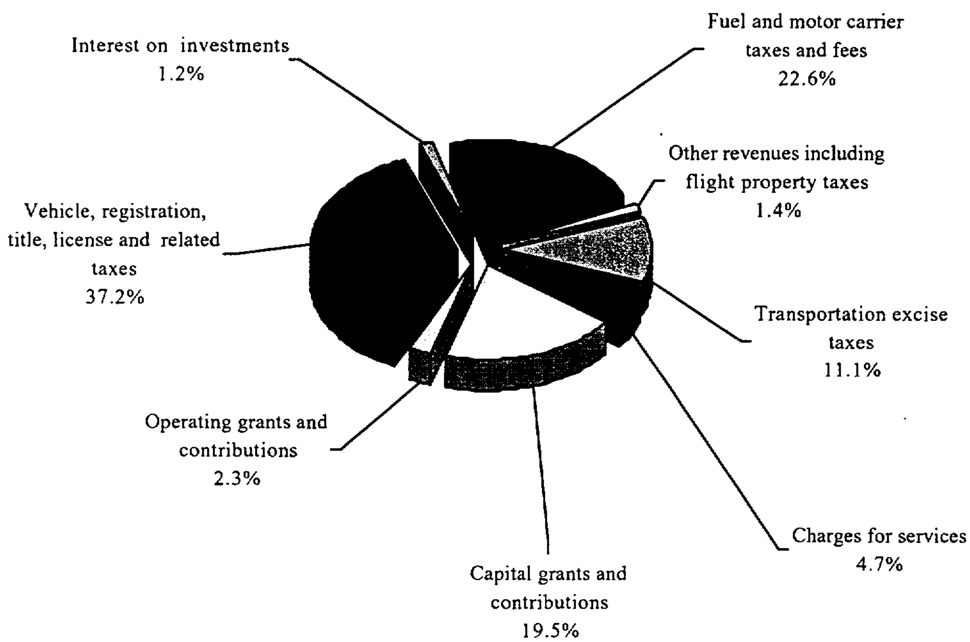
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net assets changed during the year:

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 112,724,784	$ 11,840,350	$ 124,565,134
Operating grants and contributions	56,480,747	-	56,480,747
Capital grants and contributions	470,771,977	-	470,771,977
General revenues:			
Transportation excise taxes	267,563,343	-	267,563,343
Vehicle, registration, title, license and related taxes	899,092,103	-	899,092,103
Fuel and motor carrier taxes and fees	547,129,189	-	547,129,189
Flight property taxes	6,528,347	-	6,528,347
Interest on investments	29,862,802	5,624,632	35,487,434
Other	26,484,086	381,360	26,865,446
Total revenues	2,416,637,378	17,846,342	2,434,483,720
Expenses:			
Administration	57,864,409	-	57,864,409
Aeronautics	3,750,673	-	3,750,673
Highway	160,481,172	-	160,481,172
Highway Maintenance	91,569,523	-	91,569,523
Motor Vehicle	82,904,097	-	82,904,097
Other	6,844,145	-	6,844,145
Transportation - not appropriated by State legislature	7,482,406	-	7,482,406
Distributions to Arizona counties, cities and other state agencies	1,064,559,675	-	1,064,559,675
Interest on long-term debt	89,604,704	-	89,604,704
Arizona Highways Magazine	-	10,710,728	10,710,728
Highway Expansion and Extension Loan Program	-	5,264,722	5,264,722
Total expenses	1,565,060,804	15,975,450	1,581,036,254
Increase in net assets	851,576,574	1,870,892	853,447,466
Net assets - July 1	8,767,206,238	84,382,988	8,851,589,226
Net assets - June 30	$ 9,618,782,812	$ 86,253,880	$9,705,036,692

Governmental Activities:

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2002:

Revenues - Governmental Activities

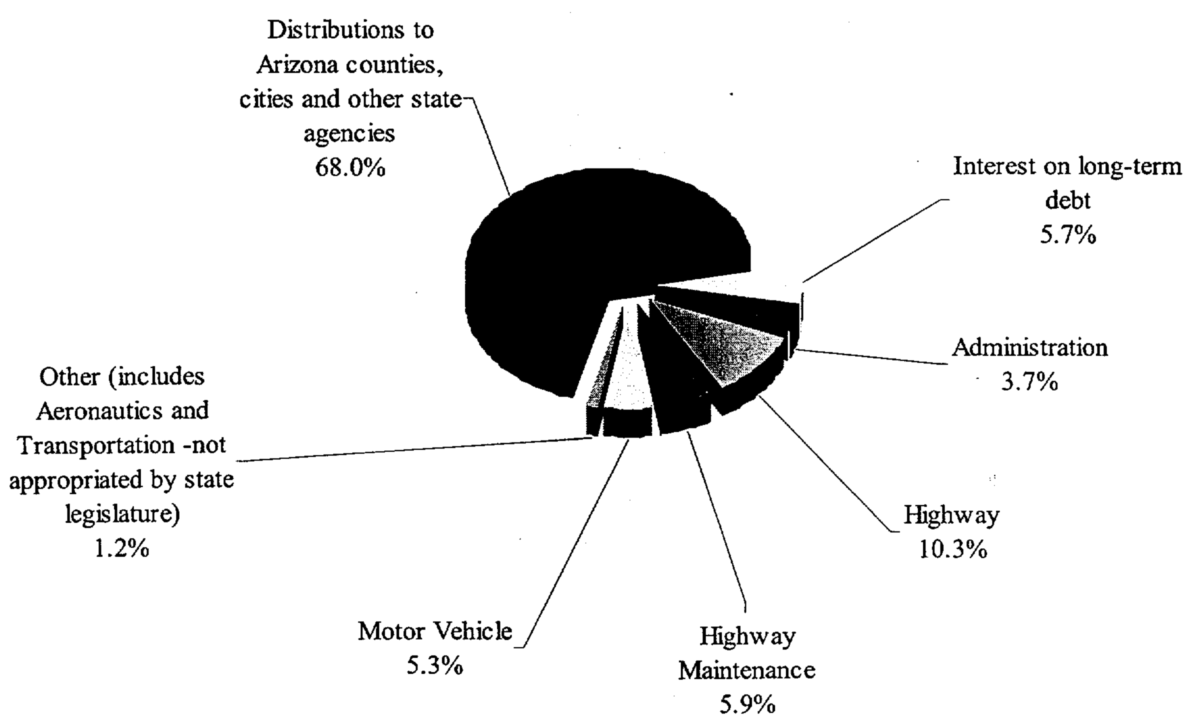


$2.2 billion (or 90.4 percent) of the Department revenues are from the following four revenue sources:

1. Vehicle, registration, title, license and related taxes represent the Department's largest revenue source of $899.1 million (37.2 percent).
2. Fuel and motor carrier taxes and fees represent the Department's second largest revenue source of $547.1 million (22.6 percent).
3. Capital grants and contributions represent the Department's third largest revenue source of $470.8 million (19.5 percent).
4. Transportation excise taxes represent the Department's fourth largest revenue source of $267.6 million (11.1 percent).

The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2002:

Expenses - Governmental Activities



Business-Type Activities:

Net assets for business-type activities increased by $1.9 million during the fiscal year. Of the total revenues of $17.9 million, charges for services represented 66.3 percent and interest on investments 31.5 percent. The total expenses for business-type activities were $16.0 million. Factors contributing to these results included:

- The Arizona Highways Magazine's deficit of $0.6 million. This deficit is attributable to a decrease in magazine sales as a result of the down turn in the economy since the September 11, 2001 terrorist act.

- The Highway Expansion and Extension Loan Program's income of $2.5 million. The majority of the changes are attributable to an increase in the interest on loan receivables.

Financial Analysis of the Department's Funds

As previously mentioned, the Department uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental Funds. The focus of the Department's governmental funds financial statements (page 15-22) is to provide information on near-term inflows, outflows, and balances of spendable resources. All major governmental funds are discretely presented on these financial statements, while the nonmajor funds are combined into a single column. Combining statements for the non-major funds may be found on pages 60-63.

As of the end of the fiscal year, the fund balances of the governmental funds totaled $413.0 million. Of this balance, $90.6 million or 22.0 percent constitutes unreserved fund balance, which was available for spending for the general purposes of the Department. The remaining fund balance of $322.3 million or 78.0 percent was reserved for the following: 1) $20.0 million to liquidate an advance to the HELP, 2) $25.0 million to pay debt service, and 3) $277.3 million to pay for capital projects.

The General Fund is the chief operating fund of the Department. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $67 million and the reserved fund balance was $121 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. Unreserved fund balance represents 7 percent of total General Fund expenditures, while total fund balance represents 19 percent of the same amount.

Capital Assets and Debt Administration

Capital Assets (Note 5A):

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounts to $10.7 billion (net of accumulated depreciation).

	Governmental Activities	Business-Type Activities	Total
Land	$ 1,715,941,418	$ 7,900	$ 1,715,949,318
Buildings and improvements	97,635,066	345,600	97,980,666
Improvements other than buildings	12,134,233	-	12,134,233
Airport facilities	19,569,077	-	19,569,077
Mobile fleet and aircraft	41,995,018	-	41,995,018
Machinery and equipment	16,280,578	1,085,557	17,366,135
Infrastructure	7,444,327,275	-	7,444,327,275
Construction in progress	1,385,665,135	-	1,385,665,135
Total	$10,733,547,800	$ 1,439,057	$10,734,986,857

As provided by GASB 34, the Department has elected to record its infrastructure assets using the modified approach. Assets accounted for under the modified approached include approximately 6,650 center lane miles (17,807 travel lane miles) and 4,378 bridges that the Department is responsible for maintaining.

The Department manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public.. The PSR uses a five-point scale (5 excellent, 0 poor) to characterize the condition of the roadway. The Department's serviceability rating goal is 3.23 for the overall system. The most recent assessment indicated that an overall rating of 3.6 was achieved for fiscal year 2002.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). The Department determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the Department to maintain a Condition Rating Index (CRI) of 92.5 percent or better. In fiscal year 2002, a CRI of 93.6 percent was obtained.

In addition to many smaller projects, the following major highway construction projects in excess of $20 million were started during fiscal year 2002:

Project Description	Contract Start	Contract Amount
Construction of Pima Loop 101 from Scottsdale Road to Pima Road	07/18/2001	$ 24,537,697
Construction of the Red Mountain Loop 202 from Gilbert Road to Higley Road	08/21/2001	$ 46,835,303
Widening of a 5.5 mile section of State Route 260 near Christopher Creek	09/27/2001	$ 32,500,000
Construction of US 60 (Grand Avenue) Ramps at 27th Avenue and 91st Avenue	09/27/2001	$ 24,209,923
Reconstruction of the Interstate 10 and Interstate19 Interchange	04/15/2002	$ 54,272,422
Construction of the Price Loop 101 and Santan Loop 202 Interchange	04/22/2002	$ 48,374,811
Construction of the Santan Loop 202 from 56th Street to McClintock Drive	06/24/2002	$ 38,376,899

Non-Current Liabilities (Note 5 H):

Governmental Activities	
Highway revenue bonds	$ 734,155,000
Transportation excise tax revenue bonds	602,890,000
Grant anticipation notes	182,295,000
Premium on bonds	9,357,653
Compensated absences	11,701,814
Capital leases	1,557,477
Notes payable	192,849,289
Total Governmental Activities	$ 1,734,806,233

Business-Type Activities	
Compensated absences	$ 134,092
Notes payable	145,536,466
Total Business-Type Activities	$ 145,670,558
Total Non-Current Liabilities	$ 1,880,476,791

As of June 30, 2002, the Department had $1.52 billion in outstanding bonds payable. This total includes $734.2 million in Highway Revenue Bonds (HURF), $602.9 million in Transportation Excise Tax Revenue Bonds (RARF) and $182.3 million in Grant Anticipation Notes (GANs). The Department has $9.4 million in unamortized premium on bonds. The Department had capital leases outstanding of $1.6 million for acquisition of data processing equipment and notes payable of $338.4 million for the following:

1. General Fund - $93,979,854 for loans from the HELP and $60,010,175 for principal and interest for Board Fund Obligations (BFO) for highway constructions.
2. Maricopa Regional Area Road Construction Fund - $33,166,362 for a loan from the City of Mesa for advance construction of a section of Loop 202.
3. Equipment Fund - $5,692,898 for purchase of snow plows using capital leases.
4. HELP Fund - $145,536,466 for principal and interest for BFO used for capitalizing Arizona's State Infrastructure Bank.

The bonds have been sold in 25 separate issues between 1986 and 2002. All bonds outstanding as of June 30, 2002, are scheduled to mature not later than July 1, 2020. The bonds are obligations of the Transportation Board and are not obligations of the State of Arizona.

Of the \$4.0 billion total in bonds issued between 1986 and 2002, \$1.2 billion, or approximately 30 percent, have been refunding issues to lower debt service costs. These efforts have resulted in cumulative debt service savings of \$60 million in current dollars and \$42 million on a present value basis.

The senior lien HURF bonds have been rated AAA/Aa1 by Standard & Poor's Rating Services Group and Moody's Investors Service, respectively. The Department's subordinate lien HURF bonds are rated AA/Aa2. The senior lien RARF bonds are rated AA/Aa2, while the subordinate lien RARF bonds are rated A/Aa3. The Grant Anticipation Notes are rated AA-/Aa3/AA with the additional rating provided by Fitch, Inc.

Laws 1999, Chapter 189 (SB 1201), Arizona Revised Statute 28-7678, authorized the Transportation Board to issue nonnegotiable Board Funding Obligations (BFOs) for purchase by the Arizona State Treasurer. The law restricts the Transportation Board to issuing \$100 million in fiscal years 2000, 2002 and 2004. The BFOs are used to capitalize Arizona's State Infrastructure Bank, which allows the Department and political subdivisions to apply for loans from the HELP established by this legislation

Laws 2001, Chapter 238 (HB 2636), Arizona Revised Statute 28-7510, increased the HURF bonding cap to \$1 billion from \$800 million. Additionally, the legislation authorized the Transportation Board to issue an additional \$100 million in BFOs in fiscal year 2002 and increased the BFO authority in fiscal year 2004 to \$200 million from \$100 million. The distribution of this additional BFO authority is \$60 million to the State Highway Fund and \$40 million to the HELP fund in fiscal years 2002 and 2004.

Laws 2002, Chapter 4 (HB 2588), Arizona Revised Statute 28-7510, increased the HURF bonding cap to \$1.3 billion from \$1.0 billion

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the Department's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 7th Avenue, Phoenix, Arizona, 85007 or by visiting our website at http://www.dot.state.az.us/ABOUT/fms/cafr/cindex.htm

Arizona Department of Transportation
Statement of Net Assets
June 30, 2002

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Unrestricted cash on deposit with the State Treasurer	$ 186,838,257	$ 2,301,232	$ 189,139,489
Receivables:			
Notes and loans	11,570,864	106,119,476	117,690,340
Subscriptions, net of allowance for doubtful accounts	-	456,519	456,519
Accrued interest	4,452,915	674,334	5,127,249
Taxes and fees	102,618,734	-	102,618,734
Other, net of allowance for doubtful accounts	4,774,351	46,801	4,821,152
Due from U.S. Government for reimbursable construction costs	57,592,619	-	57,592,619
Due from Arizona counties, cities and other state agencies	22,324,023	158,953	22,482,976
Internal balances	19,429,740	<19,429,740>	-
Inventories	6,392,123	2,809,704	9,201,827
Prepaid items	-	773,730	773,730
Deferred charges	953,490	-	953,490
Restricted cash on deposit with the State Treasurer	416,541,181	141,334,598	557,875,779
Capital assets not subject to depreciation (Note 5A)	10,565,502,905	7,900	10,565,510,805
Capital assets subject to depreciation, net of accumulated depreciation (Note 5A)	168,044,895	1,431,157	169,476,052
Total assets	11,567,036,097	236,684,664	11,803,720,761
LIABILITIES			
Accounts payable and other current liabilities	30,260,011	285,006	30,545,017
Accrued payroll and other accrued expenses	4,567,029	63,644	4,630,673
Contracts and retainage payable	81,963,147	-	81,963,147
Judgements payable (Note 5C)	5,120,007	-	5,120,007
Due to Arizona counties, cities and other state agencies	91,536,858	157	91,537,015
Deferred revenues (Note 5D)	-	4,411,419	4,411,419
Non-current liabilities (Note 5H):			
Due within one year	342,763,312	134,092	342,897,404
Due in more than one year	1,392,042,921	145,536,466	1,537,579,387
Total liabilities	1,948,253,285	150,430,784	2,098,684,069
NET ASSETS			
Invested in capital assets, net of related debt	8,998,741,567	1,439,057	9,000,180,624
Restricted for:			
Loans and other financial assistance	-	83,292,829	83,292,829
Debt service	25,939,864	-	25,939,864
Capital projects	374,375,517	-	374,375,517
Unrestricted	219,725,864	1,521,994	221,247,858
Total Net Assets	$ 9,618,782,812	$ 86,253,880	$ 9,705,036,692

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

Exhibit 2

Arizona Department of Transportation
Statement of Activities
For the fiscal year ended June 30, 2002

Functions/Programs	Expenses	Program Revenues			Net <Expenses> Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	$ 57,864,409	$ -	$ -	$ -	$ <57,864,409>
Aeronautics	3,750,673	974,016	-	-	<2,776,657>
Highway	160,481,172	-	36,632,493	470,771,977	346,923,298
Highway Maintenance	91,569,523	-	-	-	<91,569,523>
Motor Vehicle	82,904,097	104,298,256	-	-	21,394,159
Other	6,844,145	3,341,440	-	-	<3,502,705>
Transportation - not appropriated by State legislature	7,482,406	-	-	-	<7,482,406>
Distributions to Arizona counties, cities and other state agencies	1,064,559,675	-	-	-	<1,064,559,675>
Intergovernmental	-	4,111,072	19,848,254	-	23,959,326
Interest on long-term debt	89,604,704	-	-	-	<89,604,704>
Total governmental activities	1,565,060,804	112,724,784	56,480,747	470,771,977	<925,083,296>
Business-type Actvities:					
Arizona Highways Magazine	10,710,728	9,613,848	-	-	<1,096,880>
Highway Expansion and Extension Loan Program	5,264,722	2,226,502	-	-	<3,038,220>
Total business-type actvities	15,975,450	11,840,350	-	-	<4,135,100>
Total	$ 1,581,036,254	$ 124,565,134	$ 56,480,747	$ 470,771,977	$ <929,218,396>

	Governmental Activities	Business-type Activities	Total
Net <expenses>	$ <925,083,296>	$ <4,135,100>	$ <929,218,396>
General revenues:			
Transportation excise taxes	267,563,343	-	267,563,343
Vehicle, registration, title, license and related taxes	899,092,103	-	899,092,103
Fuel and motor carrier taxes and fees	547,129,189	-	547,129,189
Flight property taxes	6,528,347	-	6,528,347
Interest on investments	29,862,802	5,624,632	35,487,434
Other	26,484,086	381,360	26,865,446
Total general revenues	1,776,659,870	6,005,992	1,782,665,862
Change in net assets	851,576,574	1,870,892	853,447,466
Net assets - July 1	8,767,206,238	84,382,988	8,851,589,226
Net assets - June 30	$ 9,618,782,812	$ 86,253,880	$ 9,705,036,692

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

Arizona Department of Transportation
Balance Sheet
Governmental Funds
June 30, 2002

	General Fund (State Highway Fund)	Special Revenue Funds: Maricopa Regional Area Road Construction Fund	Special Revenue Funds: Motor Vehicle Division Clearing Fund	Special Revenue Funds: Highway User Revenue Fund
ASSETS				
Unrestricted cash on deposit with the State Treasurer	$ 159,311,245	$ -	$ -	$ -
Receivables:				
Accrued interest	2,102,767	139,533	-	365,548
Taxes and fees	-	-	8,870,768	93,747,966
Notes and loans	2,313,833	3,877,976	-	-
Other	1,753,897	1,612,954	-	-
Amounts due from:				
Other Arizona Department of Transportation funds	79,096,427	-	401,804	9,073,845
U.S. Government	55,995,117	54,663	-	-
Arizona counties, cities and other state agencies	38,010	22,064,262	16	118,493
Inventories	4,082,901	-	-	-
Advance to other Arizona Department of Transportation funds	20,000,000	-	-	-
Restricted cash on deposit with the State Treasurer	101,074,669	107,504,344	32,600,254	53,288,913
Total assets	$ 425,768,866	$ 135,253,732	$ 41,872,842	$ 156,594,765
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	7,054,844	168,022	21,330,245	225,941
Accrued payroll and other accrued expenditures	5,913,105	3,137	-	-
Contracts and retainage payable	66,232,654	4,578,431	-	-
Judgements payable	95,310	-	-	-
Amounts due to:				
Other Arizona Department of Transportation funds	1,139,084	-	9,329,309	78,966,256
Arizona counties, cities and other state agencies	702,312	-	10,226,964	77,402,568
Surety and rental deposits	-	-	986,324	-
Deferred revenue	2,313,833	3,877,976	-	-
Notes payable	153,990,029	33,166,362	-	-
Total liabilities	237,441,171	41,793,928	41,872,842	156,594,765
Fund balances:				
Reserved for:				
Advance to other funds	20,000,000	-	-	-
Debt service	-	-	-	-
Capital projects	101,074,669	93,459,804	-	-
Unreserved	67,253,026	-	-	-
Total fund balances	188,327,695	93,459,804	-	-
Total liabilities and fund balances	$ 425,768,866	$ 135,253,732	$ 41,872,842	$ 156,594,765

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

Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ 23,815,762	$ 183,127,007
801,061	774,613	246,366	4,429,888
-	-	-	102,618,734
-	-	5,379,055	11,570,864
-	-	1,407,500	4,774,351
-	-	124,924	88,697,000
-	-	1,542,839	57,592,619
-	-	64,992	22,285,773
-	-	-	4,082,901
-	-	-	20,000,000
21,991,955	89,413,357	10,667,689	416,541,181
$ 22,793,016	$ 90,187,970	$ 43,249,127	$ 915,720,318
3,121	58,156	155,399	28,995,728
-	-	86,154	6,002,396
-	9,094,234	2,057,828	81,963,147
-	3,639,160	1,385,537	5,120,007
-	-	75	89,434,724
-	-	3,205,014	91,536,858
-	-	-	986,324
-	-	5,379,055	11,570,864
-	-	-	187,156,391
3,121	12,791,550	12,269,062	502,766,439
-	-	-	20,000,000
22,789,895	-	2,196,479	24,986,374
-	77,396,420	5,389,066	277,319,959
-	-	23,394,520	90,647,546
22,789,895	77,396,420	30,980,065	412,953,879
$ 22,793,016	$ 90,187,970	$ 43,249,127	$ 915,720,318

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2002

	General Fund (State Highway Fund)	Special Revenue Funds: Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Revenues:				
Transportation excise taxes	$ -	$ 267,563,343	$ -	$ -
Vehicle registration, title, license and related taxes and fees	228,894,803	-	273,433,476	462,690,369
Fuel and motor carrier taxes and fees	294,144,373	-	145,961,910	105,418,588
Reimbursement of construction expenditures - federal aid	479,443,294	7,174,684	-	-
Other federal grants and reimbursements	5,388,898	-	-	-
Reimbursements from Arizona counties, cities and other state agencies	5,634,123	2,601,135	-	-
State appropriations	317,478	-	-	-
Interest on loans receivable	418,467	344,136	-	-
Interest on investments	14,388,418	2,469,069	-	1,901,476
Flight property taxes	-	-	-	-
Grand Canyon National Park Airport	-	-	-	-
Other	17,101,259	5,637,155	65,574	1,274,683
Total revenues	1,045,731,113	285,789,522	419,460,960	571,285,116
Expenditures:				
Current:				
Transportation - appropriated by State legislature:				
Administration	56,229,911	-	-	-
Highway	43,578,170	-	-	-
Highway maintenance	89,314,437	-	-	-
Motor Vehicle	77,613,135	-	-	-
Aeronautics	-	-	-	-
Other	2,091,895	-	-	-
Total Transportation - appropriated by State legislature	268,827,548	-	-	-

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

Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ 267,563,343
-	-	38,480,412	1,003,499,060
-	-	1,604,318	547,129,189
-	-	30,029,111	516,647,089
-	-	-	5,388,898
-	-	4,111,072	12,346,330
-	-	-	317,478
470,962	-	664,838	1,898,403
3,435,721	6,618,969	883,078	29,696,731
-	-	6,528,347	6,528,347
-	-	941,194	941,194
-	-	958,201	25,036,872
3,906,683	6,618,969	84,200,571	2,416,992,934
-	-	-	56,229,911
-	-	24,791,275	68,369,445
-	-	-	89,314,437
-	-	3,399,274	81,012,409
-	-	3,490,536	3,490,536
274,902	-	1,665	2,368,462
274,902	-	31,682,750	300,785,200

(continued)

Arizona Department of Transportation

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the fiscal year ended June 30, 2002

	General Fund (State Highway Fund)	Special Revenue Funds: Maricopa Regional Area Road Construction Fund	Special Revenue Funds: Motor Vehicle Division Clearing Fund	Special Revenue Funds: Highway User Revenue Fund
Transportation - not appropriated by State legislature	7,479,691	-	-	-
Arizona Department of Public Safety distributions - appropriated by State legislature	25,017,100	-	-	-
State appropriations	3,863,067	-	-	-
Distributions to Arizona counties, cities and other state agencies	232,500	2,234,065	419,460,960	571,285,116
Interest on notes payable	1,228,358	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Capital outlay	701,666,645	71,870,710	-	-
Total expenditures	1,008,314,909	74,104,775	419,460,960	571,285,116
Excess <deficiency> of revenues over <under> expenditures	37,416,204	211,684,747	-	-
Other financing sources <uses>:				
Transfers in	6,701,604	9,813	-	-
Transfers out debt service	<83,617,343>	<198,055,907>	-	-
Transfer out other	<175,058>	<4,539,240>	-	-
Proceeds from sale of bonds	-	-	-	-
Proceeds from sale of refunding bond	-	-	-	-
Premium from sale of bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources <uses>	<77,090,797>	<202,585,334>	-	-
Net change in fund balances	<39,674,593>	9,099,413	-	-
Fund balances - July 1	228,002,288	84,360,391	-	-
Fund balances - June 30	$ 188,327,695	$ 93,459,804	$ -	$ -

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

Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
-	-	-	7,479,691
-	-	-	25,017,100
-	-	-	3,863,067
-	-	45,101,576	1,038,314,217
-	-	-	1,228,358
208,820,000	-	-	208,820,000
84,159,353	-	-	84,159,353
298,631	749,834	-	1,048,465
-	324,228,184	671,162	1,098,436,701
293,552,886	324,978,018	77,455,488	2,769,152,152
<289,646,203>	<318,359,049>	6,745,083	<352,159,218>
291,854,107	-	1,997,753	300,563,277
-	-	<10,180,857>	<291,854,107>
-	<3,899,124>	<95,748>	<8,709,170>
-	142,000,000	-	142,000,000
74,250,000	-	-	74,250,000
3,378,102	6,763,980	-	10,142,082
<77,134,805>	-	-	<77,134,805>
292,347,404	144,864,856	<8,278,852>	149,257,277
2,701,201	<173,494,193>	<1,533,769>	<202,901,941>
20,088,694	250,890,613	32,513,834	615,855,820
$ 22,789,895	$ 77,396,420	$ 30,980,065	$ 412,953,879

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting polices of the Arizona Department of Transportation (Department) conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental and Financial Reporting Standards* (GASB Codification). Following is a summary of the Department's significant accounting policies.

A. Reporting Entity

The Department is a department of the State of Arizona (State) and is not a legally separate entity. The Department has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of state highway routes, approving all highway construction contracts, 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 and other 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.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by federal reimbursement, taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

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

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

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

Unrestricted net assets consists of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being reported in a single column.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis of accounting*, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year they are levied for transportation excise, aircraft licensing, aviation and motor fuel, flight property, and underground storage tanks. Motor carrier and vehicle license taxes are recognized when received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Department's proprietary funds follow GASB pronouncements and those Financial Accounting Standard Board Statements and Interpretations, Accounting Principle Board Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the fiscal year, e.g. federal revenue reimbursements, vehicle license taxes and highway user revenue taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due and payable.

Financial Statement Presentation
The Department reports the following major governmental funds:

The *General Fund,* known as the State Highway Fund, is the primary operating fund. It accounts for all financial resources except for those required to be accounted for in another fund. Expenditures are reported for 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 registrations, titles, licenses and related fees; and federal grants.

The *Maricopa Regional Area Road Construction Fund* is a special revenue fund that receives Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of certain state highways within Maricopa County.

The *Motor Vehicle Division Clearing Fund* is a special revenue fund which accounts for the collection and disbursement of certain Motor Vehicle Division revenues.

The *Highway User Revenue Fund* is a special revenue fund which collects motor vehicle and liquid use fuel taxes and receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the State Highway Fund, the Department of Public Safety, the Arizona State Parks, the Economic Strength Project Fund, and various cities and counties.

The *debt service fund* is used to account for the accumulation of resources for, and the payments of, general long-term debt principal and interest of the governmental funds.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities of the governmental funds.

The Department reports the following major proprietary funds:

The *Highway Expansion and Extension Loan Program Fund* (HELP) is an innovative financing mechanism to administer funds designated to provide loan and credit enhancement assistance to sponsors of local transportation projects.

The *Arizona Highways Magazine Fund* publishes and markets the Arizona Highways Magazine and various other products that promote the State of Arizona.

Additionally, the Department reports the following fund types:

The *internal service fund* which accounts for purchases and maintenance of equipment and materials to be used by other divisions in the Department and other government agencies. The Equipment Fund is the Department's only internal service fund.

The *agency funds* are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Department has two agency funds, the Highway Properties – Privilege Tax and Highway Properties – 24% Lieu Tax.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for services by the Equipment Fund to the other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for services and magazine subscriptions. The Department also recognizes as operating revenues interest on loan receivables and other revenues intended to recover the cost of services. Operating expenses for the enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, the Department generally expends the restricted resources first, then unrestricted resources as they are needed to maintain appropriate cash balances and finance the construction program.

D. Assets, Liabilities, and Net Assets/Fund Balance

Deposits and Investments

The Department's cash include petty cash, bank accounts, and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements or obligations of the U.S. Government. All investments are carried at cost, which approximates fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* classification because they are included in the state's investment pool.

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.

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.*

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between U.S. Government and Arizona counties, cities and other state agencies are reported as "due to/from". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the General Fund to indicate that they are not available for appropriation and are not expendable available financial resources.

The other receivables and subscriptions receivables are shown net of allowance for doubtful accounts. Other receivables in excess of 180 days comprise the insurance claims net of allowance for doubtful accounts. The subscriptions receivable is equal to two (2) percent of outstanding subscriptions at June 30, 2002.

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

Inventories and Prepaid Items

The governmental activities 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.

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Department's governmental revenue bonds, as well as certain resources of the General Fund and the Highway Extension and Expansion Loan Program Fund (enterprise fund) are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or state statutes. 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 General Fund from the Highway User Revenue 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). The debt service fund is used to report the resources set aside for payment of future debt service payments. The revenue bonds proceeds are deposited in the capital projects fund and are restricted for acquisitions of right-of-way and constructions of federal, state and local highways.

Capital Assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, infrastructure and construction in progress are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. Assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Outlays for capital assets are capitalized at the time of the purchase or, in the case of infrastructure, at the time of final acceptance by the Department from the contractor.

The Department depreciates non-infrastructure on a straight-line basis using the following estimated useful lives. Modular building are included on the statements assets under the machinery and equipment category, however, modular buildings have an estimated useful life of fifteen (15) years.

Assets	Years
Buildings and improvements	40
Improvements other than building	40
Machinery and equipment	5-15
Mobile fleet and aircraft	5-15

Infrastructure is capitalized for the first time in fiscal year 2002. The infrastructure assets are reported in the governmental-type activities column of the statement of net assets. The Department's infrastructure assets consist of roads and bridges and are presented using the modified approach and, therefore, are not depreciated. In addition, expenditures made by the Department to preserve existing roads or bridges are expensed rather than capitalized. Additional disclosures about the condition assessments and maintenance cost regarding the Department's roads and bridges appear in the Required Supplementary Information portion of this report.

Deferred Revenues

In the government-wide statements and proprietary fund financial statements, deferred revenues are recognized when cash, receivables, or other assets are received prior to being earned. In the governmental funds, earned amounts are reported as deferred revenues until they are available to liquidate liabilities of the current period. Deferred revenues are reported in the government-wide statements for the business-type activities and in the fund statements for both the governmental and proprietary funds. In the government-wide statements, the deferred revenues relate to unearned subscriptions' income for the *Arizona Highways Magazine*. Unearned subscription income is recorded when subscription orders are received and is amortized as income over the terms of the related subscriptions. Costs associated with the selling of subscriptions are expensed in the year incurred. In the fund statements, the deferred revenues represent the amount for the notes receivable for real estate mortgage loans made to individuals who purchased 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.

Compensated Absences

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits. There is no liability for unpaid accumulated sick leave for the Department. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

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 Internal Service Fund.

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. The liability for vacation outstanding as of June 30 for both the governmental and proprietary fund are reported on the Statement of Net Assets.

Long-term Obligations

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

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

Net Assets/Fund Balance

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements and "Fund Balance" on the governmental fund statements.

Reservations

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: 1) funds legally segregated for a specific purpose, or 2) assets, which by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Note 5I provides a disaggregation of reserved fund balances.

E. Revenues and Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. Administration, Aeronautics, Highway, etc). Additionally, revenues are classified between program and general revenues. Program revenues include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenues include all taxes and interest on investments.

In the governmental fund financial statements, revenues are reported by source. Expenditures are reported by function (e.g., Administration, Distributions to Arizona counties, cities and other state agencies, Debt service, Capital outlay, etc.).

The Distributions to Arizona cities, counties and other state agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for real property or infrastructure (e.g. bridges and roads).

Revenues and expenses of proprietary funds are classified as operating and non-operating and as sub-classified by object (e.g., salaries, equipment rental, depreciation, etc). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

Other Financing Sources <Uses>
Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond proceeds and transfers from other funds. Other financing <uses> are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds.

F. Interfund Activity and Balances

Interfund Activity
As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are activities between the funds reported as governmental activities and the funds reported as business-type activities (e.g. the transfer of the loss from the Equipment Fund).

Interfund Balances
Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

2. FUNDS BY CLASSIFICATION

The following table lists all of the funds whose balances are reflected in this financial report. The General Fund is subject to annual appropriation and the budget and actual schedule is included in this report under the Required Supplementary Information.

MAJOR FUNDS

Governmental Funds :
- General Fund (State Highway Fund)

Special Revenue Funds:
- Maricopa Regional Area Road Construction Fund
- Motor Vehicle Division Clearing Fund
- Highway User Revenue Fund

Debt Service Fund

Capital Projects Fund

Proprietary Funds:
- Arizona Highway Magazine Fund
- Highway Expansion and Extension Loan Program Fund

NON-MAJOR FUNDS

Other Governmental Funds:

Special Revenue Funds:
- State Aviation Fund
- Safety Enforcement and Transportation . Infrastucture Fund
- Motor Vehicle Liabitity Insurance Enforcement Fund
- Vehicle Inspection and Title Enforcement Fund
- Grant Anticipation Notes Fund
- Local Agency Deposits Fund
- Motor Carrier Safety Revolving Fund
- Motorcycle Safety Education Fund
- Underground Storage Tank Fund
- Economic Strength Project Fund

FIDUCIARY FUNDS

Agency Funds:
- Highway Properties - Privilege Tax Fund
- Highway Properties - 24% Lieu Tax Fund

3. BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

An annual budget for the operating expenditures and capital outlay including land, building and improvements are submitted to the Governor in accordance with state law for the General Fund. The budgets are legally enacted as appropriations after approval by the state 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 state 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 first month of the subsequent fiscal year 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 General Fund. Any balances and collections in this fund 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.

Governments have the option of reporting the budgetary comparison as required supplementary information (RSI) rather than as a basic governmental fund financial statement. Budgetary reporting is required for the General Fund.

4. ACCOUNTING CHANGES

During fiscal year 2002, the Department implemented several new accounting standards issued by GASB:

Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*,

Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Goverments: Ominibus*, and

Statement No. 38, *Certain Financial Statement Note Disclosures*.

Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by the Department, including statement formats and changes in fund types and account groups. In addition to the fund financial statements, governments are required to report government-wide financial statements prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented.

A. Fund Balance

The provisions of these new standards have been incorporated into the financial statements and notes. The following tables summarize changes to fund equities previously reported on the Combined Balance Sheet. The changes resulted primarily from the implementation of GASB 34, however, the Highway Expansion and Extension Loan Program Fund was reclassified from a governmental fund to a proprietary fund.

Aggregated fund balances of governmental fund types at June 30, 2001 - as previously reported	$ 615,855,820
Add:	
Capital assets, net of accumulated depreciation	9,688,657,675
Revenues earned but not yet available	11,570,864
Internal Sevice Fund net assets	44,533,014
Less:	
Long-term liabilities	<1,593,411,135>
Net assets of governmental activities as of July 1, 2001	$8,767,206,238

B. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets –government activities as reported on the government-wide statement of new assets. The following explanations are necessary to explain these differences between the governmental fund balance sheet and the government-wide statement of net assets:

1. Capital assets are not included on the fund statements but are included on the government-wide statement as follows:

Capital assets	$10,733,547,800
less Internal Service Fund (Equipment Fund) assets	<43,109,561>
	$10,690,438,239

2. Deferred revenues for assets shown in fund statements for the following funds:

General Fund	$ 2,313,833
Maricopa Regional Area Road Construction Fund	3,877,976
State Aviation Fund	5,379,055
	$ 11,570,864

3. Long-term liabilities including bonds payable are not due and payable in the current period and are not reported in the current period on the fund statements. The detail for the $<$1,538,722,690> difference are as follows:

Bonds payable	$<1,528,697,653>
Deferred charges - issuance cost	953,490
Capital leases	<1,557,477>
Compensated absences	<9,422,216>
Business activity share of Equipment Fund loss	1,166
	$<1,538,722,690>

C. Explanations of Reconciling Items of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported on the government-wide statement of activities. The following explanations are necessary to explain these differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, these costs are removed and capitalized as infrastructure assets as follows:

Capital outlay	$ 1,098,436,701
Depreciation expense	<7,509,469>
Excess Highway construction included as expenditure in Highway	<89,146,668>
	$ 1,001,780,564

2. The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, the government reports the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. The details of this $55,165,837 difference are as follows:

Debt issued or incurred:	
Issuance of Highway Revenue Bonds	$ <75,990,000>
Issuance of Transportation Excise Tax Revenue Bonds	<66,010,000>
Issuance of Highway Revenue Refunding Bonds	<74,250,000>
Premium on bonds	<10,142,082>
	<226,392,082>
Principal repayments:	
Highway Revenue Bonds	45,365,000
Transportation Excise Tax Revenue Bonds	163,455,000
Amortization of premium and discount	689,454
Bond issuance costs	1,048,465
Payment to refunded bond escrow agent	71,000,000
	281,557,919
	$ 55,165,837

3. Some expenses reported in the statement of activities do not required the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. The details are as follows:

Internal Service Fund (Equipment Fund):	
Changes in net assets	$ <1,990,494>
Business activity share of Equipment Fund loss	1,166
	$ <1,989,328>

5. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

Governmental Activities	July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance
Capital Assets, not being depreciated:				
Land	$ 1,553,704,318	$ 652,946,396	$ <490,709,296>	$ 1,715,941,418
Airport facilities	19,569,077	-	-	19,569,077
Infrastructure	7,170,835,914	280,656,144	<7,164,783>	7,444,327,275
Construction in progress	950,268,339	779,487,283	<344,090,487>	1,385,665,135
Total Capital Assets, not being depreciated	9,694,377,648	1,713,089,823	<841,964,566>	10,565,502,905
Capital Assets, being depreciated:				
Buildings	135,092,917	7,627,479	<4,403>	142,715,993
Improvements other than buildings	11,058,576	2,321,150	-	13,379,726
Machinery and equipment	44,969,416	4,679,494	<4,836,380>	44,812,530
Mobile Fleet and aircraft	110,376,196	7,293,398	<5,378,840>	112,290,754
Total Capital Assets, being depreciated	301,497,105	21,921,521	<10,219,623>	313,199,003
Less accumulated depreciation for:				
Buildings	<42,024,070>	<3,056,857>	-	<45,080,927>
Improvements other than buildings	<974,159>	<271,334>	-	<1,245,493>
Machinery and equipment	<27,472,419>	<4,497,064>	3,437,531	<28,531,952>
Mobile Fleet and aircraft	<67,021,036>	<7,958,684>	4,683,984	<70,295,736>
Total accumulated depreciation	<137,491,684>	<15,783,939>	8,121,515	<145,154,108>
Total Capital Assets, being depreciated, net	164,005,421	6,137,582	<2,098,108>	168,044,895
Governmental activities capital assets, net	$ 9,858,383,069	$ 1,719,227,405	$ <844,062,674>	$ 10,733,547,800

Business-Type Activities	July 1, 2001 Beginning Balance	Increases	Decreases	June 30, 2002 Ending Balance
Capital Assets, not being depreciated:				
Land	$ 7,900	$ -	$ -	$ 7,900
Capital Assets, being depreciated:				
Buildings	981,157	-	-	981,157
Machinery and equipment	2,427,692	5,850	<8,837>	2,424,705
Total Capital Assets, being depreciated	3,408,849	5,850	<8,837>	3,405,862
Less accumulated depreciation for:				
Buildings	<601,741>	<33,816>	-	<635,557>
Machinery and equipment	<1,059,235>	<287,867>	7,954	<1,339,148>
Total accumulated depreciation	<1,660,976>	<321,683>	7,954	<1,974,705>
Total Capital Assets, being depreciated, net	1,747,873	<315,833>	<883>	1,431,157
Business type activities capital assets, net	$ 1,755,773	$ <315,833>	$ <883>	$ 1,439,057

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	$ 1,513,656
Aeronautics	260,292
Highway	2,515,771
Highway Maintenance	1,422,250
Motor Vehicle	1,797,500
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets	8,274,470
Total depreciation expense - governmental activities	$ 15,783,939
Business-Type Activities	
Arizona Highways Magazine Fund	$ 321,683

B. Construction Commitments

The Department's outstanding commitments for contracts at June 30, 2002, were $686,200,067.

	Spent-to-Date	Remaining Commitments
Construction Contracts:		
Rural Roadways	$ 326,462,448	$ 149,734,243
Small Urban Roadways	52,450,641	6,633,783
Urban Roadways	269,513,722	111,932,998
Large Urban Roadways	241,819,754	221,769,899
Sub-total	890,246,565	490,070,923
Design Contracts	668,270,824	98,288,955
Other Commitments	130,393,229	97,840,189
Total	$ 1,688,910,618	$ 686,200,067

C. Judgements Payable

Judgements payable represent assessments by the Maricopa County Superior Court for land condemnation settlements ($3,734,470) and violation of a "Most Favored Nation" clause for the Grand Canyon Airlines, Inc. ($1,385,537) that was paid in July 2002.

D. Deferred Revenues

In the fund financial statements, the deferred revenues represent the amount for notes receivable for real estate mortgage loans made to individuals who purchased homes previously owned by the Fund for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination. The State Aviation Fund amount represents loans to various local governments for construction of hangars, taxiways extension, runways, etc. These loans were made at a fixed rate and with various maturities. The proprietary fund includes the amount for unearned subscriptions. The following schedule is a summary of the amounts outstanding as of June 30, 2002:

Governmental Funds:	
General Fund	$ 2,313,833
Maricopa Regional Area Road Construction Fund	3,877,976
State Aviation Fund	5,379,055
Total Governmental Funds	$11,570,864
Proprietary Fund:	
Arizona Highways Magazine Fund	$ 4,411,419

E. Securities Held in Lieu of Retention

In accordance with Arizona law, a contractor may assign to the Department, securities in lieu of retention and will deposit with the bank, cash, time certificates of deposit in federally insured banks licensed by the State of Arizona (Certificates of Deposit), securities of or guaranteed by the United States of America (Treasury Bills), or other eligible securities as defined in the Arizona Revised Statutes, Title 35, Chapter 2, Article 2, Section 35-313 (Eligible Investments). At June 30, 2002, the bank held assignment on securities aggregating approximately $33 million in lieu of contractor retentions for construction. These additional securities are not reflected in the accompanying financial statements.

F. Interfund Receivables, Payables, and Transfers

The balances of current interfund receivables and payables as of June 30, 2002, were:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Highway User Revenue Fund	$ 78,966,256
	Motor Vehicle Division Clearing Fund	128,551
	Motor Vehicle Liability Insurance Enforcement Fund	50
	Equipment Fund	1,520
	Arizona Highways Magazine Fund	25
	State Aviation Fund	25
Highway Expansion and Extension Loan Program Fund	General Fund	571,451
Equipment Fund	General Fund	167,818
Highway User Revenue Fund	Motor Vehicle Division Clearing Fund	8,966,416
	General Fund	107,429
Motor Vehicle Division Clearing Fund	Motor Vehicle Division Clearing Fund	109,987
	General Fund	291,817
Non-major governmental funds	Motor Vehicle Division Clearing Fund	124,924
		$ 89,436,269

Advance from/to other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Highway Expansion and Extension Loan Program Fund	$ 20,000,000

The General Fund receivable of $78,966,256 is an accrual for fuel tax revenues due in fiscal year 2002 from the Highway User Revenue Fund that were collected in fiscal year 2003.

The Highway User Revenue Fund receivable of $8,966,416 is an accrual for vehicle license taxes due in fiscal year 2002 from Motor Vehicle Division Clearing Fund that were collected in fiscal year 2003.

In a prior fiscal year, the General Fund loaned $20 million to the Highway Expansion and Extension Loan Program Fund to increase its loan capacity. The advance is due no later than December 31, 2008.

Interfund transfers for the year ended June 30, 2002, consisted of the following:

	Transfer In:				
	General Fund	Maricopa Regional Area Road Construction Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Transfer Out:					
General Fund	$ -	$ 9,813	$ 83,617,343	$ 165,245	$ 83,792,401
Capital Projects Fund	2,066,616	-	-	1,832,508	3,899,124
Maricopa Regional Area Road Construction Fund	4,539,240	-	198,055,907	-	202,595,147
Non-major Governmental Funds	95,748	-	10,180,857	-	10,276,605
Total Transfers Out	$ 6,701,604	$ 9,813	$291,854,107	$1,997,753	$ 300,563,277

The General Fund ($83,617,343) and the Maricopa Regional Area Road Construction Fund ($198,055,907) made transfers to the Debt Service Fund to pay bond debt service.

G. Leases

Operating Leases

The Department leases data processing equipment, other equipment, and certain facilities from various lessors. The majority of these leases are for a one year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the fiscal year ended June 30, 2002, approximated $4,460,000.

In fiscal year 2002, the Department renegotiated its long-term lease with the City of Phoenix for a facility located on Washington Street in Phoenix. The future operating lease commitments are as follows:

Year ending June 30	Amount
2003	654,520
2004	695,427
2005	736,335
2006	777,243
2007	818,150
Future operating lease commitments	$ 3,681,675

Capital Leases

The Department has entered into lease agreements as lessee for financing the acquisition of modular buildings and data processing equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Machinery and equipment	$ 2,586,915
Less accumulated depreciation	<324,944>
Total	$ 2,261,971

The future minimum lease obligations and the net present value of these minimums lease payments as of June 30, 2002, were as follows:

Year Ending June 30	Governmental Activities
2003	$ 513,985
2004	489,702
2005	374,237
2006	252,874
2007	69,593
Total minimum lease payments	1,700,391
Less amount representing interest	<142,914>
Present value of minimum lease payments	$ 1,557,477

H. Non-Current Liabilities

State of Arizona Highway Revenue Bonds

The Transportation Board issued Senior and Subordinated Highway Revenue Bonds to provide funds for acquisition of right-of-way and construction of federal, state and local highways. The original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $700,280,000. During the year, Highway Revenue Bonds totaling $150,240,000 were issued to (i) finance portions of the Transportation Board's Five Year Transportation Facilities Construction Program, (ii) pay costs of issuing the Bonds, and (iii) refund in advance of maturity portions of the Board's outstanding Senior and Subordinated Bonds in the aggregate principal amount of $71,000,000.

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 General Fund. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, from exceeding $1.3 billion. Highway Revenue Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Govermental activities	2.2% - 8.8%	$ 314,770,000
Govermental activities - refunding	2.3% - 6.0%	419,385,000
		$ 734,155,000

Annual debt service requirements to maturity for Highway Revenue Bonds are as follows:

Fiscal year ending June 30	Highway Revenue Bonds	
	Principal	Interest
2003	$ 44,490,000	$ 38,787,292
2004	50,075,000	36,420,980
2005	52,110,000	33,705,024
2006	55,455,000	30,912,416
2007	56,760,000	27,913,864
2008-2012	287,480,000	91,697,002
2013-2017	125,555,000	34,611,814
2018-2020	62,230,000	6,092,888
	$ 734,155,000	$300,141,280

State of Arizona Transportation Excise Tax Revenue Bonds

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

The Bond Resolution adopted by the Transportation Board on July 25, 1986, established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988, gives the Transportation Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reflected in the accompanying financial statements. The policies (aggregating $70,063,698 at June 30, 2002) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 2002, the carrying basis was $45,409,692. At maturity on July 1, 2005, the carrying basis will equal the maturity amount of $51,500,000.

All Transportation Excise Tax Revenue Bonds mature no later than December 31, 2005. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Govermental activities	3.8% - 6.5%	$329,555,000
Govermental activities - capital appreciation	7.3% - 7.5%	51,500,000
Govermental activities - refunding	4.5% - 6.5%	221,835,000
		$602,890,000

Annual debt service requirements to maturity for Transportation Excise Tax Revenue Bonds are as follows:

Fiscal year ending June 30	Transportation Excise Tax Revenue Bonds	
	Principal	Interest
2003	$ 192,290,000	$ 28,605,218
2004	200,650,000	20,245,235
2005	209,950,000	10,947,652
	$ 602,890,000	$ 59,798,105

State of Arizona Grant Anticipation Notes

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under a grant agreement and certain other federal-aid revenues. The original amount of grant anticipation notes issued was $182,295,000.

Grant Anticipation Notes currently outstanding are as follows:

Purpose	Interest Rates	Amount
Govermental activities	4.0% - 5.3%	$ 182,295,000

Annual debt service requirements to maturity for Grant Anticipation Notes are as follows:

Fiscal year ending June 30	Grant Anticipation Notes	
	Principal	Interest
2003	$ 13,150,000	$ 8,683,403
2004	36,755,000	7,488,470
2005	49,000,000	5,400,850
2006	38,540,000	3,209,175
2007	37,000,000	1,307,500
2008	7,850,000	196,250
	$ 182,295,000	$ 26,285,648

Notes Payable

The Department's outstanding notes payable as of June 30, 2002 was $338,385,755. The governmental activities notes payable was $192,849,289 and business-type activities was $145,536,898. The notes payable represent the General Fund loan payable to HELP for $93,979,854, the Maricopa Regional Area Road Construction Fund loan payable to the City of Mesa for $33,166,362, the Equipment Fund loan payable to creditors for $5,692,898 and the Board Funding Obligations for loans from State Treasurer for $205,546,641. The total outstanding for Board Funding Obligations are as follows:

1. Laws 1999, Chapter 189 (SB 1201) authorized a Board Funding Obligation (BFO) of $100,000,000 to HELP in fiscal year 2000. Both the principal and interest of the BFO are due on March 14, 2004 ($43,115,200) and June 27, 2004 ($62,314,614) respectively.

2. Laws 2001, Chapter 238 (HB 2636) authorized a Board Funding Obligation (BFO) of $40,000,000 to HELP in fiscal year 2002. Interest accrued to date is $106,652. Both the principal and interest of the BFO are due no later than May 31, 2004.

3. Laws 2001, Chapter 238 (HB 2636) authorized a Board Funding Obligation (BFO) of $60,000,000 to the State Highway Fund in fiscal year 2002. Interest accrued to date is $10,175. Both the principal and interest of the BFO are due no later than May 31, 2004.

Refunded Bonds Deposited with Escrow Agents

In prior years ($61,346,156) and fiscal year 2002 ($71,000,000), 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.

The Department advance refunded the Highway Revenue Subordinated Series 1992 B Bonds ($6,870,000) and Senior Series 1999 Bonds ($64,130,000) to reduce its total debt service payments by $2,820,875 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt of) of $2,473,048.

Refunded bonds of the Department deposited with escrow agents at June 30, 2002, are as follows:

Original Issue	Type	Escrow Maturity Date	Balance
1992 Series B, Subordinated	Highway Revenue Bonds	July 1, 2002	$ 59,220,000
1999 Senior	Highway Revenue Bonds	July 1, 2009	64,130,000
1988 Series A	Transportation Excise Tax Revenue Bonds Capital Appreciation Bonds	July 1, 2005	8,996,156
	Total refunded bonds deposited with escrow agents		$ 132,346,156

Changes in non-current liabilities

The activity for the year ended June 30, 2002, was as follows:

	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002	Due Within One Year
Governmental Activities:					
Bonds and Notes:					
Highway Revenue Bonds	$ 700,280,000	$ 150,240,000	$ <116,365,000>	$ 734,155,000	$ 44,490,000
Transportation Excise Tax					
Tax Revenue Bonds	700,335,000	66,010,000	<163,455,000>	602,890,000	192,290,000
Grant Anticipation Notes	182,295,000	-	-	182,295,000	13,150,000
Premium on Bonds	-	10,142,082	<784,429>	9,357,653	1,259,733
Total bonds and notes	1,582,910,000	226,392,082	<280,604,429>	1,528,697,653	251,189,733
Capital leases	1,370,161	858,874	<671,558>	1,557,477	454,330
Compensated absences	9,512,707	12,282,131	<10,093,024>	11,701,814	8,946,773
Notes payable	47,673,301	157,034,194	<11,858,206>	192,849,289	82,172,476
Total governmental activities	$1,641,466,169	$ 396,567,281	$ <303,227,217>	$ 1,734,806,233	$ 342,763,312
Business-type Activities:					
Compensated absences	$ 128,374	$ 192,524	$ <186,806>	$ 134,092	$ 134,092
Notes payable	100,715,414	44,821,052	-	145,536,466	-
Total business-type activities	$ 100,843,788	$ 45,013,576	$ <186,806>	$ 145,670,558	$ 134,092
Total non-current liabilities	$1,742,309,957	$ 441,580,857	$ <303,414,023>	$ 1,880,476,791	$ 342,897,404

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, $618,782 of internal service funds compensated absences and $5,692,898 of notes payable are included in the above amounts.

I. Fund Balances

Reservations

The line entitled "Reserved Fund Balances" on the Governmental Funds Balance Sheet at June 30, 2002, consist of the following:

	General Fund	Maricopa Regional Area Road Construction Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Reserved Fund Balances:						
Advance to other funds	$ 20,000,000	$ -	$ -	$ -	$ -	$ 20,000,000
Debt Service	-	-	22,789,895	-	2,196,479	24,986,374
Capital Projects Fund	101,074,669	93,459,804	-	77,396,420	5,389,066	277,319,959
Total Reserved Fund Balances	$ 121,074,669	$93,459,804	$22,789,895	$77,396,420	$ 7,585,545	$322,306,333

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 General Fund from the Highway User Revenue 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, 2002, approximately $97.8 million was reserved in the General Fund for this purpose. The remaining $3.3 million was restricted for highway construction from Federal Highway Fatality monies. The advance to the General Fund for $20.0 million is reserved for the receivable from the Highway Expansion and Extension Loan Program Fund.

The Maricopa Regional Area Road Construction Fund is reserved for capital projects. Capital Projects Fund is reserved for capital projects based on the debt covenants. The Debt Service Fund reserve is for future debt service payments.

6. OTHER INFORMATION

A. Subsequent Events

On August 22, 2002, the Department issued $80,475,000 in Transportation Excise Tax Revenue Bonds (2002 Series) to (i) finance the costs of design, right-of-way purchase, or construction of certain controlled-access highways within Maricopa County, Arizona, (ii) refund in advance of maturity portions of the Board's outstanding Senior Bonds in the aggregate principal amount of $4,550,000 and (iii) pay costs of issuing the Bonds. The 2002 Series Bonds are due July 1, 2005 and December 31, 2005. Net proceeds totaled $84,783,649 (after receipt of $4,781,020 of reoffering premium and payment of $472,371 in underwriting fees and cost of issuance).

On November 13, 2002, the Department issued $156,475,000 in Arizona Transportation Board Highway Revenue Bonds, Series 2002B to (i) finance portions of the Board's Five Year Transportation Facilities Construction Program, (ii) advance refund portions of the Board's outstanding Senior Bonds in the aggregate principal amount of $20,405,000, and (iii) pay costs of issuing the Bonds. The Series 2002B Bonds are due July 1, 2007 through July 1, 2022. Net proceeds totaled $165,000,189 (after receipt of $9,461,606 reoffering premium and payment of $936,417 in underwriting fees and cost of issuance).

B. Contingent Liabilities

<u>Risk Management Insurance Losses</u>

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.

<u>Claims</u>

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,* 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 weight and mileage) paid to the State (the "Disputed Revenues"). Hurley 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. 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. Hurley petitioned the Arizona Supreme Court to review the decision of the appellate court; and on May 21, 2002, the Arizona Supreme Court denied the plaintiff's petition. However, the Arizona Supreme Court ordered the Court of Appeals not to publish its opinion. On July 10, 2002, the Arizona Tax Court entered a Judgement on Mandate affirming the administrative hearing decision that Hurley was not entitled to a refund.

Several trucking companies also filed administrative claims. These claims were held in abeyance pending the outcome of the Hurley lawsuit. Currently, the Department is in the process of determining whether the claimants intend to pursue their claims further in light of the court's decision in Hurley. The Department disputes the claimant's interpretation of the applicable statutes and intends to continue a vigorous defense. However, if the claimants 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 claimants were to prevail on all 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.

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.

C. Retirement Plan

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, 2002, was computed to be 2.49 percent of covered payroll by an actuarial valuation performed at June 30, 2000. Contributions for the years ended June 30, 2000, 2001 and 2002 were $3,877,921, $4,032,399 and $3,959,972, respectively, for both the employees and the Department, which were equal to the required contributions for each year.

The Department's total payroll for fiscal year 2002 was $159.8 million. The Plan is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits are obligations of the Plan and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the fiscal year ended June 30, 2002, was actuarially computed to be 2.49 percent of covered payroll by an actuarial valuation performed at June 30, 2000. The contribution requirement for fiscal year 2002 was $4 million by both the employees and the Department.

Arizona Department of Transportation
Required Supplementary Information

Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - General Fund
For the fiscal year ended June 30, 2002

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	<Negative>
Revenues:				
Vehicle registration, title, license and related fees	$ 229,429,500	$ 229,429,500	$ 227,672,882	$ <1,756,618>
Fuel and motor carrier taxes	297,608,900	297,609,900	292,498,298	<5,111,602>
Total revenues	527,038,400	527,039,400	520,171,180	<6,868,220>
Expenditures appropriated by State legislature in 2001 budget:				
Administration Division:				
Personal services	17,819,900	18,809,340	18,818,139	<8,799>
Employee related expenditures	4,169,000	4,296,735	4,296,703	32
Other operating expenditures	33,878,800	31,202,325	30,528,929	673,396
Attorney General Legal Service	2,045,100	2,022,900	2,022,900	-
Total Administration Division	57,912,800	56,331,300	55,666,671	664,629
Highways Division:				
Personal services	33,259,500	30,770,900	30,749,668	21,232
Employee related expenditures	7,466,100	6,829,300	6,825,537	3,763
Other operating expenditures	5,268,600	6,581,000	5,886,834	694,166
Total Highways Division	45,994,200	44,181,200	43,462,039	719,161
Highway Maintenance:				
Personal services	27,330,300	29,500,000	28,464,094	1,035,906
Employee related expenditures	7,402,900	8,655,500	8,636,270	19,230
Other operating expenditures	59,810,600	52,220,400	49,753,668	2,466,732
Highway Maintenance	2,398,708	2,398,708	2,398,451	257
Total Highway Maintenance	96,942,508	92,774,608	89,252,483	3,522,125
Motor Vehicle Division:				
Personal services	44,220,400	41,974,100	41,795,384	178,716
Employee related expenditures	11,407,000	11,855,400	11,739,309	116,091
Other operating expenditures	19,626,000	18,886,000	17,735,349	1,150,651
Fee Acct And Rev Mgt Syst	1,117,681	1,117,681	719,452	398,229
Integrated Inventory Syst	634,873	634,873	314,462	320,411
Security Enhancement Issue	2,250,400	2,250,400	75,938	2,174,462
License plates and tabs	2,295,300	2,295,300	2,295,285	15

(continued)

Arizona Department of Transportation
Required Supplementary Information

Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - General Fund
For the fiscal year ended June 30, 2002

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive <Negative>
	Original	Final		
Motor Vehicle Division (continued):				
Public Information Service	200,000	200,000	183,547	16,453
Plate to Owner	706,727	706,727	631,657	75,070
MVD Elect Cert of Title System	5,000	5,000	4,903	97
MVD One-time Trailer Fees Admin	180,000	180,000	135,715	44,285
MVD Elect Cert of Title Sys	278,000	278,000	17,838	260,162
MVD Attorney General Legal Services	132,600	132,600	131,856	744
Abandoned Vehicle Administration	462,200	462,200	436,826	25,374
Total Motor Vehicle Division	83,516,181	80,978,281	76,217,521	4,760,760
Air Quality Programs:				
Administration Division air quality project:				
Personal services	$ 37,500	$ 37,000	$ 36,600	$ 400
Employee related expenditures	11,000	10,900	11,200	<300>
Other operating expenditures	200	200	200	-
Total Air Quality Programs	48,700	48,100	48,000	100
State General Fund Program:				
Public transit:				
Personal services	53,100	43,300	40,976	2,324
Employee related expenditures	15,200	13,700	12,637	1,063
Other operating expenditures	19,100	2,600	4,819	<2,219>
Local Transit Assist Fund	3,526,150	3,526,150	3,526,150	-
Total State General Fund Program	3,613,550	3,585,750	3,584,582	1,168
Capital outlay - land, buildings and improvements	13,080,082	13,080,082	11,416,024	1,664,058
Arizona Department of Public Safety transfers	25,017,100	25,017,100	25,017,100	-
Governors Office Highway Safety transfer	232,500	232,500	232,500	-
Expenditures appropriated by State legislature by carryover of previous year's unexpended budget	1,985,785	1,985,785	1,985,785	-
Total expenditures	$ 328,110,906	318,214,706	306,650,205	11,564,501
Excess of revenues over expenditures	$ 198,927,494	$ 208,824,694	$ 213,520,975	$ 4,696,281

Arizona Department of Transportation
Required Supplementary Information

Budget-to-GAAP Reconciliation

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures

Sources/inflows of resources:	
Actual amounts from the Schedule of Revenues, Expenditures and Changes in Fund Balances	$ 520,171,180
Net (increase) decrease in receivable related to fuel and motor carrier taxes and vehicle registration, title, license, and related fees not recognized as revenue on budgetary basis	2,867,996
Revenues which are on the modified accrual basis and not recognized on budgetary basis:	
Federal aid reimbursements of construction expenditures from the Federal Highway Administration	479,443,294
Federal grants and reimbursements related to elderly and disabled assistance, planning assistance and community assistance from the Federal Transit Administration	5,388,898
State and local reimbursements related to grants from Arizona counties, cities, and other state agencies	5,634,123
State appropriation	317,478
Investment interest and loan interest income from Treasurer and loan agreements	14,806,885
Other income from various miscellaneous sources	17,101,259
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds (Exhibit 4)	$ 1,045,731,113
Uses/outflows or resources:	
Actual amounts from the Schedule of Revenues, Expenditures and Changes in Fund Balances	$ 306,882,705
Net increase (decrease) in accounts payable, accrued payroll and other accruals not recognized as expenditures for budgetary basis	<1,389,533>
Expenditures which are on the modified accrual basis and not recognized on budgetary basis:	
Transportation expenditures from sources not appropriated by State legislature	7,479,691
Capital outlay are outflows of highway construction expenditures from State appropriation and federal aid reimbursements	690,250,621
State appropriation	3,863,067
Interest expense on loans borrowed from the Highway Expansion and Extension Loan Program	1,228,358
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds (Exhibit 4)	$ 1,008,314,909

Notes to Required Supplementary Information – Budgetary Reporting

Budgets and budgetary accounting

Annual budgets for the operating expenditures and capital outlay including land, building and improvements for the General Fund (State Highway 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 Agency'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 Agency'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 a cash basis exc ept 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. Most state appropriations lapse at year end.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for the operations of the General Fund that is subject to legislative appropriation.

A legal limitation is adopted for capital outlay including land, building and improvements for the General Fund. Any balances and collections in this fund 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.

The Department has elected to report the budgetary comparison as required supplementary information (RSI). The Department is required to report as notes to RSI: any budgetary expenditures in excess of appropriations, budgetary basis of accounting used for the adopted budgets and reconciliation between the budgetary basis of accounting and General Accepted Accounting Principles (GAAP).

Arizona Department of Transportation
Required Supplementary Information
June 30, 2002

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures:

Sources/inflows of resources:	
Actual amounts from the Schedule of Revenues and Expenditures - Budget and Actual - General Fund	$ 520,171,180
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Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), the Arizona Department of Transportation (Department) reports it roads and bridges using the modified approach. Assets accounted for under the modified approach include approximately 6,650 center lane miles (17,807 travel lane miles) of roads and 4,378 bridges that the Department is responsible to maintain.

In order to utilize the modified approach, the Department is required to:

- Maintain an asset management system that includes an up to date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department.
- Document that the assets are being preserved approximately at or above the established condition level.

As adopted by the State Transportation Board on an annual basis, the Five Year Transportation Facilities Construction Program contains estimated expenditures for highway system improvements and the preservation of existing roadway and bridges. The Five Year Transportation Facilities Construction Program in effect for fiscal year 2002 and beyond was adopted by the Transportation Board on June 15, 2001.

The following information pertains to the condition assessment and maintenance of these infrastructure assets.

Roads

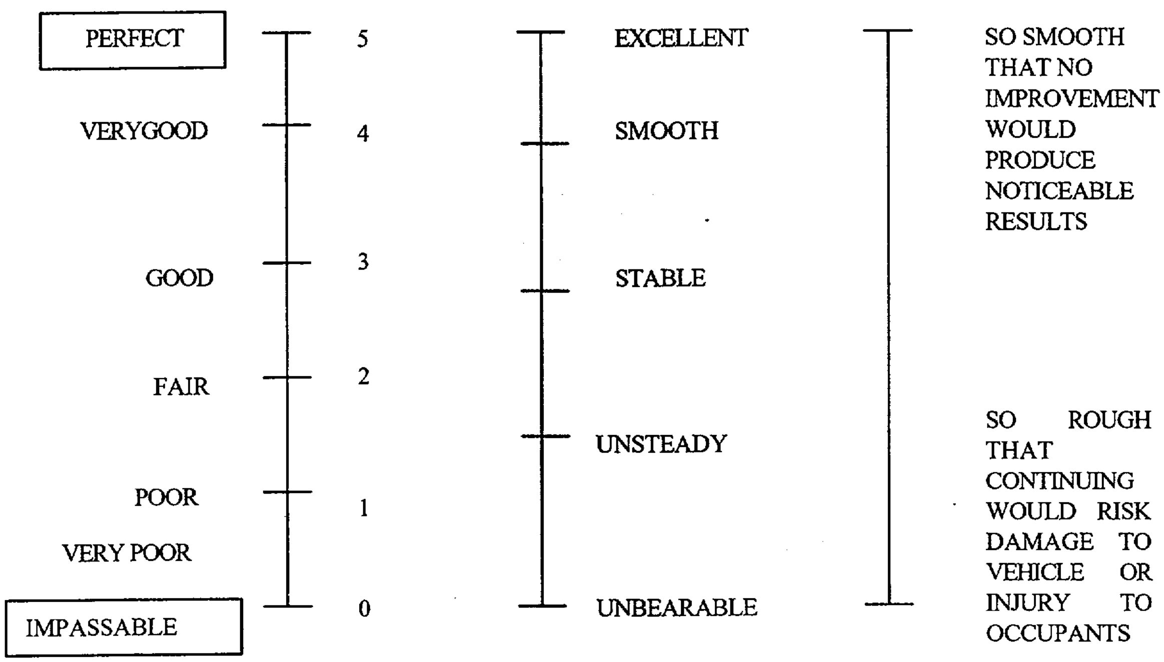
The mission of the ADOT Pavement Management Section (PMS) is to develop and provide a cost effective pavement rehabilitation construction program that preserves the state's investment in its highway system and enhances public transportation and safety. The requirements of GASB 34 and the ADOT PMS both work toward the same basic goal, the efficient, effective management of ADOT assets to produce long term benefits while minimizing expenditures.

The PMS has developed performance goals for the condition level of the pavement in the state highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called "Serviceability" which can be defined as the ability of a pavement to serve the travelling public (as documented in 1961 after AASHTO Road Test, 1956-1961). Serviceability was originally based on detailed measurements of objective features of the pavement but many surveys since the original road test have shown that such measurements closely track the subjective opinion of the travelling public. Because of that close tracking, it is possible to substitute panel rating measurements by road users as a subjective assessment to determine Serviceability ratings and then use those ratings to track performance from year to year. Most commonly, this number is called Present Serviceability Rating and abbreviated as PSR. PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

Numerical Rating	PSR	Weaver/AASHTO Scale
5	Excellent	Perfect
4	Good	Very Good
3	Fair	Good
2	Poor	Fair
1	Very Poor	Poor
0	Impassable	Very Poor

Information About Infrastructure Assets Reported Using the Modified Approach - continued

The Serviceability rating method, in its most common form, is shown in Figure 1 below:



Weaver/AASHTO Scale

Nonsegmented Scale

Figure 1

The goal of the Arizona Department of Transportation is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the state highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2002, an overall rating of 3.6 was achieved, as shown in the following graph:

Information About Infrastructure Assets Reported Using the Modified Approach - continued

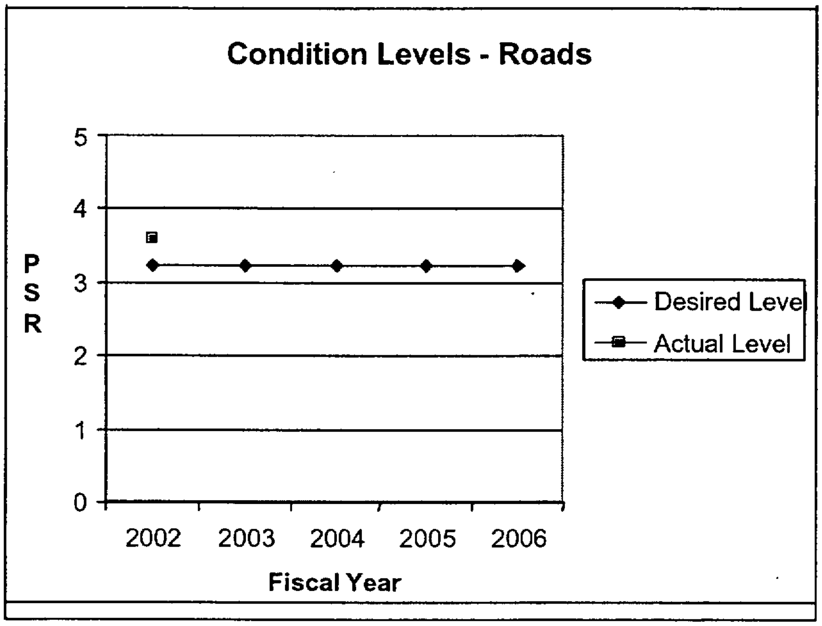


Figure 2

Preservation of the roads is accomplished through programs managed by the ADOT Pavement Management Section). The estimated and actual expenditures for fiscal year 2002 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	$227.4	$234.8

Bridges

ADOT's bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2002, ADOT owns and maintains 4,378 bridges with an approximate total deck area of 39,422,410 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on an biennial basis, to the Federal Highway Administration (FHWA).

A Condition Rating Index (CRI) is used to track the condition of the bridge network. The CRI is based on four selected bridge inspection condition ratings which in turn are based on standards established in the FHWA's "Recording and Coding Guide for the Structural Inventory of the Nation's Bridges". The four selected element condition ratings that are included in the CRI computation are: the bridge joints condition, the deck condition, the superstructure condition, and the substructure condition. The bridge joints condition rating is an Arizona specific rating item not included in the FHWA condition rating guidelines, whereas the three other condition ratings are federally mandated condition ratings. The CRI is computed by subtracting from one the ratio of the sum of the deck

Information About Infrastructure Assets Reported Using the Modified Approach - continued

areas of all bridges with a condition rating of four or less, which indicates that the rated element is at best in a poor condition, to the total sum of the deck areas. The rating system in this guide is as follows:

Numerical Rating	Condition Rating
9	Excellent
8	Very Good
7	Good
6	Satisfactory
5	Fair
4	Poor
3	Serious
2	Critical
1	Imminent Failure

Management of the bridge inventory is a major function of ADOT's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of ADOT to maintain state highway bridges so that the CRI exceeds 92.5%. In fiscal year 2002, the CRI was computed at 93.6%.

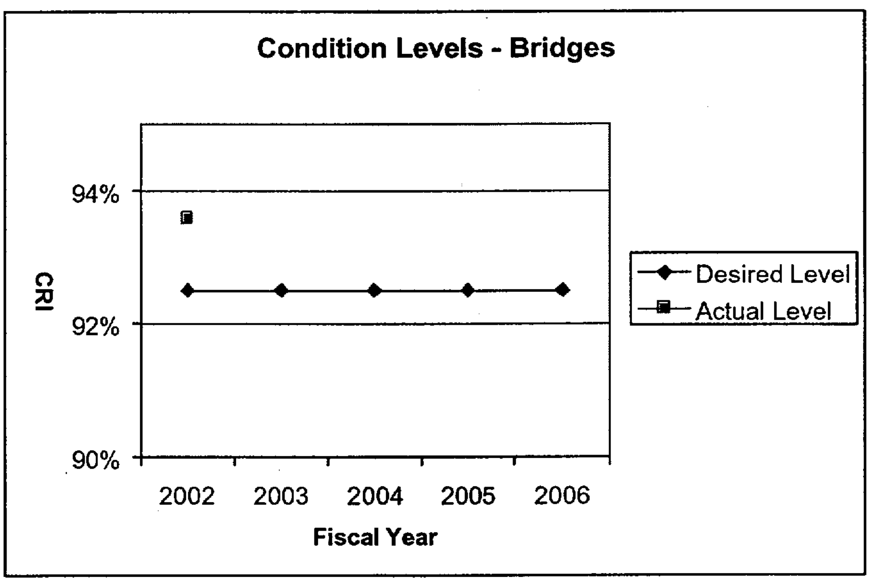


Figure 3

Bridges represent a major public investment and their inspection and maintenance is an essential function of the Department of Transportation in its mission of providing a safe and efficient transportation system. Figure 4 indicates that approximately 66% of the bridges in the state were constructed prior to the 1970s while only 20% have been constructed in the last two decades.

Information About Infrastructure Assets Reported Using the Modified Approach- continued

Age of ADOT's Bridge Population

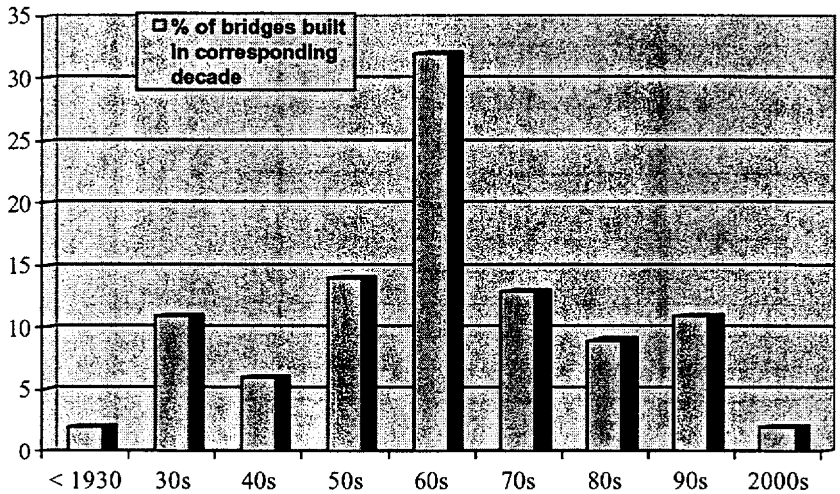


Figure 4

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated and actual expenditures for fiscal year 2002 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	$14.4	$18.2

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 $185,055,000 aggregate principal amount of bonds designated the Arizona Transportation Board, Highway Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), dated as of April 1, 2003. The Series 2003 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 November 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 2003 Bond of the first maturity.

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

1. The Series 2003 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 2003 Bonds constitute special obligations of the Board, and the principal of, premium, if any, and interest (collectively, "debt service") on the Series 2003 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 2003 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 2003 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 2003 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 2003 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 2003 Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Series 2003 Bonds.

Under the Code, portions of the interest earned on the Series 2003 Bonds by certain corporations may be subject to a corporate alternative minimum tax, and interest on the Series 2003 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 continuing 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 continuing compliance by the Board with those covenants, may be necessary for the interest on the Series 2003 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 2003 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 2003 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 April 1, 2003 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 $185,055,000 Highway Revenue Bonds, Series 2003, dated as of April 1, 2003 (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 April 23, 2003 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, 2004.

"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
100 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 as of: April 1, 2003

ARIZONA TRANSPORTATION BOARD

By ______________________________

Its Chair

ARIZONA DEPARTMENT OF TRANSPORTATION

By ______________________________

Its Director

EXHIBIT I

SPECIFIED EVENTS

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 Board has not obtained or provided, and does not expect to obtain or provide, any credit enhancement or liquidity providers for the Bonds.

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

This information concerning DTC and DTC's book-entry system has been obtained from DTC and neither the Board nor the Department takes responsibility for the accuracy thereof. The 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 2003 Bonds. The Series 2003 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2003 Bond will be issued for each maturity of the Series 2003 Bonds, totaling in the aggregate the principal amount of the Series 2003 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 beneficial interests in the Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of a beneficial interest in a Series 2003 Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants' 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 Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in the Series 2003 Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect 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 Series 2003 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2003 Bonds such as redemptions, defaults, and proposed amendments to the Senior Bond Resolution. Beneficial Owners of Series 2003 Bonds may wish to ascertain that the nominee holding the Series 2003 Bonds 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 the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2003 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2003 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. 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 Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments represented by the Series 2003 Bonds will be made by the Paying Agent to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. 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, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of 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 Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to the Paying Agent or the Board. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2003 Bonds are required to be printed and delivered. The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2003 Bonds will be printed and delivered.

THE BOARD AND THE DEPARTMENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC, TO DIRECT PARTICIPANTS OR TO INDIRECT PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2003 BONDS UNDER THE SENIOR BOND RESOLUTION; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2003 BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT

WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2003 BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2003 BONDS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Series 2003 Bonds, as nominee for DTC, references in this Official Statement to "Owner" or registered owners of the Series 2003 Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Series 2003 Bonds.

When reference is made in this Official Statement 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 Bond Registrar to DTC only.