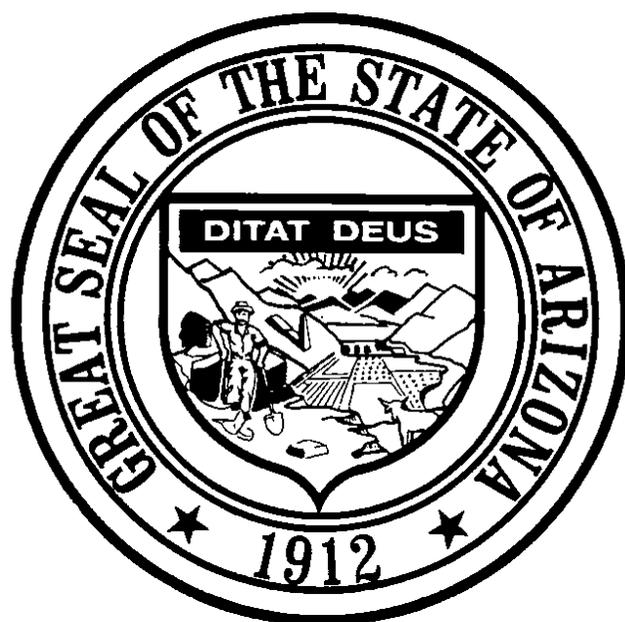


# STATE OF ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2013



**Janice K. Brewer**  
**GOVERNOR**



**PREPARED BY  
ARIZONA DEPARTMENT OF ADMINISTRATION  
GENERAL ACCOUNTING OFFICE**



STATE OF ARIZONA  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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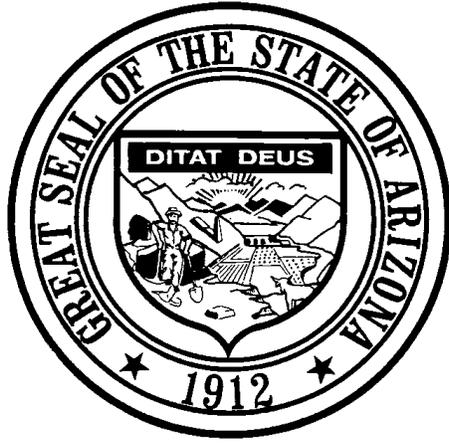
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# INTRODUCTORY SECTION



Janice K. Brewer  
Governor

Brian C. McNeil  
Director

## ARIZONA DEPARTMENT OF ADMINISTRATION

### OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE | SUITE 401  
PHOENIX, ARIZONA 85007

(602) 542-1500

December 30, 2013

The Honorable Janice K. Brewer,  
Governor of the State of Arizona;  
Members of the Legislature;  
Rebecca White Berch, Chief Justice of the Supreme Court;  
and Citizens and Taxpayers of the State of Arizona

Ladies and Gentlemen:

It is our pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the State of Arizona for the fiscal year ended June 30, 2013. Responsibility for the accuracy of data, as well as the completeness and fairness of presentation, including all disclosures, rests with the State's management. The data presented in this report, to the best of our knowledge and belief, is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of the major and non-major funds of the State. All disclosures needed for the reader to gain a reasonable understanding of the State's financial activities have been included.

U.S. generally accepted accounting principles (GAAP) require that management provides a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the Independent Auditors' Report.

### **INTERNAL CONTROLS**

The State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with U.S. GAAP. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. In the opinion of management, the State's internal controls are adequate to provide reasonable assurance that these objectives are met.

### **INDEPENDENT AUDIT**

In compliance with State statute, an annual financial audit of the financial reporting entity of the State is completed each year by the State of Arizona, Office of the Auditor General in conjunction with other audit firms. Their audit was conducted in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Their report on the basic financial statements has been included in the financial section of this report. In addition, A.R.S. § 41-1279.03 requires at least a biennial single audit by the Office of the Auditor General. The Single Audit will be issued as a separate report at a later date.

## **FINANCIAL REPORTING ENTITY OF THE STATE**

The accompanying CAFR includes all funds of the State (primary government), as well as its component units. Blended component units, although legally separate entities, are in substance part of a government's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units are shown separately to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. Discretely presented component units prepared in accordance with the Governmental Accounting Standards Board (GASB) are reported in a separate column in the government-wide financial statements. Discretely presented component units prepared in accordance with the Financial Accounting Standards Board are presented as separate financial statements immediately following the government-wide financial statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by the GASB.

The criteria for inclusion in the financial reporting entity and presentation are defined by the Codification of Governmental Accounting and Financial Reporting Standards, issued by the GASB, (Section 2100). Note 1 of the Notes to the Financial Statements explains which component units are included in the financial reporting entity of the State.

## **ARIZONA**

The State of Arizona was admitted to the Union as the 48<sup>th</sup> state in 1912. Arizona is the sixth largest state by area, with 113,909 square miles. Arizona is known for the Grand Canyon, one of the Seven Wonders of the World, and its cacti and other desert landscape. A number of national forests, four national parks, eighteen national monuments, and over 20 million acres of Native American reservations and tribal communities are located in Arizona.

## **PROFILE OF THE GOVERNMENT**

The State has three branches of government: Executive, Legislative, and Judicial. The Executive branch is headed by a Governor elected for a four-year term. Arizona's Legislative branch is bicameral, consisting of a thirty-member Senate and a sixty-member House of Representatives. Legislators are elected for two-year terms. The Judicial branch consists of the Arizona Supreme Court, Court of Appeals (with two divisions), Superior Court, justice of the peace courts, and municipal courts. The Superior Court, justice of the peace courts, and municipal courts are excluded from the financial reporting entity of the State as these entities do not meet GASB criteria for inclusion. The Supreme Court is the highest court in the State and is comprised of five justices. Article 6, Section 5 of the Arizona State Constitution describes the types of cases and matters handled by the Supreme Court.

The services provided by the State are administered through various agencies, departments, boards, commissions, councils, administrations, offices, and institutions of higher learning. These services include: (1) General Government, (2) Health and Welfare, (3) Inspection and Regulation, (4) Education, (5) Protection and Safety, (6) Transportation, and (7) Natural Resources.

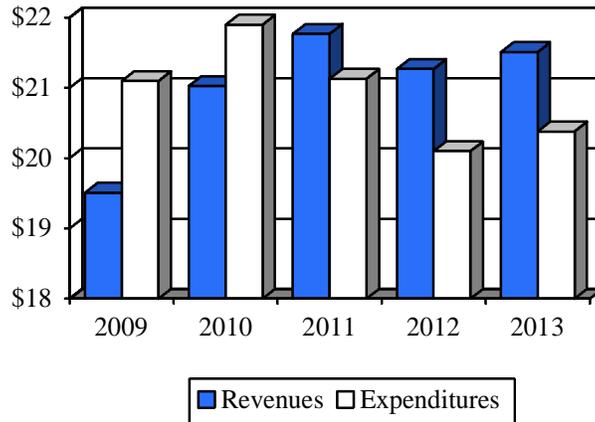
## **BUDGETARY CONTROLS**

Budgetary control is maintained through legislative appropriation and the Executive branch allotment process. The Governor is required to submit an annual budget to the Legislature. The budget is legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. The appropriated funds are controlled by the Executive branch through an allotment process. This process generally allocates the appropriation into quarterly allotments by legal appropriation level. The State also maintains an encumbrance accounting system to further enhance budgetary control. Encumbered amounts generally lapse as of the end of the fiscal year, with the exception of capital outlay and other continuing appropriations that continue from year to year. The State's budgetary policies are explained in detail in the Required Supplementary Information.

**GENERAL FUND BALANCE**

Graph 1 summarizes the General Fund revenues and expenditures for the last five fiscal years. This graph does not include transfer amounts relating to other fund types and other financing sources (uses), which affect the ending fund balance.

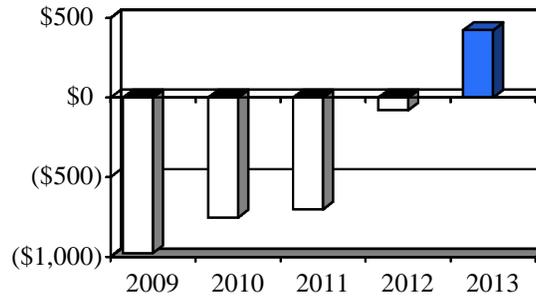
Graph 1  
 General Fund Revenues and Expenditures  
 for last 5 fiscal years  
 (Dollars in billions)



The General Fund ended the June 30, 2013, fiscal year with a total fund balance of \$423.2 million. This compares to the previous year’s total fund balance deficit of \$79.7 million.

Graph 2 summarizes the General Fund Balance (Deficit) for the last five fiscal years:

Graph 2  
 General Fund Balance (Deficit) for last 5 fiscal years  
 (Dollars in millions)



**ECONOMIC CONDITION AND OUTLOOK**

*The following economic summary is based on the Arizona Department of Administration's Employment Forecast Update, for calendar years 2013-2014, released on November 07, 2013.*

**Overview**

The Office of Employment and Population Statistics (EPS) within the Arizona Department of Administration produces an updated industry forecast every year as additional information becomes available from various data sources. As per the updated forecast for 2013, Arizona’s year-over-year average employment growth rate exceeded the national average in both 2012 and year-to-date in 2013. Despite the forecasted employment growth in ten of the eleven major sectors in 2013 and 2014, overall nonfarm employment levels remain well below their prerecession peak. The housing market remains encouraging with continued increase in home prices in Arizona and other states. Private residential construction sectors have seen an improvement in hiring. An uptick in hiring has been

observed in the financial sectors as well. Although, the economic fundamentals continue to improve, ongoing federal budget battles create uncertainty and hamper growth. Overall, the nonfarm employment growth rate has been dampened by the effects of sequestration, the payroll tax increase, the October 2013 partial shutdown of the federal government, and continued conflict over the federal debt ceiling. Arizona's reliance on federal government outlays, due to its dependence on defense related industries, puts the State at further risk if another round of spending cuts were to happen.

The overall employment situation in Arizona continues to improve. This is consistent with improvement seen in many economic indicators including population growth. Compared to 2012, the population grew faster in 2013 based on the EPS' internal preliminary numbers. Previously released population projections also call for faster population growth in 2014.

Arizona's nonfarm employment will continue to grow gradually. A moderate improvement in Arizona's nonfarm employment is expected in 2014. An over-the-year gain of 48,500 nonfarm jobs is expected in 2013 and 59,000 in 2014. In the current forecast, the rate of growth projected for total nonfarm employment is 1.97 percent in 2013 and 2.35 percent in 2014. A total of 107,500 nonfarm jobs are forecast to be gained over the two projected years (2013 and 2014).

The following factors supporting Arizona's economic growth continue to persist.

- i Continued improvement in real Gross Domestic Product, real personal income at the state and national levels, employment, and retail sales.
- i Continued employment gains in the private sector, increasing private domestic investment, a gradual increase in the index of industrial production and rate of capacity utilization, high levels of corporate profit, and a gradual resurgence in private residential construction permits.
- i Continued gradual climb in household net worth and U.S. exports.
- i Residential real estate markets in Arizona and the metropolitan areas of Phoenix and Tucson are showing an improvement as measured by various indicators. These include rising levels of building permits. Also, home prices in Arizona have been rising.
- i While revolving consumer credit levels have remained flat, an expansion of non-revolving consumer credit since 2011 has served as an impetus to expanding economic activity. Consumer sentiment and consumer spending have shown signs of improvement, but the rate of growth has been slowing down.

Some of the factors that could further dampen the growth of the local economy continue to persist. However, the positive factors listed above outweigh the uncertainties in the sections described below in support of the EPS' forecast:

- i Constrained budgets persist for a large majority of households. Despite some job growth and decline in the unemployment rate, many consumers in the U.S. continue to face employment insecurity, lower wages and benefits, high levels of debt, and rising prices for essentials such as food, energy, and health care that limit the amount of funds available for discretionary spending.
- i The residential real estate market has improved. However, with interest rates rising, the demand may slow down.
- i Although real business investment continues to grow, the rate of growth has slowed as a consequence of demand uncertainty.
- i Public sector fiscal consolidation through spending reductions (March 2013), tax increases (January 2013), and a partial federal government shutdown (October 2013) have increased economic uncertainty and reduced spending. With another round of spending cuts looming, the future remains uncertain.
- i Reduced spending in both civilian and military programs, coupled with increased taxes, could lower the aggregate demand in the U.S. economy, thereby slowing the rate of economic and employment growth.
- i Arizona is one of the states in the nation most vulnerable to federal government expenditure reductions because of the large proportion of military spending in the State's economy. Reductions in federal government expenditures are projected to have the greatest impact in the following major industry sectors: Manufacturing, Retail Trade, Professional and Business Services, and Government. Besides the federal government, state and local governments continue to have budget problems.

The most recent partial federal government shutdown in October 2013 is estimated to reduce fourth quarter U.S. economic growth by 0.3 percent to 0.6 percent, or by \$12 billion to \$24 billion. The year 2013 is expected to have a real annual average Gross Domestic Product growth rate of slightly less than 2.0 percent. The most recent threat of not raising the federal government debt ceiling resulted in a short lived spike in short-term interest rates and a decline in consumer confidence. The shutdown and debt ceiling conflict have increased economic uncertainty and made investment planning more problematic. In response to the increased economic uncertainty, many corporations are holding their profits as cash instead of investing.

In addition to the factors aforementioned, there are some grounds for limited optimism on the international front:

- i A gradual recovery is emerging in the Euro Monetary Zone economies, despite the tightening of the fiscal policy in some of these economies, which could have a slight stimulating effect. Countries in the Euro Monetary Zone serve as important markets for U.S. exports. They also serve as a source of foreign investment funds for U.S. financial markets. However, Arizona's trade with the European economies is limited.
- i Asia and Latin America are projected to have a slight increase in economic growth which might bolster demand for exports fabricated in the U.S. and Arizona.

### **Individual Sectors**

The Professional and Business Services sector is projected to have an increase of 14,300 jobs, or 4.0 percent, in 2013 and 18,100 jobs, or 4.9 percent, in 2014. The sub-sectors with the largest projected job gains over the projection period include Employment Services along with Professional, Scientific, and Technical Services. Business firms are expected to hire contingent labor as a lower-cost means to expand output during these uncertain times. All sub-sectors in the Professional and Business Services sector are projected to gain employment during the two-year forecast period.

The Construction sector is forecast to gain 8,200 jobs, or 7.1 percent, in 2013 and 8,800 jobs, or 7.1 percent, in 2014. Job gains are forecast across all Construction sub-sectors with the largest employment gains expected in the Specialty Trades sub-sector. One indicator showing increased activity in private residential construction is single-family housing permits, which has increased by 14.2 percent year-to-date in 2013. The Western Blue Chip Consensus forecast for single-family housing permits of 23.3 percent for 2013 and 29.3 percent in 2014 also supports an employment increase in the Construction sector. Other factors supporting growth in this sector are: home repair and maintenance activities, new infrastructure projects such as the expansion of light rail in Phoenix, and the development of new metal-ore mines.

The Educational and Health Services sector is forecast to gain 5,700 jobs, or 1.6 percent, in 2013 and 8,800 jobs, or 2.4 percent, in 2014. The largest projected increase in employment is forecast in the sub-sector of Ambulatory Health Care Services. Increases are also expected in the Nursing and Residential Care Services and Social Assistance sectors. Hospitals are projected to have no change in employment levels in 2013 and have slight job gains in 2014. Expansions in state spending through the provisions of the federal 2010 Affordable Care Act are projected to bolster employment growth in the health care services related sectors. Federal government budget reductions, especially the sequester, the partial shutdown, and conflict over increasing the debt ceiling, have the potential of curtailing employment growth in the health care sectors. Sub-sectors within Private Educational Services are forecast to have reductions in employment. More individuals leave school, to re-enter the workforce as the economy gradually improves, or shun the pursuit of higher education to avoid acquiring non-payable levels of student debt.

The Leisure and Hospitality sector is projected to have an increase of 5,700 jobs, or 2.1 percent, in 2013 and 7,600 jobs, or 2.8 percent, in 2014. The sub-sectors with the largest projected job gains are Food Services and Drinking Places. Fewer job gains are forecast in the sub-sectors of Accommodations and Arts, Entertainment and Recreation. Sequestration cuts, a tighter fiscal environment, and the partial federal government shutdown are expected to limit business and recreational related travel. However, domestic and international tourism demand is projected to bolster employment in the Leisure and Hospitality sector.

The Financial Activities sector is projected to have an employment increase of 6,500 jobs, or 3.7 percent, in 2013 and 4,600 jobs, or 2.5 percent, in 2014. The job growth in Financial Activities over the two-year period is projected to slow in 2014 when compared to 2013. The employment forecast is reinforced by rising interest rates in 2014, which could hinder employment growth in this sector. During the 2013 and 2014 forecast time frame, the sub-sectors with the largest projected gains in employment are: Credit Intermediation and Monetary Authorities; Insurance, Funds, and Trusts; Real Estate, Rental, and Leasing; and Securities, Commodities Contracts, and Investments.

The Trade, Transportation, and Utilities sector is forecast to gain 2,900 jobs, or 0.6 percent, in 2013 and 5,500 jobs, or 1.2 percent, in 2014. Retail Trade is the Trade, Transportation, and Utilities sub-sector with the largest projected employment gain, with the majority of these gains coming from Motor Vehicles and Parts Dealers. Fewer gains are forecast in the Wholesale Trade, Transportation, Warehousing, and Utilities sectors. Within the Retail Trade sub-sectors, all components are projected to post employment gains. However, Air Transportation, which is a sub-sector of Transportation, Warehousing, and Utilities, is forecast to have job losses as a consequence of industry consolidation and looming budget cuts.

The Government sector is forecast to gain 2,900 jobs, or 0.7 percent, in 2013 and 3,000 jobs, or 0.7 percent, in 2014. The majority of projected increases in employment from 2012 to 2014 are expected in the sub-sectors of public education at the State level, and the education and non-education sectors at the Local Government level. However, job losses are projected for the Federal Government and the non-education sectors of the State Government.

The Manufacturing sector is projected to have an employment increase of 900 jobs, or 0.6 percent, in 2013 and 1,500 jobs, or 1.0 percent, in 2014. During the two-year forecast, job gains are anticipated in the Durable Goods sub-sectors of Fabricated Metal Products and Aerospace Products and Parts, with the exception of Computer and Electronic Products. The Non-Durable Goods sector is also forecast to gain jobs. In the face of continued reductions in federal spending, defense-related industries are expected to have leaner staffing levels.

The Information sector is projected to have a gain in employment of 1,000 jobs, or 2.6 percent, in 2013 and 600 jobs, or 1.5 percent, in 2014. During the 2012 to 2014 projections time frame, slowing job gains are forecast in both the Telecommunications and Non-Telecommunications sub-sectors.

The Natural Resources and Mining sector is forecast to gain 800 jobs, or 6.5 percent, in 2013 and 400 jobs, or 3.1 percent, in 2014. From 2012 to 2014, slowing job gains are projected in the Natural Resource and Mining sub-sectors. Gradual recoveries in the Euro Monetary Zone, Asia, and Latin American economies are expected to bolster export demand. Employment growth might be dampened with the price of copper falling 7.2 percent year-to-date in 2013.

The Other Services sector is forecast to lose 500 jobs, or 0.6 percent, in 2013 and remain flat in 2014. Continued employment uncertainty, reduced wages and benefits, large consumer and mortgage debt, and rising food, energy, and health care costs have reduced the amount consumers give as charitable contributions to various establishments. These establishments include foundations or charitable trusts, religious, professional, and civic organizations, etc. These projected losses in employment in the Other Services sector reflect the reductions in revenues to these establishments.

### **MAJOR INITIATIVES**

Arizona's economy continued to show signs of improvement and slow recovery in fiscal year 2013, which sustained the upward trend in General Fund tax revenue collections. Actual revenues for the fiscal year were \$156 million over the enacted budget forecasts. Efforts to implement a structurally balanced budget by fiscal year 2016 remain in place. This upward trend in revenues helped fund the rainy day fund at \$450 million to address the possibility of future shortfalls in revenue collections. The end of fiscal year 2013 marked the end of the 1-cent temporary sales tax increase that became effective June 1, 2010. Fiscal year 2013 also saw a decreased number of fund transfers and the end of county cash contributions. The Legislature took steps in fiscal year 2013 to preserve the Elected Officials' Retirement Plan for existing members and to provide a more sustainable retirement benefit to future elected officials by shifting from a defined benefit plan to a defined contribution system.

### **AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arizona for its CAFR for the fiscal year ended June 30, 2012. This was the ninth consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

We wish to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each State agency, board, commission, council, administration, office, institution of higher education, and all other organizations within the reporting entity.

Brian C. McNeil  
Director

D. Clark Partridge  
State Comptroller



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

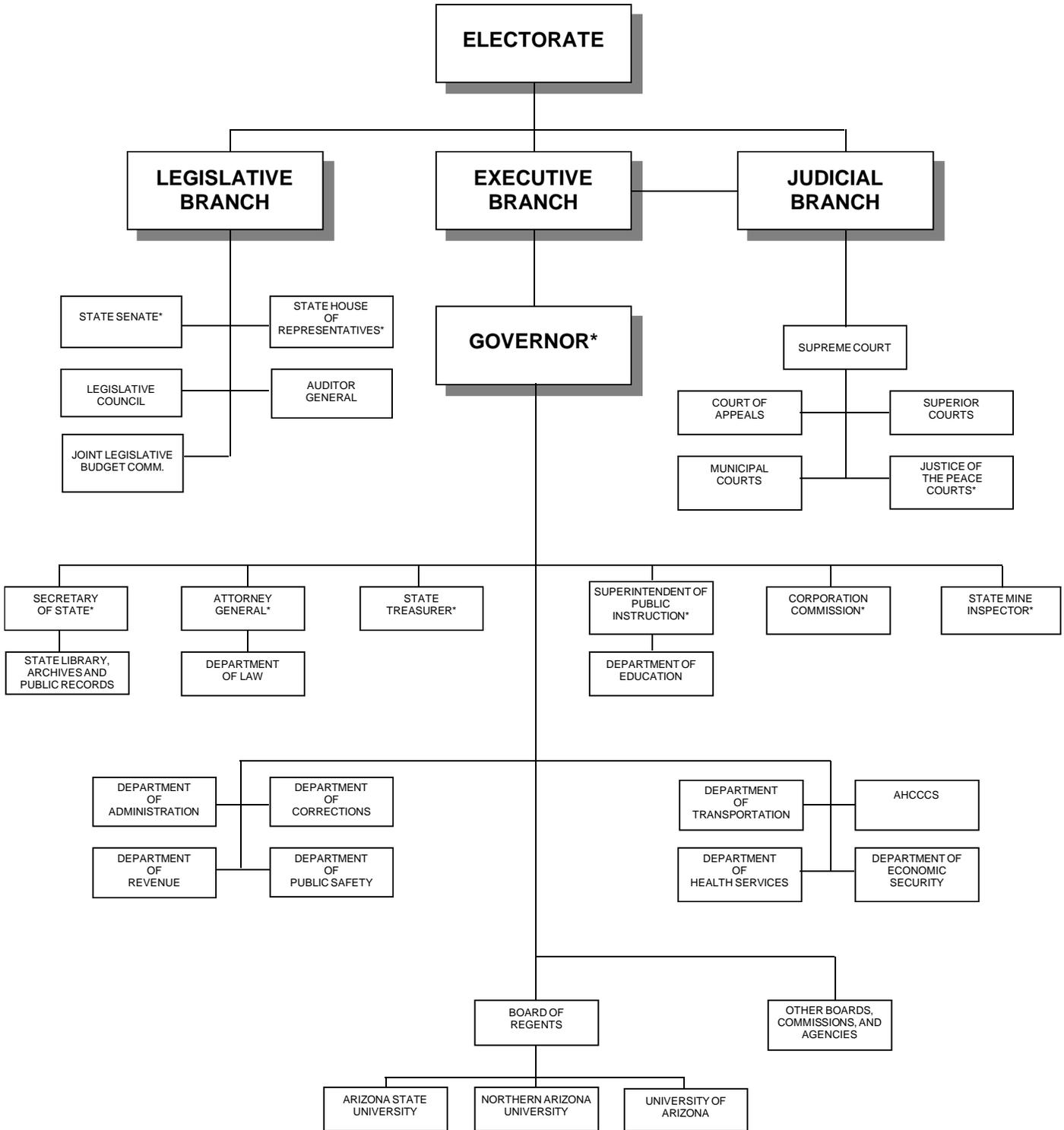
**State of Arizona**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

# ARIZONA STATE GOVERNMENT ORGANIZATION



\* ELECTED OFFICIALS

STATE OF ARIZONA  
PRINCIPAL STATE OFFICIALS  
JUNE 30, 2013

**ELECTED OFFICIALS**

Janice K. Brewer, Governor	John Huppenthal, Superintendent of Public Instruction
Senator Andy Biggs, President of the Senate	Bob Stump, Chairman – Corporation Commission
Representative Andy Tobin, Speaker of the House	Bob Burns, Commissioner – Corporation Commission
Ken Bennett, Secretary of State	Brenda Burns, Commissioner – Corporation Commission
Tom Horne, Attorney General	Gary Pierce, Commissioner – Corporation Commission
Joe Hart, State Mine Inspector	Susan Bitter Smith, Commissioner – Corporation Commission
Doug Ducey, State Treasurer	

**APPOINTED OFFICIALS**

Executive Officials

Brian C. McNeil, Director – Department of Administration

Charles L. Ryan, Director – Department of Corrections

Clarence H. Carter, Director – Department of Economic Security

David Raber, Acting Director – Department of Revenue - from October 2, 2013

John A. Greene, Director – Department of Revenue - through October 2, 2013

Robert Halliday, Director – Department of Public Safety

Will Humble, Director – Department of Health Services

Tom Betlach, Director – Arizona Health Care Cost Containment System

John S. Halikowski, Director – Department of Transportation

Judicial Officials

Rebecca White Berch, Chief Justice – Supreme Court

Legislative Officials

Michael E. Braun, Executive Director – Legislative Council

Richard Stavneak, Director – Joint Legislative Budget Committee

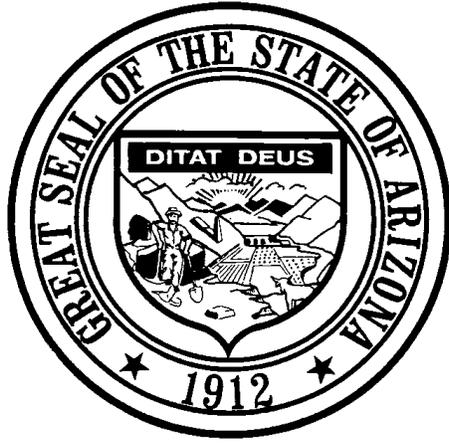
Debra K. Davenport, CPA, Auditor General – Office of the Auditor General

University Officials

Dr. Michael M. Crow, President – Arizona State University

Dr. John D. Haeger, President – Northern Arizona University

Dr. Ann W. Hart, President – University of Arizona



# FINANCIAL SECTION

**FINANCIAL SECTION**

INDEPENDENT  
AUDITORS' REPORT

**INDEPENDENT AUDITORS' REPORT**



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

The Honorable Janice K. Brewer, Governor  
State of Arizona

The Honorable Andy Biggs, President  
Arizona State Senate

The Honorable Andy Tobin, Speaker  
Arizona House of Representatives

The Honorable Rebecca White Berch, Chief Justice  
Arizona Supreme Court

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain departments, the State's retirement plans, and the aggregate discretely presented component units, which account for the following percentages of the assets and revenues, additions, and other financing sources, as applicable, of the opinion units affected:

Opinion Unit/Department	Assets	Revenues/Additions/ Other Financing Sources
<u>Government-wide Statements</u>		
Governmental activities:		
Arizona Department of Transportation	63.31%	11.13%
Arizona Health Care Cost Containment System	3.22%	16.70%
Early Childhood Development and Health Board	1.30%	0.51%
Business-type activities:		
Arizona Correctional Industries	0.26%	0.71%
Arizona Department of Transportation	1.08%	0.10%

Opinion Unit/Department	Assets	Revenues/Additions/ Other Financing Sources
Arizona Health Care Cost Containment System	0.13%	0.49%
Arizona State Lottery	1.33%	12.45%
Aggregate discretely presented component units	100.00%	100.00%
<u>Fund Statements</u>		
Major Governmental Funds:		
General Fund—Arizona Health Care Cost Containment System	26.52%	19.88%
Transportation and Aviation Planning, Highway Maintenance and Safety Fund—Arizona Department of Transportation	100.00%	100.00%
Aggregate Remaining Fund Information:		
Arizona Correctional Industries	0.04%	0.31%
Arizona Department of Transportation	1.24%	9.24%
Arizona Health Care Cost Containment System	0.15%	1.29%
Arizona State Lottery	0.20%	5.43%
Arizona State Retirement System	64.93%	43.98%
Corrections Officer Retirement Plan	2.97%	2.00%
Early Childhood Development and Health Board	0.88%	1.05%
Elected Officials' Retirement Plan	0.65%	0.48%
Public Safety Personnel Retirement System	11.62%	8.16%

Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those departments, retirement plans, and component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 from material misstatement. The financial statements of the Arizona Power Authority, Rio Nuevo Multipurpose Facility District, the University of Arizona Health Network and Subsidiaries, and the Universities—Affiliated Component Units, except for those of the University Public Schools, Inc., which were reported as discretely presented component units, were not audited by the other auditors in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 21 through 33, the Budgetary Comparison Schedules on pages 133 through 145, the Schedule of Agent Retirement Plans' Funding Progress on page 150, and the Infrastructure Assets information on pages 146 through 149 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund statements and schedules and the introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

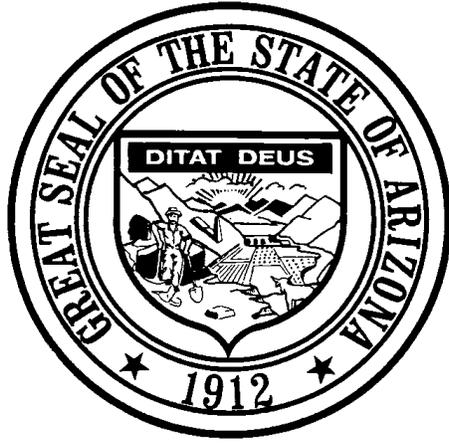
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Debbie Davenport  
Auditor General

December 30, 2013



MANAGEMENT'S  
DISCUSSION  
AND  
ANALYSIS



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Arizona's (the State's) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of the State's officials and management.

### FINANCIAL HIGHLIGHTS

#### Government-wide:

- i The assets and deferred outflow of resources of the State exceeded liabilities at the close of the fiscal year by \$24.1 billion (reported as net position). Of this amount, a deficit of \$1.5 billion exists for unrestricted net position, \$6.7 billion is restricted for specific purposes (restricted net position), and \$18.9 billion is net investment in capital assets.
- i The State's total net position increased in fiscal year 2013 by \$2.3 billion. Net position of governmental activities increased by \$2.0 billion, while net position of the business-type activities increased by \$338.7 million.

#### Fund Level:

- i As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$7.1 billion, an increase of \$1.4 billion from the beginning of the year. After accounting for non-spendable, restricted, and committed fund balances of \$4.1 billion, \$2.1 billion, and \$734.3 million, respectively, the State's unassigned fund balance was \$130.7 million, or 2% of combined fund balances.
- i As of the close of the fiscal year, unassigned fund balance for the General Fund was \$156.9 million, which is approximately 1% of total General Fund expenditures.
- i The Land Endowments Fund reported fund balance at fiscal year-end of \$4.1 billion, an increase of \$697.1 million during the year. The Land Endowments Fund is used to help finance public education within the State as required by the federal government and the State's Constitution.
- i The enterprise funds reported net position at fiscal year-end of \$3.1 billion, an increase of \$340.4 million during the year.

#### Long-term Debt:

- i The State's total long-term primary government debt increased during the fiscal year to \$10.4 billion, an increase of \$149.0 million (or 1%). Changes during the year included the addition of revenue bonds and certificates of participation, of \$1.4 billion and \$163.6 million, respectively. Included in the increase in long-term primary government debt are increases in net issuance premiums of \$185.8 million and increases in deferred amounts on refundings of \$36.6 million. Also, the State retired \$1.2 billion of revenue bonds, \$39.0 million of grant anticipation notes, and \$341.1 million of certificates of participation.

More detailed information regarding the government-wide financial statements, fund level financial statements, and long-term debt activity can be found beginning on **page 38**.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Required Supplementary Information and other supplementary information are included in addition to the basic financial statements.

#### Government-wide Statements (Reporting the State as a Whole)

The government-wide financial statements provide a broad overview of the State of Arizona's finances in a manner similar to private sector business. The financial statements report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better or worse off as a result of this year's activities? These statements include all non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The government-wide financial statements include the following:

**The Statement of Net Position (pages 38-39)** presents the State's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The total of assets and deferred outflows of resources, minus the total of liabilities and deferred inflows of resources, is reported as net position. Over time, increases and decreases in net position measure whether the State's financial position is improving or deteriorating.

**The Statement of Financial Position (page 40)** presents the State's Universities-affiliated component units' assets and liabilities, with the difference between the two reported as net assets.

**The Statements of Activities (pages 42-44)** present information showing how the State's net position/net assets changed during the most recent fiscal year. All changes in net position/net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Government-wide statements report three activities:

- i *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.
- i *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The Industrial Commission Special Fund and the State's three universities are examples of business-type activities.
- i *Discretely Presented Component Units* – Component units are legally separate entities for which the State is considered to be financially accountable, or organizations that raise and hold economic resources for the direct benefit of the State. The Water Infrastructure Finance Authority, the University of Arizona Health Network and Subsidiaries, the Arizona Power Authority, the Rio Nuevo Multipurpose Facilities District, the Greater Arizona Development Authority, and the Arizona Commerce Authority are discretely presented component units reported by the State. The State has included component units affiliated with the Universities whose financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP), as adopted by the Financial Accounting Standards Board. These organizations include the Arizona State University Foundation, the University of Arizona Foundation, the Arizona Capital Facilities Finance Corporation, and other non-major component units affiliated with the Universities. Financial statements for these organizations are presented immediately following the government-wide statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by the Governmental Accounting Standards Board (GASB), and include a statement of financial position (**page 40**) and a statement of activities (**page 44**). See **pages 65-69 and 121-130** for more information on discretely presented component units.

### **Fund Financial Statements (Reporting the State's Major Funds)**

The fund financial statements begin on **page 45** and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, **page 154** begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – each category uses different accounting approaches.

- i *Governmental funds* – Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the general, special revenue, capital projects, debt service, and permanent funds. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information

presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. This report includes two schedules (**pages 46 and 48-49**) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) reported on the appropriate government-wide statement.

**Governmental fund financial statements can be found on pages 45 and 47 of this report.**

- i *Proprietary funds* – When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting; the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public – such as the Industrial Commission Special Fund and Universities. Internal service funds report activities that provide supplies and services for the State's other programs and activities – such as the State's Risk Management Fund. Internal service fund operations primarily benefit governmental funds and are reported as governmental activities on the government-wide statements. The reconciliation between the government-wide financial statements for business-type activities and the proprietary fund financial statements is presented at the end of the propriety fund financial statements on **pages 51-52**.

**Proprietary fund financial statements can be found on pages 50-55 of this report.**

- i *Fiduciary funds* – The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position beginning on **page 56**. These funds are reported using accrual accounting and include pension and other employee benefit trust, investment trust, and agency funds. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

**Fiduciary fund financial statements can be found on pages 56-57 of this report.**

**Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**The notes can be found beginning on page 65 of this report.**

**Required Supplementary Information**

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary expenditure comparison schedules for the General Fund and each major special revenue fund and a reconciliation of the schedules of statutory and U.S. GAAP expenditures for the fiscal year. This section also includes schedules of condition and maintenance data regarding certain portions of the State's infrastructure and agent benefit plans' funding progress schedules.

**Required supplementary information begins on page 133 of this report.**

**Other Supplementary Information**

Other supplementary information includes combining financial statements for non-major governmental, non-major enterprise, all internal service funds, all fiduciary funds, non-major component units, and non-major universities – affiliated component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as are major funds on the governmental funds and proprietary

funds financial statements. Budgetary expenditure comparison schedules for the non-major special revenue funds and the land endowment funds are also included.

**Other supplementary information begins on page 154 of this report.**

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

The State's overall financial position and operations for the past year for the primary government are summarized, as follows, based on the information included in the government-wide financial statements.

State of Arizona-Primary Government  
Net Position as of June 30, 2013 and 2012  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2013	2012, as restated	2013	2012, as restated	2013	2012, as restated
Current assets	\$ 6,450,486	\$ 5,154,734	\$ 1,360,862	\$ 1,372,172	\$ 7,811,348	\$ 6,526,906
Capital assets	20,993,786	20,394,137	4,333,187	4,080,053	25,326,973	24,474,190
Other non-current assets	5,699,132	5,049,766	1,782,819	1,557,763	7,481,951	6,607,529
Total Assets	33,143,404	30,598,637	7,476,868	7,009,988	40,620,272	37,608,625
Deferred outflow of resources	-	-	14,078	-	14,078	-
Current liabilities	4,843,433	4,188,849	754,246	838,541	5,597,679	5,027,390
Non-current liabilities	7,301,274	7,373,015	3,607,281	3,380,777	10,908,555	10,753,792
Total Liabilities	12,144,707	11,561,864	4,361,527	4,219,318	16,506,234	15,781,182
Net position:						
Net investment in capital assets	17,410,055	16,940,512	1,532,572	1,483,416	18,942,627	18,423,928
Restricted	6,116,083	5,447,576	531,972	496,444	6,648,055	5,944,020
Unrestricted	(2,527,441)	(3,351,315)	1,064,875	810,810	(1,462,566)	(2,540,505)
Total Net Position	\$ 20,998,697	\$ 19,036,773	\$ 3,129,419	\$ 2,790,670	\$ 24,128,116	\$ 21,827,443

For the year ended June 30, 2013, the State's combined net position totaled \$24.1 billion, reflecting an increase of \$2.3 billion during the current fiscal year.

The largest portion of the State's net position (79%) represents net investment in capital assets of \$18.9 billion. Additions to roads and bridges provided the majority of the governmental activities increase in net investment in capital assets of \$469.5 million. The State uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the State's investment in its capital assets is reported net of accumulated depreciation and related debt, it should be noted that the resources needed to repay this debt are planned to be provided from other sources, since the capital assets themselves are not typically used to liquidate these liabilities.

The State's net position also included \$6.6 billion (28%) of resources that are subject to external restrictions on how they may be used. The governmental activities increase in restricted net position of \$668.5 million is primarily the result of an increase of \$639.3 million in the amount restricted by the State's Constitution for basic education funded by the Land Endowments Fund.

After accounting for the above net position restrictions, the State has a remaining deficit of \$1.5 billion (6%) reported as unrestricted net position.

**More detailed information regarding beginning net position restatements is on page 115.**

State of Arizona-Primary Government  
Changes in Net Position for Fiscal Years Ended June 30, 2013 and 2012  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2013	2012, as restated	2013	2012, as restated	2013	2012, as restated
Revenues:						
Program revenues:						
Charges for services	\$ 850,869	\$ 847,502	\$ 3,181,812	\$ 2,983,424	\$ 4,032,681	\$ 3,830,926
Operating grants and contributions	11,588,834	11,357,470	1,570,854	1,705,773	13,159,688	13,063,243
Capital grants and contributions	651,999	778,572	15,210	53,571	667,209	832,143
General revenues:						
Sales taxes	6,518,480	6,296,151	57,490	55,309	6,575,970	6,351,460
Income taxes	3,974,998	3,706,698	-	-	3,974,998	3,706,698
Tobacco taxes	316,050	317,369	-	-	316,050	317,369
Property taxes	27,429	30,656	-	-	27,429	30,656
Motor vehicle and fuel taxes	1,592,911	1,581,909	-	-	1,592,911	1,581,909
Other taxes	531,186	522,510	-	-	531,186	522,510
Unrestricted investment earnings	18,705	79,190	62,017	49,501	80,722	128,691
Unrestricted grants and contributions	45,746	40,678	5	3,468	45,751	44,146
Gain on sale of trust land	174,095	125,479	-	-	174,095	125,479
Miscellaneous revenue	144,403	265,214	148,743	155,757	293,146	420,971
Total Revenues	26,435,705	25,949,398	5,036,131	5,006,803	31,471,836	30,956,201
Expenses:						
General government	836,431	840,189	-	-	836,431	840,189
Health and welfare	12,168,426	11,992,408	-	-	12,168,426	11,992,408
Inspection and regulation	161,480	151,937	-	-	161,480	151,937
Education	5,372,267	5,331,848	-	-	5,372,267	5,331,848
Protection and safety	1,400,413	1,380,999	-	-	1,400,413	1,380,999
Transportation	754,510	808,967	-	-	754,510	808,967
Natural resources	204,179	213,339	-	-	204,179	213,339
Intergovernmental revenue sharing	2,685,378	2,473,881	-	-	2,685,378	2,473,881
Interest on long-term debt	355,975	350,483	-	-	355,975	350,483
Universities	-	-	3,866,866	3,629,568	3,866,866	3,629,568
Unemployment Compensation	-	-	-	1,069,531	-	1,069,531
Industrial Commission Special Fund	-	-	38,614	83,290	38,614	83,290
Lottery	-	-	-	496,830	-	496,830
Other business-type activities	-	-	1,329,816	113,347	1,329,816	113,347
Total Expenses	23,939,059	23,544,051	5,235,296	5,392,566	29,174,355	28,936,617
Excess (deficiency) before contributions and transfers	2,496,646	2,405,347	(199,165)	(385,763)	2,297,481	2,019,584
Contributions to permanent endowments	-	-	3,192	3,270	3,192	3,270
Transfers	(534,722)	(576,846)	534,722	576,846	-	-
Change in Net Position	1,961,924	1,828,501	338,749	194,353	2,300,673	2,022,854
Net Position - July 1, as restated	19,036,773	17,208,272	2,790,670	2,596,317	21,827,443	19,804,589
Net Position - June 30	\$ 20,998,697	\$ 19,036,773	\$ 3,129,419	\$ 2,790,670	\$ 24,128,116	\$ 21,827,443

Note: Unemployment Compensation and Lottery did not meet the GASB major fund criteria in fiscal year 2013 and, as a result, are presented as other business-type activities in the fiscal year 2013 comparative schedules.

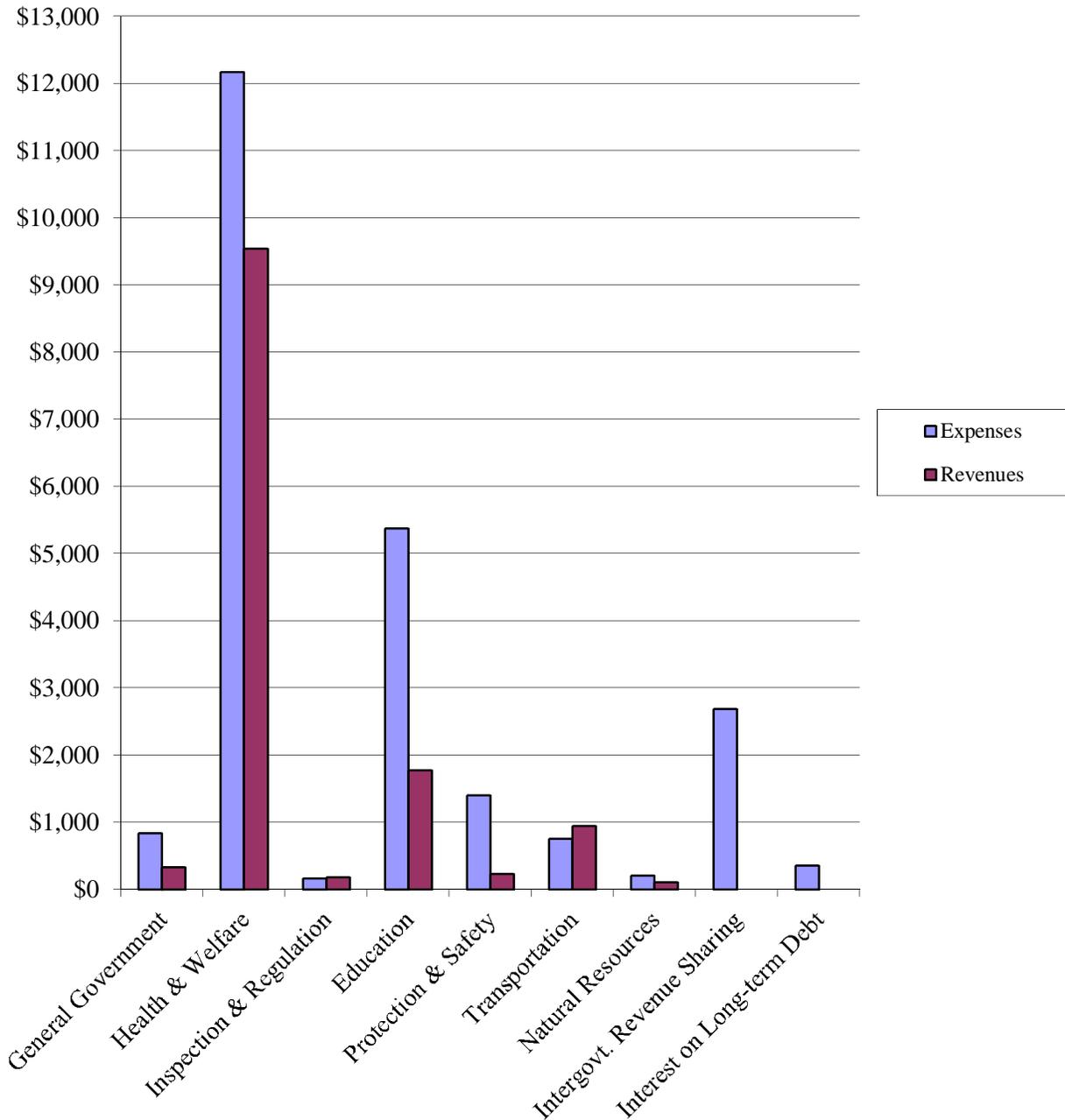
## Change in Net Position

*Governmental Activities* – Net Position increased by \$2.0 billion from fiscal year 2012, or a 10% increase from fiscal year 2012. Reported sales tax and income tax revenues increased by \$222.3 million, or 4%, and \$268.3 million, or 7%, from fiscal year 2012, respectively. The increase in tax collections generally reflects increased economic activity in the State during fiscal year 2013. Net taxable sales increased by approximately 4% from fiscal year 2012 resulting in the increased reported sales tax revenue. The largest increases in net taxable sales during fiscal year 2013 were in retail sales, restaurants and bars, and contracting. The increase in income tax revenue for the State during fiscal year 2013 was due to increased withholding and individual income tax collections. During fiscal year 2013, operating grants and contributions increased by \$231.4 million (2%) over fiscal year 2012. This increase is largely attributable to an increase in the fair market value of the Permanent Fund investment portfolio, increased federal grant funding for education, and a one-time tobacco litigation settlement payment received by the Arizona Health Care Cost Containment System (AHCCCS) during fiscal year 2013. These increases were offset by decreases in receipts from the federal American Recovery and Reinvestment Act (ARRA). However, the decrease in ARRA funding also resulted in decreased expenses in ARRA related projects. Also, decreases in capital grants and contributions, and miscellaneous revenue partially offset revenue increases. Furthermore, there were increases in expenses for health and welfare and intergovernmental revenue sharing of \$176.0 million and \$211.5 million, respectively. The increase in health and welfare expenses resulted primarily from the AHCCCS distributing supplemental hospital payments funded by voluntary contributions from political subdivisions during fiscal year 2013. The increase in intergovernmental revenue sharing expense generally reflects increases in urban revenue sharing distributions and distributions of fuel tax and vehicle license taxes to Arizona counties and cities. Urban revenue sharing increased as a result of increased income tax collections in fiscal year 2011, as compared to fiscal year 2010. Cities are eligible for urban revenue sharing distributions based upon income tax collections from two years prior to the current fiscal year.

A comparison of the net cost (income) of services by function for the State's governmental activities is shown below for fiscal years 2012 and 2013. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

	Governmental Activities (expressed in thousands)			
	Total Cost of Services		Net Cost (Income) of Services	
	2013	2012	2013	2012
<b>Functions/Programs:</b>				
General government	\$ 836,431	\$ 840,189	\$ 510,822	\$ 412,626
Health and welfare	12,168,426	11,992,408	2,623,946	2,501,647
Inspection and regulation	161,480	151,937	(14,964)	(20,835)
Education	5,372,267	5,331,848	3,602,369	3,879,205
Protection and safety	1,400,413	1,380,999	1,174,681	1,106,410
Transportation	754,510	808,967	(185,586)	(238,715)
Natural resources	204,179	213,339	94,736	95,805
Intergovernmental revenue sharing	2,685,378	2,473,881	2,685,378	2,473,881
Interest on long-term debt	355,975	350,483	355,975	350,483
Total Governmental Activities	<u>\$ 23,939,059</u>	<u>\$ 23,544,051</u>	<u>\$ 10,847,357</u>	<u>\$ 10,560,507</u>

**Expenses and Program Revenues  
Governmental Activities for Fiscal Year 2013  
(in millions of dollars)**



*Business-type Activities* – Net Position increased by \$338.7 million from fiscal year 2012, or 12%. This increase is primarily due to increases in net position for the Universities and the Unemployment Compensation Fund of \$180.3 million and \$123.7 million, respectively. Non-operating revenues and transfers from the General Fund more than offset the Universities’ operating loss of \$1.1 billion. Although the Universities experienced increased operating revenues due to approved student tuition and fee increases, increased enrollment, and increased auxiliary enterprise revenues, this was

offset by a decrease in State appropriation transfers from the General Fund, increases in expenses for instruction, academic support, and research, and a decrease in capital grants and contributions. The decrease in capital grants and contributions primarily results from the \$31.6 million one-time gift of the Biosphere 2 Complex received in fiscal year 2012. Also, the Unemployment Compensation Fund's cost of sales and benefits and intergovernmental revenue decreased \$386.0 million and \$254.9 million, respectively, as compared to the prior fiscal year.

A comparison of the net cost (income) of services by function for the State's business-type activities is shown below for fiscal years 2012 and 2013. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

Functions/Programs:	Business-type Activities (expressed in thousands)			
	Total Cost of Services		Net Cost (Income) of Services	
	2013	2012	2013	2012
Universities	\$ 3,866,866	\$ 3,629,568	\$ 658,218	\$ 642,418
Unemployment Compensation	-	1,069,531	-	105,819
Industrial Commission				
Special Fund	38,614	83,290	13,453	58,315
Lottery	-	496,830	-	(149,845)
Other	1,329,816	113,347	(204,251)	(6,909)
Total Business-type Activities	<u>\$ 5,235,296</u>	<u>\$ 5,392,566</u>	<u>\$ 467,420</u>	<u>\$ 649,798</u>

#### FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds** – The general government functions are contained in the general, special revenue, debt service, capital projects, and permanent funds. The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

#### General Fund

The General Fund is the chief operating fund of the State. At June 30, 2013, unassigned fund balance of the General Fund was \$156.9 million, while total fund balance closed the year at \$423.2 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and other financing uses. Unassigned fund balance represents 1% of total expenditures and other financing uses, while total fund balance is 2% of the same amount.

The fund balance of the State's General Fund increased \$502.9 million during the fiscal year. Revenues exceeded expenditures by \$1.1 billion, before other financing sources and uses. Other financing sources and uses partially offset this excess by \$626.7 million. Other financing sources and uses consist primarily of transfers to the Universities in support of higher education, offset by legislative transfers from other funds to the General Fund. Overall revenues increased by \$237.8 million (1%) and expenditures increased by \$283.6 million (1%) from fiscal year 2012. Primary reasons for increases in fund balance during the fiscal year are increased collections of sales and income taxes and the receipt of a one-time tobacco litigation settlement payment. Primary reasons for decreases in fund balance during the fiscal year are increased health and welfare expenditures, increased intergovernmental revenue sharing, and decreased ARRA funding (intergovernmental revenue). These increases and decreases were discussed in the government-wide financial analysis beginning on **page 24**.

## **Transportation and Aviation Planning, Highway Maintenance and Safety Fund**

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund is responsible for the repair and maintenance of existing roads, paying the debt service for roads that are built from the issuance of revenue bonds and grant anticipation notes, and providing technical assistance with road construction provided by contractors hired by the Arizona Department of Transportation (ADOT). Total fund balance increased \$106.9 million during fiscal year 2013. Although revenues exceeded expenditures by \$320.6 million, transfers to non-major governmental funds of \$283.1 million to primarily pay debt service partially offset this excess. In addition, motor vehicle and fuel tax revenue increased by \$107.6 million, while intergovernmental revenue decreased by \$117.7 million, as compared to the prior fiscal year.

## **Land Endowments Fund**

The Land Endowments Fund was established when the federal government granted Arizona statehood. Both the State's Constitution and the federal government require that the land grants given to the State be maintained indefinitely, and the earnings from the land grants should be used for public education, primarily K-12. The Land Endowments Fund total fund balance increased \$697.1 million during fiscal year 2013. Endowment investments increased \$669.0 million, at fiscal year-end, primarily due to receipts from land sales of \$225.7 million and a net increase in the fair value of investments of \$497.5 million.

## **Proprietary funds**

The business-type activities discussion for the fund level financial statements of the State's enterprise funds provide the same type of information found in the government-wide financial analysis beginning on **page 24**.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Differences between the original budget and the final amended budget resulted in a \$1.5 billion net increase in appropriations for the General Fund, before adjustments. Some of the significant changes in the General Fund appropriations were:

1. \$172.9 million increase due to prior fiscal year obligations that were paid in the current fiscal year per ARS §35-191.
2. \$982.5 million increase to the Department of Education's original budget is primarily due to the basic state aid deferred payment from fiscal year 2012 which was appropriated as a supplemental appropriation in the fiscal year 2013 budget.
3. \$234.5 million increase to the Universities' original budget is primarily due to payment deferrals from fiscal year 2012, which were budgeted in fiscal year 2013, and for lease purchase capital financing for research infrastructure facilities.
4. \$129.8 million increase to the AHCCCS' original budget is primarily due to supplemental appropriation increases for the voluntary disproportionate share hospital (DSH – voluntary) and graduate medical education special line items based on increased political subdivision contributions, including federal matching monies, in excess of the original appropriations.

The actual expenditures were less than the final budget by \$747.9 million, after adjustments. Of this amount, \$52.0 million will continue as legislative multiple fiscal year spending authority for fiscal years 2014 and beyond, depending upon the budgetary guidelines of the Legislature. The remaining \$695.9 million represents the unused portion of the State's legislatively authorized annual operating budget.

**Additional budgetary information can be found on pages 133-145 of this report.**

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital assets:

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2013 totaled \$25.3 billion, net of accumulated depreciation. The total primary government increase in capital assets for the current period was 3%, with a 3% increase in capital assets used for governmental activities and a 6% increase for business-type activities. Depreciation charges of the governmental and business-type activities for the fiscal year totaled \$382.3 million.

Major capital asset activity during the current fiscal year included the following:

- i The Universities' additions to capital assets totaled \$569.3 million and included increased investments in buildings for instruction and research, building renewal, and other capital projects.
- i The ADOT started or completed roads and bridges totaling \$1.4 billion during the fiscal year.

For the government-wide financial statement presentation, all depreciable assets were depreciated from the acquisition date to the end of the current fiscal year. Capital asset purchases of the governmental funds are reported in the fund-level financial statements as expenditures.

Capital assets for the governmental and business-type activities as of June 30, 2013 are presented below (expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,967,822	\$ 2,886,458	\$ 210,132	\$ 202,913	\$ 3,177,954	\$ 3,089,371
Buildings	2,161,715	2,106,913	5,032,978	4,622,149	7,194,693	6,729,062
Improvements other than buildings	159,899	159,380	4,853	4,816	164,752	164,196
Equipment	811,035	795,147	1,601,092	1,527,822	2,412,127	2,322,969
Software and other intangibles	240,051	130,947	25,630	19,328	265,681	150,275
Collections (non-depreciable)	-	-	19,738	19,173	19,738	19,173
Infrastructure	12,973,088	12,229,571	461,641	449,069	13,434,729	12,678,640
Construction in progress	3,369,060	3,535,660	288,755	332,382	3,657,815	3,868,042
Development in progress	6,720	85,586	-	3,949	6,720	89,535
Less: accumulated depreciation	(1,695,604)	(1,535,525)	(3,311,632)	(3,101,548)	(5,007,236)	(4,637,073)
Total	\$ 20,993,786	\$ 20,394,137	\$ 4,333,187	\$ 4,080,053	\$ 25,326,973	\$ 24,474,190

As provided by GASB Statement No. 34, the State has elected to record its infrastructure assets, that the ADOT is responsible for maintaining, using the modified approach as described in Note 1H. Assets accounted for under the modified approach include 6,751 center lane miles (21,213 travel lane miles) and 4,754 bridges.

The State 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 impassable) to characterize the condition of the roadway. The State's serviceability rating goal is 3.23 for the overall system. The most recent assessment indicated that an overall rating of 3.67 was achieved for fiscal year 2013.

The State manages its bridges using the Arizona Bridge Information and Storage System. The State determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the State to maintain a Condition Rating Index (CRI) of 92.5% or better. In fiscal year 2013, a CRI of 93.2% was achieved.

In addition to many smaller projects, each of the following major highway construction projects in excess of \$10.0 million were started during fiscal year 2013 (expressed in thousands):

Description	Contract Start Date	Contract Amount	Current Year Expenditures
System preservation and reconstruction on Naha 'Ta' Dzill road to Sanders traffic interchange in Apache County.	11/16/12	\$ 13,645	\$ 4,977
System enhancement and traffic management at Copper Canyon Phase I in Yavapai County.	10/19/12	11,875	4,463
Capacity additions and major widening on US 60, 71 <sup>st</sup> Avenue - McDowell Road in Maricopa County.	11/16/12	12,741	3,110
System preservation - reconstruction at Cienega Creek - Marsh Station, Phase III in Pima County.	9/21/12	17,207	6,687
Capacity additions - major widening on State Route 303L: Camelback Road to Glendale Avenue in Maricopa County.	2/8/13	34,872	5,424
System preservation - restoration/rehab/resurface on East Ash Fork traffic interchange to West Williams traffic interchange in Coconino County.	6/14/13	10,487	-
New facilities - construction of new road on US 89 to State Route 98 in Coconino County.	5/6/13	32,036	3,079

Furthermore, the following major highway construction projects had expenditures in excess of \$15.0 million in fiscal year 2013. These project expenditures include payments made to construction contractors (as shown above) as well as utility, design, right-of-way, and landscaping costs (expressed in thousands):

Location Description	Project Expenditures
State Route 303L from Peoria Avenue to Mountain View Boulevard in Maricopa County.	\$ 72,659
State Route 303L/Interstate 10 Traffic Interchange in Maricopa County.	63,257
State Route 303L from Glendale Avenue to Peoria Avenue in Maricopa County.	51,645
State Route 24 at State Route 202L (Santan) to Ellsworth Road Phase I in Maricopa County.	50,317
Interstate 10 Ruthrauff Road to Prince Road in Pima County.	35,845
Interstate 10 Salt River to Baseline Road in Maricopa County.	34,929
US 60 to State Route 303L on Northern Avenue.	34,727
Interstate 17 Cordes Junction Traffic Interchange in Yavapai County.	26,825
State Route 303L from Thomas Road to Camelback Road.	22,818

**More detailed information regarding capital assets is on pages 92 and 93.**

**Long-term debt:**

The State issues no general obligation debt instruments. The Arizona Constitution, under Article 9, Section 5, provides that the State may contract debts not to exceed \$350 thousand. This provision has been interpreted to restrict the State from pledging its credit as a sole payment for debts incurred for the operation of the State government. As a result, the State pledges either dedicated revenue streams or the constructed building or equipment acquired as security for the repayment of long-term debt instruments.

Major long-term debt activity during the current fiscal year included the following:

- i The ADOT issued revenue bonds totaling \$194.3 million to pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona, and the costs of issuing the bonds.
- i Various State agencies in the governmental funds issued revenue bonds and certificates of participation totaling \$900.0 million to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.
- i The Universities issued revenue bonds for \$404.3 million to fund the acquisition, construction, or renovation of capital facilities and infrastructure, and to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.

- i The Universities issued certificates of participation for \$101.0 million to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.

State of Arizona-Primary Government  
 Outstanding Major Long-Term Debt as of June 30, 2013  
 (expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012, as restated	2013	2012, as restated
Revenue bonds	\$ 3,606,720	\$ 3,593,420	\$ 2,237,710	\$ 1,988,765	\$ 5,844,430	\$ 5,582,185
Grant anticipation notes	296,240	335,230	-	-	296,240	335,230
Certificates of participation	2,360,595	2,495,825	714,735	756,980	3,075,330	3,252,805
Capital leases	360,316	391,184	135,519	130,047	495,835	521,231
Total	<u>\$ 6,623,871</u>	<u>\$ 6,815,659</u>	<u>\$ 3,087,964</u>	<u>\$ 2,875,792</u>	<u>\$ 9,711,835</u>	<u>\$ 9,691,451</u>

**More detailed information regarding long-term debt begins on page 98.**

### ECONOMIC CONDITION AND OUTLOOK

The Office of Employment and Population Statistics within the Arizona Department of Administration is forecasting the State to gain a projected 107,500 nonfarm jobs, representing a growth rate of 4.4%, over the two projected calendar years of 2013 and 2014. An over-the-year gain of 48,500 jobs is projected in 2013 and 59,000 jobs in 2014. The rate of growth projected for nonfarm employment is 2.0% in 2013 and 2.4% in 2014. The State's nonfarm employment will continue to grow gradually in 2013 with moderate improvement in 2014. This is consistent with improvements seen in many economic indicators.

The State's fiscal year 2014 General Fund budget reflects projected growth in base revenues of 4.9%. The net ongoing revenues are projected to decrease from \$9.4 billion in fiscal year 2013 to \$9.1 billion in fiscal year 2014. General Fund spending is projected to increase from \$8.7 billion in fiscal year 2013 to \$8.8 billion in fiscal year 2014. The budget includes increased spending for the Department of Education K-12 base support levels and the Department of Economic Security for Child Protective Services staff. The General Fund fiscal year 2014 ending balance is projected to be \$248 million.

Legislative discussions on the fiscal year 2014 General Fund budget also included analyzing the impact of budget decisions on estimated fiscal year 2015 and 2016 spending.

The fiscal year 2015 General Fund budget is forecasted to have revenues of \$9.1 billion and expenditures of \$9.0 billion, with a \$100 million balance. After accounting for legislation enacted separately from the budget and technical adjustments, the fiscal year 2015 balance is estimated to be \$12 million. The spending includes statutory formula caseload growth as well as net savings from the Medicaid expansion and assessment. These net savings depend on Executive Branch decisions regarding the level of assessment. The fiscal year 2015 ongoing revenues are primarily based on a 4-sector consensus growth rate of 6.1%, but also incorporate separately enacted tax law changes and new Medicaid expansion-related premium tax revenues.

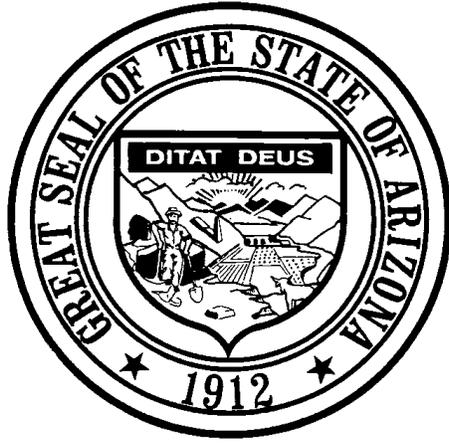
The fiscal year 2016 General Fund budget is forecasted to have revenues of \$9.2 billion and expenditures of \$9.1 billion, with a \$109 million balance. After accounting for legislation enacted separately from the budget and technical adjustments, the fiscal year 2016 balance is estimated to have a \$12 million shortfall. The ongoing spending includes caseload growth plus net savings from the Medicaid expansion and assessment. As noted above, these net savings depend on Executive Branch decisions regarding the level of assessment. The revenues reflect base growth of 5.7%. Those revenues also incorporate separately enacted tax law changes and additional premium tax revenues.

The Budget Stabilization Fund is expected to have a balance of \$456 million at the end of fiscal year 2014, which could be used to offset any shortfall in fiscal year 2015 or 2016.

## CONTACTING THE STATE COMPTROLLER'S OFFICE

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Arizona Department of Administration, General Accounting Office, Financial Reporting Section at (602) 542-5405. You may also access and print this report at <http://www.gao.az.gov/financials/>.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. Contact information regarding the component units begins on **page 65**.



# BASIC FINANCIAL STATEMENTS

**BASIC FINANCIAL STATEMENTS**

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STATE OF ARIZONA  
**STATEMENT OF NET POSITION**  
 JUNE 30, 2013  
 (Expressed in Thousands)

	PRIMARY GOVERNMENT		TOTAL	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT	COMPONENT UNITS
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 3,694	\$ 284,066	\$ 287,760	\$ 50,010
Cash with U.S. Treasury	-	14,944	14,944	-
Cash and pooled investments with State Treasurer	3,186,478	109,161	3,295,639	289,193
Restricted cash and pooled investments with State Treasurer	416,865	77,215	494,080	-
Cash held by trustee	-	-	-	1,612
Collateral investment pool	883,399	44,881	928,280	7,120
Short-term investments	-	241,162	241,162	123,411
Restricted investments held by trustee	-	-	-	18,938
Receivables, net of allowances:				
Taxes	447,377	94,577	541,954	3,078
Interest	203,612	3,560	207,172	10,454
Loans and notes	281,799	4,059	285,858	1,888
Patient accounts receivable	-	-	-	129,117
Other	186,105	170,649	356,754	109,946
Internal balances	(202,960)	202,960	-	-
Due from U.S. Government	739,685	78,429	818,114	-
Due from local governments	171,184	-	171,184	-
Due from others	96,621	-	96,621	-
Due from primary government	-	-	-	3,500
Inventories, at cost	11,879	20,533	32,412	20,057
Other current assets	24,748	14,666	39,414	1,110
Total Current Assets	<u>6,450,486</u>	<u>1,360,862</u>	<u>7,811,348</u>	<u>769,434</u>
Noncurrent Assets:				
Restricted assets:				
Cash	97	8,668	8,765	-
Cash and pooled investments with State Treasurer	1,479,131	-	1,479,131	10,465
Cash held by trustee	36,468	228,754	265,222	21,888
Investments	2,869	-	2,869	74,117
Investments held by trustee	-	176,517	176,517	32,588
Receivables, net of allowances:				
Loans and notes	12,266	30,959	43,225	1,134,562
Other	-	10,411	10,411	7,303
Securities held in escheat	39,743	-	39,743	-
Investments	-	965,877	965,877	123,515
Endowment investments	4,113,474	330,935	4,444,409	-
Other noncurrent assets	15,084	30,698	45,782	26,801
Capital assets:				
Infrastructure, land, and other non-depreciable	19,294,794	518,625	19,813,419	67,995
Buildings, equipment, and other depreciable, net of accumulated depreciation	1,698,992	3,814,562	5,513,554	374,761
Total Noncurrent Assets	<u>26,692,918</u>	<u>6,116,006</u>	<u>32,808,924</u>	<u>1,873,995</u>
Total Assets	<u>33,143,404</u>	<u>7,476,868</u>	<u>40,620,272</u>	<u>2,643,429</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Interest rate swap	-	14,078	14,078	-

The Notes to the Financial Statements are an integral part of this statement.

(Continued)

STATE OF ARIZONA  
**STATEMENT OF NET POSITION**  
 JUNE 30, 2013  
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
			PRIMARY GOVERNMENT	
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 619,849	\$ 144,759	\$ 764,608	\$ 72,893
Payable for securities purchased	-	7,947	7,947	-
Accrued liabilities	944,081	57,420	1,001,501	99,780
Obligations under securities loan agreements	883,399	44,881	928,280	7,120
Tax refunds payable	2,974	-	2,974	-
Due to U.S. Government	6,157	116,695	122,852	-
Due to local governments	1,242,348	-	1,242,348	-
Due to others	351,307	91,510	442,817	-
Due to component units	-	3,500	3,500	-
Unearned deferred revenue	95,396	134,128	229,524	-
Current portion of accrued insurance losses	56,276	24,958	81,234	12,711
Current portion of long-term debt	475,946	109,710	585,656	82,343
Current portion of other long-term liabilities	165,700	18,738	184,438	24,497
Total Current Liabilities	4,843,433	754,246	5,597,679	299,344
Noncurrent Liabilities:				
Unearned deferred revenue	85,158	470	85,628	2,470
Accrued insurance losses	339,339	452,889	792,228	19,247
Funds held for others	-	19,322	19,322	-
Long-term debt	6,708,544	3,060,967	9,769,511	1,281,532
Derivative instrument - interest rate swap	-	14,078	14,078	-
Other long-term liabilities	168,233	59,555	227,788	3,793
Total Noncurrent Liabilities	7,301,274	3,607,281	10,908,555	1,307,042
Total Liabilities	12,144,707	4,361,527	16,506,234	1,606,386
<b>NET POSITION</b>				
Net investment in capital assets	17,410,055	1,532,572	18,942,627	118,901
Restricted for:				
General government	136,273	-	136,273	-
Health and welfare	95,049	-	95,049	-
Inspection and regulation	4,504	-	4,504	-
Education	502,688	-	502,688	-
Protection and safety	20,505	-	20,505	-
Natural resources	8,437	-	8,437	-
Capital projects	735,077	506	735,583	-
Debt service	3,892	7,960	11,852	33,002
Permanent funds and University funds:				
Expendable	167,359	247,654	415,013	-
Nonexpendable	4,442,299	198,637	4,640,936	-
Loans and other financial assistance:				
Expendable	-	77,215	77,215	493,004
Other purposes	-	-	-	40,981
Unrestricted (deficit)	(2,527,441)	1,064,875	(1,462,566)	351,155
Total Net Position	\$ 20,998,697	\$ 3,129,419	\$ 24,128,116	\$ 1,037,043

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**STATEMENT OF FINANCIAL POSITION**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
JUNE 30, 2013  
(Expressed in Thousands)

**ASSETS**

Cash and cash equivalent investments	\$	69,063
Receivables:		
Pledges receivable		131,344
Other receivables		23,646
Total receivables		<u>154,990</u>
Investments:		
Investments in securities		1,461,078
Other investments		55,660
Total investments		<u>1,516,738</u>
Net direct financing leases		76,924
Property and equipment, net of accumulated depreciation		341,090
Licenses		2,130
Other assets		42,663
Total Assets		<u>2,203,598</u>

**LIABILITIES**

Accounts payable and accrued liabilities		37,611
Liability under endowment trust agreements		315,754
Long-term debt		529,206
Deferred revenue		28,703
Other liabilities		42,370
Total Liabilities		<u>953,644</u>

**NET ASSETS**

Permanently restricted		837,602
Temporarily restricted		398,042
Unrestricted		14,310
Total Net Assets	\$	<u>1,249,954</u>

The Notes to the Financial Statements are an integral part of this statement.

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STATE OF ARIZONA  
**STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
General government	\$ 836,431	\$ 188,462	\$ 137,147	\$ -
Health and welfare	12,168,426	138,605	9,405,875	-
Inspection and regulation	161,480	156,164	20,280	-
Education	5,372,267	61,896	1,708,002	-
Protection and safety	1,400,413	123,010	102,521	201
Transportation	754,510	119,862	168,436	651,798
Natural resources	204,179	62,870	46,573	-
Intergovernmental revenue sharing	2,685,378	-	-	-
Interest on long-term debt	355,975	-	-	-
Total Governmental Activities	23,939,059	850,869	11,588,834	651,999
Business-type Activities:				
Universities	3,866,866	1,892,356	1,301,082	15,210
Industrial Commission Special Fund	38,614	25,161	-	-
Other	1,329,816	1,264,295	269,772	-
Total Business-type Activities	5,235,296	3,181,812	1,570,854	15,210
Total Primary Government	\$ 29,174,355	\$ 4,032,681	\$ 13,159,688	\$ 667,209
<b>COMPONENT UNITS:</b>				
Water Infrastructure Finance Authority	\$ 46,851	\$ 35,598	\$ 54,179	
University of Arizona Health Network & Subsidiaries	1,154,871	1,173,082	-	
Other Component Units	64,156	30,309	1,627	
Total Component Units	\$ 1,265,878	\$ 1,238,989	\$ 55,806	

General Revenues:  
 Taxes:  
 Sales  
 Income  
 Tobacco  
 Property  
 Motor vehicle and fuel  
 Other  
 Unrestricted investment earnings  
 Unrestricted grants and contributions  
 Gain on sale of trust land  
 Payments from State of Arizona  
 Miscellaneous  
 Contributions to permanent endowments  
 Transfers  
 Total General Revenues, Contributions, and Transfers  
 Change in Net Position  
 Net Position - Beginning, as restated  
 Net Position - Ending

The Notes to the Financial Statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
\$ (510,822)		\$ (510,822)	
(2,623,946)		(2,623,946)	
14,964		14,964	
(3,602,369)		(3,602,369)	
(1,174,681)		(1,174,681)	
185,586		185,586	
(94,736)		(94,736)	
(2,685,378)		(2,685,378)	
(355,975)		(355,975)	
<u>(10,847,357)</u>		<u>(10,847,357)</u>	
	\$ (658,218)	(658,218)	
	(13,453)	(13,453)	
	204,251	204,251	
	<u>(467,420)</u>	<u>(467,420)</u>	
<u>(10,847,357)</u>	<u>(467,420)</u>	<u>(11,314,777)</u>	
			\$ 42,926
			18,211
			<u>(32,220)</u>
			<u>28,917</u>
6,518,480	57,490	6,575,970	9,853
3,974,998	-	3,974,998	-
316,050	-	316,050	-
27,429	-	27,429	-
1,592,911	-	1,592,911	-
531,186	-	531,186	13,600
18,705	62,017	80,722	16,866
45,746	5	45,751	1,034
174,095	-	174,095	-
-	-	-	36,708
144,403	148,743	293,146	1,772
-	3,192	3,192	-
<u>(534,722)</u>	<u>534,722</u>	<u>-</u>	<u>-</u>
<u>12,809,281</u>	<u>806,169</u>	<u>13,615,450</u>	<u>79,833</u>
1,961,924	338,749	2,300,673	108,750
19,036,773	2,790,670	21,827,443	928,293
<u>\$ 20,998,697</u>	<u>\$ 3,129,419</u>	<u>\$ 24,128,116</u>	<u>\$ 1,037,043</u>

STATE OF ARIZONA  
**STATEMENT OF ACTIVITIES**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>REVENUES</b>				
Contributions	\$ 16,001	\$ 112,069	\$ 41,132	\$ 169,202
Rental revenue	43,503	-	-	43,503
Sales and services	33,676	97	-	33,773
Net investment income	22,034	52,088	42,787	116,909
Licensing revenue	1,390	-	-	1,390
Other revenues	37,072	3,441	78	40,591
Net assets released from restrictions	144,220	(123,885)	(20,335)	-
<b>Total Revenues</b>	<b>297,896</b>	<b>43,810</b>	<b>63,662</b>	<b>405,368</b>
<b>EXPENSES</b>				
Program services:				
Payments to Universities	122,023	-	-	122,023
Leasing related expenses	8,585	-	-	8,585
Payments on behalf of Universities	19,512	-	-	19,512
Other program services	6,017	-	-	6,017
Management and general expenses	67,379	-	-	67,379
Fundraising expenses	9,681	-	-	9,681
Interest	23,466	-	-	23,466
Depreciation and amortization	21,569	-	-	21,569
Other expenses	6,630	-	-	6,630
<b>Total Expenses</b>	<b>284,862</b>	<b>-</b>	<b>-</b>	<b>284,862</b>
Increase in Net Assets, before extraordinary items	13,034	43,810	63,662	120,506
Extraordinary items (Primarily equity transfers)	2,848	(385)	-	2,463
Increase in Net Assets, after extraordinary items	15,882	43,425	63,662	122,969
Net Assets - Beginning, as restated	(1,776)	356,488	772,273	1,126,985
Transfers	204	(1,871)	1,667	-
<b>Net Assets - Ending</b>	<b>\$ 14,310</b>	<b>\$ 398,042</b>	<b>\$ 837,602</b>	<b>\$ 1,249,954</b>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**BALANCE SHEET**  
GOVERNMENTAL FUNDS  
JUNE 30, 2013  
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				TOTAL
	GENERAL FUND	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	
<b>ASSETS</b>					
Cash	\$ 2,004	\$ -	\$ 28	\$ 1,662	\$ 3,694
Cash and pooled investments with State Treasurer	1,825,654	48,494	88,143	814,808	2,777,099
Collateral investment pool	73,436	4,890	792,293	12,780	883,399
Receivables, net of allowances:					
Taxes	299,327	72,899	-	75,151	447,377
Interest	164	-	203,447	1	203,612
Loans and notes	-	5,044	289,021	-	294,065
Other	119,777	13,821	16,640	25,203	175,441
Due from U.S. Government	598,923	110,292	-	23,260	732,475
Due from local governments	171,184	-	-	-	171,184
Due from others	-	-	-	2	2
Due from other Funds	55,483	3,803	15,351	23,840	98,477
Inventories, at cost	948	7,207	-	3	8,158
Restricted assets:					
Cash	97	-	-	-	97
Cash and pooled investments with State Treasurer	89,546	886,568	-	919,469	1,895,583
Cash held by trustee	28,967	-	-	7,501	36,468
Investments	2,869	-	-	-	2,869
Securities held in escheat	39,743	-	-	-	39,743
Endowment investments	-	-	4,113,474	-	4,113,474
Other	118	19,059	-	-	19,177
<b>Total Assets</b>	<b>\$ 3,308,240</b>	<b>\$ 1,172,077</b>	<b>\$ 5,518,397</b>	<b>\$ 1,903,680</b>	<b>\$ 11,902,394</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and other current liabilities	\$ 289,407	\$ 149,569	\$ 7,603	\$ 55,353	\$ 501,932
Accrued liabilities	668,402	5,229	-	58,349	731,980
Obligations under securities loan agreements	73,436	4,890	792,293	12,780	883,399
Tax refunds payable	2,970	-	-	4	2,974
Due to U.S. Government	6,157	-	-	-	6,157
Due to local governments	1,030,445	120,718	-	91,185	1,242,348
Due to others	341,947	-	1	9,359	351,307
Due to other Funds	212,327	8,716	4,304	22,101	247,448
Unavailable deferred revenue	184,603	6,865	482,656	780	674,904
Unearned deferred revenue	75,343	-	104,528	670	180,541
<b>Total Liabilities</b>	<b>2,885,037</b>	<b>295,987</b>	<b>1,391,385</b>	<b>250,581</b>	<b>4,822,990</b>
Fund Balances:					
Nonspendable	844	7,207	4,153,278	-	4,161,329
Restricted	192,187	712,799	-	1,148,073	2,053,059
Committed	73,237	156,084	-	505,026	734,347
Unassigned	156,935	-	(26,266)	-	130,669
<b>Total Fund Balances</b>	<b>423,203</b>	<b>876,090</b>	<b>4,127,012</b>	<b>1,653,099</b>	<b>7,079,404</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,308,240</b>	<b>\$ 1,172,077</b>	<b>\$ 5,518,397</b>	<b>\$ 1,903,680</b>	<b>\$ 11,902,394</b>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION**

JUNE 30, 2013

(Expressed in Thousands)

**Total fund balances - governmental funds** \$ 7,079,404

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 20,919,316

Certain receivables related to reimbursements are not available at year end and, therefore, are not reported in the governmental funds. 98,429

Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 674,904

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. (173,030)

The allocation of the internal service fund accumulated net gain results in an amount due to business-type activities, which is not reported in the governmental funds. (41,392)

Deferred issue costs are reported as current expenditures in the governmental funds. However, deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position. 15,084

Long-term debt is not due and payable from current financial resources and, therefore, is not reported in the governmental funds. These amounts consist of:

Revenue bonds	(3,606,720)	
Grant anticipation notes	(296,240)	
Certificates of participation	(2,360,595)	
Capital leases	(360,316)	
Notes payable	(105,817)	
Premium on debt	(474,747)	
Deferred amounts on refundings	<u>19,945</u>	(7,184,490)

Accrued liabilities for AHCCCS programmatic costs and reimbursements are not due and payable from current financial resources and, therefore, are not reported in the governmental funds. (176,581)

Accrued interest on long-term obligations is not due and payable from current financial resources and, therefore, is not reported in the governmental funds. (34,803)

Other long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the governmental funds. Those liabilities consist of:

Compensated absences	(156,061)	
Pollution remediation obligations	<u>(22,083)</u>	<u>(178,144)</u>

**Net position of governmental activities** \$ 20,998,697

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				TOTAL
	GENERAL FUND	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	
<b>REVENUES</b>					
Taxes:					
Sales	\$ 5,795,717	\$ 227,800	\$ -	\$ 507,092	\$ 6,530,609
Income	4,034,572	-	-	59	4,034,631
Tobacco	64,888	-	-	251,162	316,050
Property	17,345	8,084	-	2,000	27,429
Motor vehicle and fuel	6,130	1,421,858	-	164,923	1,592,911
Other	419,769	-	-	111,417	531,186
Intergovernmental	10,670,984	820,254	-	101,438	11,592,676
Licenses, fees, and permits	86,771	105,655	5,594	278,952	476,972
Earnings on investments	(9,970)	(897)	481,419	29,367	499,919
Sales and charges for services	103,157	1,044	57,514	20,360	182,075
Fines, forfeitures, and penalties	37,850	-	-	143,366	181,216
Gaming	6,148	-	-	80,359	86,507
Tobacco settlement	149,125	-	-	-	149,125
Proceeds from sale of trust land	-	-	225,659	-	225,659
Other	129,983	15,209	6,916	17,011	169,119
Total Revenues	<u>21,512,469</u>	<u>2,599,007</u>	<u>777,102</u>	<u>1,707,506</u>	<u>26,596,084</u>
<b>EXPENDITURES</b>					
Current:					
General government	691,653	-	-	121,117	812,770
Health and welfare	11,942,103	-	4,717	269,802	12,216,622
Inspection and regulation	45,373	-	-	115,263	160,636
Education	4,687,071	-	47,605	634,862	5,369,538
Protection and safety	1,114,068	-	2,252	232,826	1,349,146
Transportation	-	666,219	-	17,388	683,607
Natural resources	89,150	-	1,414	104,150	194,714
Intergovernmental revenue sharing	1,611,292	1,073,876	-	-	2,685,168
Debt service:					
Principal	109,027	5,015	-	298,575	412,617
Interest and other fiscal charges	67,019	340	-	262,414	329,773
Capital outlay	26,123	532,910	63	206,243	765,339
Total Expenditures	<u>20,382,879</u>	<u>2,278,360</u>	<u>56,051</u>	<u>2,262,640</u>	<u>24,979,930</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,129,590</u>	<u>320,647</u>	<u>721,051</u>	<u>(555,134)</u>	<u>1,616,154</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	219,660	1,010	15,424	546,326	782,420
Transfers out	(846,349)	(283,088)	(39,372)	(87,599)	(1,256,408)
Proceeds from sale of capital assets	-	1,636	-	-	1,636
Capital lease and installment purchase contracts	-	15,158	-	-	15,158
Refunding certificates of participation issued	-	-	-	62,630	62,630
Proceeds from notes and loans	-	51,550	-	-	51,550
Bonds issued	-	-	-	194,295	194,295
Refunding bonds issued	-	-	-	837,340	837,340
Payment to refunded certificates of participation escrow agent	-	-	-	(42,096)	(42,096)
Payment to refunded bond escrow agent	-	-	-	(954,372)	(954,372)
Premium on debt issued	-	-	-	136,210	136,210
Total Other Financing Sources (Uses)	<u>(626,689)</u>	<u>(213,734)</u>	<u>(23,948)</u>	<u>692,734</u>	<u>(171,637)</u>
Net Change in Fund Balances	<u>502,901</u>	<u>106,913</u>	<u>697,103</u>	<u>137,600</u>	<u>1,444,517</u>
Fund Balances - Beginning, as restated	<u>(79,698)</u>	<u>769,177</u>	<u>3,429,909</u>	<u>1,515,499</u>	<u>5,634,887</u>
Fund Balances - Ending	<u>\$ 423,203</u>	<u>\$ 876,090</u>	<u>\$ 4,127,012</u>	<u>\$ 1,653,099</u>	<u>\$ 7,079,404</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Thousands)

**Net change in fund balances - total governmental funds** \$ 1,444,517

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of assets is allocated over their estimated useful lives and reported as depreciation expense. Also, infrastructure was adjusted to primarily reflect reduction in construction in progress resulting from certain infrastructure projects being reclassified from capital outlay to non-capital. This is the amount by which capital outlays exceeded depreciation and infrastructure adjustments in the current period.

Capital outlay	765,339	
Infrastructure adjustment	(62,844)	
Depreciation expense	<u>(114,553)</u>	587,942

The net expense of the internal service funds is included with governmental activities in the Statement of Activities. (44,703)

Net change in certain revenues reported in the Statement of Activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.

Sales taxes	(12,129)	
Income taxes	(59,633)	
Operating grants	(42,336)	
Right-of-way lease revenue	(2,557)	
Other revenue	<u>(18)</u>	(116,673)

Trust land sales are financed with long-term mortgages. In the Statement of Activities, the gain on sale of trust land is reported, whereas in the governmental funds, the proceeds from the collection of mortgage payments are reported. In fiscal year 2013, mortgage payments exceeded gains resulting from current year land sales. In addition, accrued interest on land sales' contracts are reported as revenues in the Statement of Activities but are not reported as revenues in the governmental funds.

Excess of mortgage receipts over gain on sale of land	(51,564)	
Accrued interest on land sales' contracts	<u>(3,693)</u>	(55,257)

Certain expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

AHCCCS accrued programmatic costs	56,635	
Compensated absences	(5,051)	
Pollution remediation obligations	8,499	
Interest on long-term obligations	2,398	
Other expenses	<u>994</u>	63,475

The Notes to the Financial Statements are an integral part of this statement. (Continued)

STATE OF ARIZONA  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2013**  
 (Expressed in Thousands)

Bond proceeds provide current financial resources to the governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, proceeds were received from:

Bonds issued	(194,295)	
Refunding certificates of participation issued	(62,630)	
Refunding bonds issued	(837,340)	
Proceeds from notes and loans	(51,550)	
Bond issuance costs	1,775	
Premium on debt issued	<u>(136,210)</u>	(1,280,250)

Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. In the current year, these amounts consist of:

Debt service principal	412,617	
Payment to refunded certificates of participation escrow agent	41,725	
Payment to refunded bond escrow agent	883,519	
Debt premium/discount amortization	42,119	
Amortization of bond issuance costs	(1,541)	
Amortization of deferred amount	<u>(408)</u>	1,378,031

Some capital asset additions were financed through capital leases and installment purchase contracts. Such financing arrangements are reported as an other financing source in the governmental funds; however, these amounts are reported as liabilities in the Statement of Net Position.

(15,158)

**Change in net position of governmental activities**

\$ 1,961,924

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2013**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	INDUSTRIAL COMMISSION SPECIAL FUND	OTHER	TOTAL ENTERPRISE FUNDS	
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 224,748	\$ 55,918	\$ 3,400	\$ 284,066	\$ -
Cash with U.S. Treasury	-	-	14,944	14,944	-
Cash and pooled investments with State Treasurer	2,439	5,413	101,309	109,161	409,379
Restricted cash and pooled investments with State Treasurer	-	-	77,215	77,215	-
Collateral investment pool	-	44,881	-	44,881	-
Short-term investments	241,162	-	-	241,162	-
Receivables, net of allowances:					
Taxes	-	4,915	89,662	94,577	-
Interest	741	2,818	1	3,560	-
Loans and notes	4,059	-	-	4,059	-
Other	124,353	5,630	40,666	170,649	10,663
Due from U.S. Government	78,356	-	73	78,429	5,400
Due from other Funds	211,102	6	184	211,292	2,893
Inventories, at cost	9,416	-	11,117	20,533	3,723
Other current assets	14,092	-	574	14,666	5,571
Total Current Assets	<u>910,468</u>	<u>119,581</u>	<u>339,145</u>	<u>1,369,194</u>	<u>437,629</u>
Noncurrent Assets:					
Restricted assets:					
Cash	8,668	-	-	8,668	-
Cash and pooled investments with State Treasurer	-	-	-	-	413
Cash held by trustee	228,754	-	-	228,754	-
Investments held by trustee	176,517	-	-	176,517	-
Receivables, net of allowances:					
Loans and notes	30,959	-	-	30,959	-
Other	10,411	-	-	10,411	-
Investments	581,216	384,661	-	965,877	-
Endowment investments	330,935	-	-	330,935	-
Other noncurrent assets	21,395	-	9,303	30,698	-
Capital assets:					
Land and other non-depreciable	512,358	2,997	3,270	518,625	1,914
Buildings, equipment, and other depreciable, net of accumulated depreciation	3,779,209	11,188	24,165	3,814,562	72,556
Total Noncurrent Assets	<u>5,680,422</u>	<u>398,846</u>	<u>36,738</u>	<u>6,116,006</u>	<u>74,883</u>
Total Assets	<u>6,590,890</u>	<u>518,427</u>	<u>375,883</u>	<u>7,485,200</u>	<u>512,512</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>					
Interest rate swap	14,078	-	-	14,078	-

The Notes to the Financial Statements are an integral part of this statement.

(Continued)

STATE OF ARIZONA  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2013**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	INDUSTRIAL COMMISSION SPECIAL FUND	OTHER		
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	\$ 131,904	\$ 4,660	\$ 8,195	\$ 144,759	\$ 117,923
Payable for securities purchased	-	7,947	-	7,947	-
Accrued liabilities	31,371	-	26,049	57,420	712
Obligations under securities loan agreements	-	44,881	-	44,881	-
Due to U.S. Government	-	-	116,695	116,695	-
Due to others	40,166	-	51,344	91,510	-
Due to component units	-	-	3,500	3,500	-
Due to other Funds	-	-	49,724	49,724	15,490
Unearned deferred revenue	128,890	104	5,134	134,128	13
Current portion of accrued insurance losses	-	24,958	-	24,958	56,276
Current portion of long-term debt	109,710	-	-	109,710	-
Current portion of other long-term liabilities	17,380	-	1,358	18,738	9,997
Total Current Liabilities	<u>459,421</u>	<u>82,550</u>	<u>261,999</u>	<u>803,970</u>	<u>200,411</u>
Noncurrent Liabilities:					
Unearned deferred revenue	470	-	-	470	-
Accrued insurance losses	-	452,889	-	452,889	339,339
Funds held for others	19,322	-	-	19,322	-
Long-term debt	3,060,967	-	-	3,060,967	-
Derivative instrument - interest rate swap	14,078	-	-	14,078	-
Other long-term liabilities	59,471	-	84	59,555	145,792
Total Noncurrent Liabilities	<u>3,154,308</u>	<u>452,889</u>	<u>84</u>	<u>3,607,281</u>	<u>485,131</u>
Total Liabilities	<u>3,613,729</u>	<u>535,439</u>	<u>262,083</u>	<u>4,411,251</u>	<u>685,542</u>
<b>NET POSITION</b>					
Net investment in capital assets	1,490,951	14,185	27,436	1,532,572	74,470
Restricted for:					
Capital projects	506	-	-	506	-
Debt service	7,960	-	-	7,960	-
Universities fund:					
Expendable	247,654	-	-	247,654	-
Nonexpendable	198,637	-	-	198,637	-
Loans and other financial assistance:					
Expendable	-	-	77,215	77,215	-
Unrestricted (deficit)	1,045,531	(31,197)	9,149	1,023,483	(247,500)
Total Net Position	<u>\$ 2,991,239</u>	<u>\$ (17,012)</u>	<u>\$ 113,800</u>	<u>\$ 3,088,027</u>	<u>\$ (173,030)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>41,392</u>	
Net position of business-type activities				<u>\$ 3,129,419</u>	

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	INDUSTRIAL COMMISSION SPECIAL FUND	OTHER	TOTAL ENTERPRISE FUNDS	
<b>OPERATING REVENUES</b>					
Sales and charges for services:					
Student tuition and fees, net of scholarship allowances of \$455,455	\$ 1,437,110	\$ -	\$ -	\$ 1,437,110	\$ -
Auxiliary enterprises, net of scholarship allowances of \$20,617	363,289	-	-	363,289	-
Educational department	91,957	-	-	91,957	-
Other	-	-	817,394	817,394	917,488
Unemployment assessments	-	-	444,819	444,819	-
Workers' compensation assessments	-	23,195	-	23,195	-
Intergovernmental	589,525	-	269,772	859,297	-
Nongovernmental grants and contracts	144,894	-	-	144,894	-
Earnings on investments	-	-	6	6	-
Fines, forfeitures, and penalties	-	-	2,076	2,076	-
Settlement income	-	1,966	-	1,966	-
Other	39,714	-	95,591	135,305	2,229
Total Operating Revenues	<u>2,666,489</u>	<u>25,161</u>	<u>1,629,658</u>	<u>4,321,308</u>	<u>919,717</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and benefits	1,046,210	33,555	1,233,766	2,313,531	764,373
Scholarships and fellowships	209,657	-	-	209,657	-
Personal services	2,222,192	-	37,756	2,259,948	36,036
Contractual services	-	-	25,692	25,692	26,290
Depreciation and amortization	251,725	1,369	2,086	255,180	12,594
Insurance	-	-	550	550	70,792
Other	-	-	8,030	8,030	11,512
Total Operating Expenses	<u>3,729,784</u>	<u>34,924</u>	<u>1,307,880</u>	<u>5,072,588</u>	<u>921,597</u>
Operating Income (Loss)	<u>(1,063,295)</u>	<u>(9,763)</u>	<u>321,778</u>	<u>(751,280)</u>	<u>(1,880)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Share of State sales tax revenues	57,490	-	-	57,490	-
Intergovernmental	299,949	-	-	299,949	-
Gifts and donations	248,066	-	-	248,066	-
Gain (loss) on sale of capital assets	(5,230)	-	13	(5,217)	104
Investment income	25,867	35,541	609	62,017	13
Endowment earnings on investments	18,648	-	-	18,648	-
Other non-operating revenue	16,588	1,834	233	18,655	213
Distributions	-	-	(14,725)	(14,725)	-
Interest expense	(124,430)	-	(7,163)	(131,593)	(1)
Other non-operating expense	(10,996)	(3,690)	(48)	(14,734)	(5,104)
Total Non-Operating Revenues (Expenses)	<u>525,952</u>	<u>33,685</u>	<u>(21,081)</u>	<u>538,556</u>	<u>(4,775)</u>
Income (Loss) Before Contributions and Transfers	<u>(537,343)</u>	<u>23,922</u>	<u>300,697</u>	<u>(212,724)</u>	<u>(6,655)</u>
Capital grants and contributions	15,210	-	5	15,215	21,030
Contributions to permanent endowments	3,192	-	-	3,192	-
Transfers in	699,191	6,000	-	705,191	-
Transfers out	-	-	(170,469)	(170,469)	(60,734)
Change in Net Position	180,250	29,922	130,233	340,405	(46,359)
Total Net Position - Beginning, as restated	<u>2,810,989</u>	<u>(46,934)</u>	<u>(16,433)</u>	<u>2,747,622</u>	<u>(126,671)</u>
Total Net Position - Ending	<u>\$ 2,991,239</u>	<u>\$ (17,012)</u>	<u>\$ 113,800</u>	<u>\$ 3,088,027</u>	<u>\$ (173,030)</u>
Change in net position of enterprise funds				\$ 340,405	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(1,656)	
Change in net position of business-type activities				<u>\$ 338,749</u>	

The Notes to the Financial Statements are an integral part of this statement.

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STATE OF ARIZONA  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	INDUSTRIAL COMMISSION	OTHER	TOTAL	
		SPECIAL FUND		ENTERPRISE FUNDS	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ -	\$ -	\$ 653,742	\$ 653,742	\$ -
Receipts from assessments	-	21,360	446,578	467,938	-
Receipts from student tuition and fees	1,398,583	-	-	1,398,583	-
Receipts from sales and services of auxiliary enterprises	354,466	-	-	354,466	-
Receipts from sales and services of educational departments	82,252	-	-	82,252	-
Receipts from interfund services / premiums	-	-	-	-	916,409
Receipts from grants and contracts	742,526	-	269,836	1,012,362	-
Receipts from student loans collected	5,968	-	-	5,968	-
Receipts from repayment of loans to local governments	-	-	530	530	-
Receipts from settlement income	-	1,966	-	1,966	-
Payments to suppliers, prize winners, claimants, or insurance companies	(1,049,881)	(25,346)	(1,083,037)	(2,158,264)	(789,032)
Payments to employees	(2,189,464)	-	(54,001)	(2,243,465)	(35,945)
Payments to retirees	-	-	-	-	(13,585)
Payments for scholarships and fellowships	(202,795)	-	-	(202,795)	-
Payments for student loans issued	(5,600)	-	-	(5,600)	-
Other receipts	34,970	1,834	14,364	51,168	2,234
Other payments	-	-	(37,600)	(37,600)	(5,104)
Net Cash Provided (Used) by Operating Activities	(828,975)	(186)	210,412	(618,749)	74,977
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Receipts from custodial funds	336,444	-	-	336,444	-
Receipts from share of State sales tax	54,683	-	-	54,683	-
Receipts from grants and contributions	1,395,453	-	-	1,395,453	-
Receipts from settlement income	-	-	185	185	-
Transfers from other Funds	653,525	6,000	-	659,525	-
Custodial funds disbursed	(307,663)	-	-	(307,663)	-
Grants and contributions disbursed	(836,022)	-	-	(836,022)	-
Distributions	-	-	(14,725)	(14,725)	-
Interest paid on loan due to U.S. Government	-	-	(10,372)	(10,372)	-
Transfers to other Funds	-	-	(148,666)	(148,666)	(60,734)
Other receipts	10,334	-	-	10,334	-
Net Cash Provided (Used) by Non-capital Financing Activities	1,306,754	6,000	(173,578)	1,139,176	(60,734)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from sale of capital assets	1,129	-	15	1,144	1,785
Proceeds from capital debt, installment purchase contracts, and capital leases	331,870	-	-	331,870	-
Receipts from federal subsidy	11,262	-	-	11,262	-
Receipts from capital grants and contributions	25,912	-	-	25,912	-
Receipts from insurance recoveries	-	-	-	-	208
Transfers from other Funds	25,374	-	-	25,374	-
Acquisition and construction of capital assets	(480,739)	-	(1,639)	(482,378)	(4,955)
Interest paid on capital debt, installment purchase contracts, and capital leases	(126,461)	-	-	(126,461)	-
Principal paid on capital debt, installment purchase contracts, and capital leases	(106,637)	-	(19)	(106,656)	-
Net Cash (Used) by Capital and Related Financing Activities	(318,290)	-	(1,643)	(319,933)	(2,962)

The Notes to the Financial Statements are an integral part of this statement.

(Continued)

STATE OF ARIZONA  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	INDUSTRIAL COMMISSION	OTHER	TOTAL	
		SPECIAL FUND		ENTERPRISE FUNDS	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	303,682	229,266	-	532,948	-
Interest and dividends from investments	18,052	13,096	902	32,050	12
Change in cash collateral received from securities lending transactions	-	545	(349)	196	-
Purchase of investments	(537,919)	(256,251)	(35)	(794,205)	-
Net Cash Provided (Used) by Investing Activities	<u>(216,185)</u>	<u>(13,344)</u>	<u>518</u>	<u>(229,011)</u>	<u>12</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(56,696)	(7,530)	35,709	(28,517)	11,293
Cash and Cash Equivalents - Beginning	521,305	113,742	161,159	796,206	398,499
Cash and Cash Equivalents - Ending	<u>\$ 464,609</u>	<u>\$ 106,212</u>	<u>\$ 196,868</u>	<u>\$ 767,689</u>	<u>\$ 409,792</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (1,063,295)	\$ (9,763)	\$ 321,778	\$ (751,280)	\$ (1,880)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	251,725	1,369	2,086	255,180	12,594
Provision for uncollectible accounts	-	-	1,023	1,023	-
Miscellaneous income (expense)	(15,782)	(61)	48	(15,795)	(5,099)
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	(2,840)	(140)	21,831	18,851	(2,672)
Decrease in due from U.S. Government	-	-	64	64	1,757
(Increase) in due from other Funds	-	-	(10)	(10)	(141)
(Increase) decrease in inventories, at cost	533	-	(1,603)	(1,070)	(174)
Decrease in other assets	1,118	-	34	1,152	247
Increase (decrease) in accounts payable	(210)	1,204	1,919	2,913	17,739
Increase (decrease) in accrued liabilities	8,986	-	(1,189)	7,797	48
(Decrease) in due to U.S. Government	-	-	(129,332)	(129,332)	-
Increase (decrease) in due to other Funds	-	(1,711)	1	(1,710)	15,107
(Decrease) in due to others	-	-	(5,727)	(5,727)	-
Increase (decrease) in deferred revenue	(9,210)	2	(603)	(9,811)	(19)
Increase in accrued insurance losses	-	8,914	-	8,914	30,852
Increase in other liabilities	-	-	92	92	6,618
Net Cash Provided (Used) by Operating Activities	<u>\$ (828,975)</u>	<u>\$ (186)</u>	<u>\$ 210,412</u>	<u>\$ (618,749)</u>	<u>\$ 74,977</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>					
Contribution of capital assets from other Funds	\$ -	\$ -	\$ 5	\$ 5	\$ 21,030
Gifts and conveyances of capital assets	1,726	-	-	1,726	-
Assets acquired through debt	16,545	-	-	16,545	-
(Loss) on disposal of capital assets, net	(11,003)	-	-	(11,003)	-
Increase in fair value of investments	8,153	20,511	-	28,664	-
Amortization of bond discount and issuance costs	(2,978)	-	-	(2,978)	-
Amortization of bond premium	3,323	-	-	3,323	-
Amortization of deferred rent	4,900	-	-	4,900	-
Refinancing long-term debt	199,315	-	-	199,315	-
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ 219,981</u>	<u>\$ 20,511</u>	<u>\$ 5</u>	<u>\$ 240,497</u>	<u>\$ 21,030</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**STATEMENT OF FIDUCIARY NET POSITION**  
 FIDUCIARY FUNDS  
 JUNE 30, 2013  
 (Expressed in Thousands)

	PENSION AND OTHER		
	EMPLOYEE BENEFIT	INVESTMENT	AGENCY
	TRUST FUNDS	TRUSTS	FUNDS
<b>ASSETS</b>			
Cash	\$ 169,711	\$ -	\$ 53,684
Cash and pooled investments with State Treasurer	-	-	228,837
Short-term investments	-	-	3,392
Receivables, net of allowances:			
Accrued interest and dividends	75,849	26,758	1
Securities sold	49,222	-	-
Forward contracts receivable	901,832	-	-
Contributions	97,462	-	-
Court fees	687	-	-
Due from other Funds	8,808	-	-
Other	33,167	-	2
Total receivables	1,167,027	26,758	3
Investments, at fair value:			
Temporary investments	1,989,196	-	-
Fixed income securities	6,175,040	2,940,110	-
Corporate stocks	21,058,651	-	-
Global tactical asset allocation	618,516	-	-
Real estate	2,654,327	-	-
Private equity	2,525,876	-	-
Opportunistic investments	1,914,728	-	-
Collateral investment pool	239,821	27,143	-
Other investments	918,286	-	-
Total investments	38,094,441	2,967,253	-
Due from others	-	-	82,552
Custodial securities in safekeeping	-	-	3,600,237
Other assets	-	-	1,782
Property and equipment, net of accumulated depreciation	4,552	-	-
Total Assets	39,435,731	2,994,011	3,970,487
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	72,523	-	-
Payable for securities purchased	352,541	-	-
Management fee payable	-	164	-
Obligation under securities loan agreements	239,821	27,143	-
Forward contracts payable	889,084	-	-
Due to local governments	-	-	153,523
Due to others	-	-	3,816,964
Due to other Funds	8,808	-	-
Total Liabilities	1,562,777	27,307	3,970,487
<b>NET POSITION</b>			
Held in trust for:			
Pension benefits	36,275,000	-	-
Other post-employment benefits	1,597,954	-	-
Pool participants	-	2,966,704	-
Total Net Position	\$ 37,872,954	\$ 2,966,704	\$ -

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Thousands)

	PENSION AND OTHER	
	EMPLOYEE BENEFIT	INVESTMENT
	TRUST FUNDS	TRUSTS
<b>ADDITIONS:</b>		
Member contributions	\$ 1,154,598	\$ -
Employer contributions	1,436,745	-
Retrospective rate adjustment reimbursement	25,826	-
Member purchase of service credit	78,664	-
Court fees	8,412	-
Investment income:		
Net increase (decrease) in fair value		
of investments	3,220,583	(7,367)
Interest income	203,101	16,949
Dividends	410,627	-
Real estate	232,085	-
Private equity	238,359	-
Other investment income	220,366	-
Securities lending income	13,805	202
Total investment income	<u>4,538,926</u>	<u>9,784</u>
Less investment expenses:		
Investment activity expenses	257,418	1,904
Securities lending expenses	647	96
Net investment income	<u>4,280,861</u>	<u>7,784</u>
Capital share and individual account transactions:		
Shares sold	-	4,782,275
Reinvested interest income	-	13,817
Shares redeemed	-	(5,054,280)
Net capital share and individual account transactions	<u>-</u>	<u>(258,188)</u>
Other additions	<u>2,178</u>	<u>-</u>
Total Additions	<u>6,987,284</u>	<u>(250,404)</u>
<b>DEDUCTIONS:</b>		
Retirement, disability, and survivor benefits	3,297,722	-
Refunds to withdrawing members, including interest	262,730	-
Administrative expense	43,700	-
Dividends to investors	-	5,106
Other deductions	6,292	-
Total Deductions	<u>3,610,444</u>	<u>5,106</u>
Change in net position held in trust for:		
Pension benefits	3,239,028	-
Other post-employment benefits	137,812	-
Pool participants	-	(255,510)
Net Position - Beginning, as restated	<u>34,496,114</u>	<u>3,222,214</u>
Net Position - Ending	<u>\$ 37,872,954</u>	<u>\$ 2,966,704</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
 COMPONENT UNITS  
 JUNE 30, 2013  
 (Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY OF ARIZONA HEALTH NETWORK & SUBSIDIARIES	OTHER COMPONENT UNITS	TOTAL
<b>ASSETS</b>				
Current Assets:				
Cash	\$ -	\$ 31,727	\$ 18,283	\$ 50,010
Cash and pooled investments with State Treasurer	188,849	-	100,344	289,193
Cash held by trustee	1,612	-	-	1,612
Collateral investment pool	4,362	-	2,758	7,120
Short-term investments	-	123,411	-	123,411
Restricted investments held by trustee	-	14,394	4,544	18,938
Receivables, net of allowances:				
Taxes	-	-	3,078	3,078
Interest	10,434	-	20	10,454
Loans and notes	-	-	1,888	1,888
Patient accounts receivable	-	129,117	-	129,117
Other	6,903	100,147	2,896	109,946
Due from primary government	-	-	3,500	3,500
Inventories, at cost	-	20,057	-	20,057
Other current assets	-	-	1,110	1,110
Total Current Assets	<u>212,160</u>	<u>418,853</u>	<u>138,421</u>	<u>769,434</u>
Noncurrent Assets:				
Restricted assets:				
Cash and pooled investments with State Treasurer	-	-	10,465	10,465
Cash held by trustee	-	-	21,888	21,888
Investments	-	74,117	-	74,117
Investments held by trustee	-	26,031	6,557	32,588
Loans and notes receivable, net of allowances	1,115,312	-	19,250	1,134,562
Other receivables, net of allowances	-	7,303	-	7,303
Investments	123,515	-	-	123,515
Other noncurrent assets	4,191	5,359	17,251	26,801
Capital assets:				
Land and other non-depreciable	-	58,761	9,234	67,995
Buildings, equipment, and other depreciable	212	771,538	37,160	808,910
Less: accumulated depreciation	(163)	(423,825)	(10,161)	(434,149)
Total Noncurrent Assets	<u>1,243,067</u>	<u>519,284</u>	<u>111,644</u>	<u>1,873,995</u>
Total Assets	<u>1,455,227</u>	<u>938,137</u>	<u>250,065</u>	<u>2,643,429</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	-	60,256	12,637	72,893
Accrued liabilities	9,974	89,394	412	99,780
Obligations under securities loan agreements	4,362	-	2,758	7,120
Current portion of accrued insurance losses	-	12,711	-	12,711
Current portion of long-term debt	45,150	27,473	9,720	82,343
Current portion of other long-term liabilities	93	24,404	-	24,497
Total Current Liabilities	<u>59,579</u>	<u>214,238</u>	<u>25,527</u>	<u>299,344</u>
Noncurrent Liabilities:				
Unearned deferred revenue	2,470	-	-	2,470
Accrued insurance losses	-	19,247	-	19,247
Long-term debt	870,401	310,565	100,566	1,281,532
Other long-term liabilities	-	3,793	-	3,793
Total Noncurrent Liabilities	<u>872,871</u>	<u>333,605</u>	<u>100,566</u>	<u>1,307,042</u>
Total Liabilities	<u>932,450</u>	<u>547,843</u>	<u>126,093</u>	<u>1,606,386</u>
<b>NET POSITION</b>				
Net investment in capital assets	49	86,599	32,253	118,901
Restricted for:				
Debt service	-	9,536	23,466	33,002
Loans and other financial assistance	452,841	-	40,163	493,004
Other	-	21,510	19,471	40,981
Unrestricted	69,887	272,649	8,619	351,155
Total Net Position	<u>\$ 522,777</u>	<u>\$ 390,294</u>	<u>\$ 123,972</u>	<u>\$ 1,037,043</u>

The Notes to the Financial Statements are an integral part of this statement.

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STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
 COMPONENT UNITS  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Thousands)

<u>FUNCTIONS/PROGRAMS</u>	<u>PROGRAM REVENUES</u>		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>
Water Infrastructure Finance Authority	\$ 46,851	\$ 35,598	\$ 54,179
University of Arizona Health Network	1,154,871	1,173,082	-
Other Component Units	64,156	30,309	1,627
Total	<u>\$ 1,265,878</u>	<u>\$ 1,238,989</u>	<u>\$ 55,806</u>

General Revenues:  
 Taxes:  
     Sales  
     Other  
 Unrestricted investment earnings  
 Unrestricted grants and contributions  
 Payments from State of Arizona  
 Miscellaneous  
     Change in Net Position  
 Net Position - Beginning, as restated  
 Net Position - Ending

The Notes to the Financial Statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY OF ARIZONA HEALTH NETWORK & SUBSIDIARIES	OTHER COMPONENT UNITS	TOTAL
\$ 42,926	\$ -	\$ -	\$ 42,926
-	18,211	-	18,211
-	-	(32,220)	(32,220)
-	-	9,853	9,853
-	-	13,600	13,600
4,757	11,573	536	16,866
-	-	1,034	1,034
-	-	36,708	36,708
-	-	1,772	1,772
47,683	29,784	31,283	108,750
475,094	360,510	92,689	928,293
<u>\$ 522,777</u>	<u>\$ 390,294</u>	<u>\$ 123,972</u>	<u>\$ 1,037,043</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
JUNE 30, 2013  
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
<b>ASSETS</b>					
Cash and cash equivalent investments	\$ 8,895	\$ 38,752	\$ 3,667	\$ 17,749	\$ 69,063
Receivables:					
Pledges receivable	117,781	2,984	-	10,579	131,344
Other receivables	4,646	-	108	18,892	23,646
Total receivables	<u>122,427</u>	<u>2,984</u>	<u>108</u>	<u>29,471</u>	<u>154,990</u>
Investments:					
Investments in securities	632,817	656,998	15,736	155,527	1,461,078
Other investments	45,138	-	-	10,522	55,660
Total investments	<u>677,955</u>	<u>656,998</u>	<u>15,736</u>	<u>166,049</u>	<u>1,516,738</u>
Net direct financing leases	24,960	-	44,010	7,954	76,924
Property and equipment, net of accumulated depreciation	14,435	12,796	187,555	126,304	341,090
Licenses	-	-	-	2,130	2,130
Other assets	17,348	5,724	4,463	15,128	42,663
Total Assets	<u>866,020</u>	<u>717,254</u>	<u>255,539</u>	<u>364,785</u>	<u>2,203,598</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	6,800	3,028	8,972	18,811	37,611
Liability under endowment trust agreements	99,822	192,869	-	23,063	315,754
Long-term debt	73,935	-	298,977	156,294	529,206
Deferred revenue	3,531	-	-	25,172	28,703
Other liabilities	26,118	5,492	-	10,760	42,370
Total Liabilities	<u>210,206</u>	<u>201,389</u>	<u>307,949</u>	<u>234,100</u>	<u>953,644</u>
<b>NET ASSETS</b>					
Permanently restricted	388,280	396,364	-	52,958	837,602
Temporarily restricted	253,691	110,320	-	34,031	398,042
Unrestricted (deficit)	13,843	9,181	(52,410)	43,696	14,310
Total Net Assets	<u>\$ 655,814</u>	<u>\$ 515,865</u>	<u>\$ (52,410)</u>	<u>\$ 130,685</u>	<u>\$ 1,249,954</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
<b>REVENUES</b>					
Contributions	\$ 82,238	\$ 59,818	\$ -	\$ 27,146	\$ 169,202
Rental revenue	1,009	-	15,781	26,713	43,503
Sales and services	20,281	-	8,967	4,525	33,773
Net investment income	56,737	45,619	29	14,524	116,909
Licensing revenue	-	-	-	1,390	1,390
Other revenues	4,061	9,609	9,276	17,645	40,591
Total Revenues	<u>164,326</u>	<u>115,046</u>	<u>34,053</u>	<u>91,943</u>	<u>405,368</u>
<b>EXPENSES</b>					
Program services:					
Payments to Universities	62,166	46,067	918	12,872	122,023
Leasing related expenses	-	-	-	8,585	8,585
Payments on behalf of Universities	-	14,548	-	4,964	19,512
Other program services	-	-	-	6,017	6,017
Management and general expenses	26,227	4,287	9,388	27,477	67,379
Fundraising expenses	-	6,641	-	3,040	9,681
Interest	2,096	-	13,604	7,766	23,466
Depreciation and amortization	1,546	-	12,990	7,033	21,569
Other expenses	4,700	-	68	1,862	6,630
Total Expenses	<u>96,735</u>	<u>71,543</u>	<u>36,968</u>	<u>79,616</u>	<u>284,862</u>
Increase (decrease) in Net Assets, before extraordinary items	67,591	43,503	(2,915)	12,327	120,506
Extraordinary item (Primarily equity transfers)	-	-	2,620	(157)	2,463
Increase (decrease) in Net Assets, after extraordinary items	67,591	43,503	(295)	12,170	122,969
Net Assets - Beginning, as restated	<u>588,223</u>	<u>472,362</u>	<u>(52,115)</u>	<u>118,515</u>	<u>1,126,985</u>
Net Assets - Ending	<u>\$ 655,814</u>	<u>\$ 515,865</u>	<u>\$ (52,410)</u>	<u>\$ 130,685</u>	<u>\$ 1,249,954</u>

The Notes to the Financial Statements are an integral part of this statement.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the State of Arizona (the State) conform to U.S. Generally Accepted Accounting Principles (U.S. GAAP) applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

**A. REPORTING ENTITY**

The State is a general purpose government. The accompanying financial statements present the activities of the State (the primary government) and its component units. Component Units' footnote disclosures are presented in Note 16 – *Discretely Presented Component Unit Disclosures*.

***Component Units***

Component units are legally separate entities for which the State is considered to be financially accountable, or organizations that raise and hold economic resources for the direct benefit of the State. Blended component units, although legally separate entities, are in substance, part of a government's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units of the State, except for component units affiliated with the State's Universities, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the State. Because the component units affiliated with the Universities follow Financial Accounting Standards Board (FASB) statements, these financial statements have been reported on separate pages following the respective counterpart financial statements of the State. For financial reporting purposes, only the statement of financial position and the statement of activities for component units affiliated with the Universities are included in the State's financial statements, as required by the GASB.

GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. Where the State does not appoint a voting majority of an organization's governing body, GASB requires inclusion in the reporting entity if it is fiscally dependent on the State and there is a potential for the organization to either provide specific financial benefits to, or to impose specific financial burdens on, the State. Further, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading.

In addition, GASB requires that legally separate, tax-exempt entities that meet *all* of the following criteria should be discretely presented as component units: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents, (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The Northern Arizona Capital Facilities Finance Corporation (NACFFC) is blended with the Universities financial statements. The NACFFC was established for the purpose of acquiring, developing, constructing, and operating student housing and other capital facilities and equipment for the use and benefit of NAU's students. The NACFFC Board of Directors is appointed by NAU, the NACFFC is controlled and operated by NAU personnel, and the NACFFC's debt outstanding is expected to be repaid entirely or almost entirely with resources from NAU.

The State reports the following component units as fiduciary funds:

The Arizona State Retirement System (ASRS) is a cost-sharing, multiple-employer, pension plan that benefits employees of the State and participating political subdivisions and school districts. The ASRS is administered in accordance with provisions of Arizona Revised Statutes (ARS) Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is governed by a nine-member board that is appointed by the Governor and approved by the Senate to serve three-year terms. The State has the ability to impose its will on the ASRS as the State Legislature can modify the plan design and benefits. Additionally, per ARS §38-721, the State Legislature appropriates monies to pay for the administrative expenses of the ASRS. Complete financial statements may be obtained from the ASRS's administrative office at P.O. Box 33910, Phoenix, AZ 85067-3910, (602) 240-2000, or its website at [www.azasrs.gov](http://www.azasrs.gov).

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The Public Safety Personnel Retirement System (PSPRS) is an agent, multi-employer public employee retirement system that benefits public safety employees of certain State and local governments. The PSPRS is jointly administered by the Board of Trustees (formerly Fund Manager) and 237 local boards according to the provisions of ARS Title 38, Chapter 5, Article 4. The Board of Trustees is a seven-member board appointed by the Governor and approved by the Senate to serve a fixed five-year term. The State has the ability to impose its will on the PSPRS as the State Legislature can modify the plan design and benefits. Each eligible group participating in the system has a five-member local board. In general, all members serve a fixed four-year term. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at [www.psprs.com](http://www.psprs.com).

The Elected Officials' Retirement Plan (EORP) is a cost-sharing, multi-employer public employee retirement plan that benefits elected officials and judges of certain State, county, and local governments. The Board of Trustees (formerly Fund Manager) of the PSPRS administers the EORP plan according to the provisions of ARS Title 38, Chapter 5, Article 3. The State has the ability to impose its will on the EORP as the State Legislature can modify the plan design and benefits. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at [www.psprs.com](http://www.psprs.com).

The Corrections Officer Retirement Plan (CORP) is an agent, multi-employer public employee retirement plan that benefits prison and jail employees of certain State, county, and local governments. The Board of Trustees (formerly Fund Manager) of the PSPRS and 26 local boards administer the CORP plan according to the provisions of ARS Title 38, Chapter 5, Article 6. The State has the ability to impose its will on the CORP as the State Legislature can modify the plan design and benefits. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at [www.psprs.com](http://www.psprs.com).

The State reports the following discretely presented component units:

*Major Component Units:*

University of Arizona Health Network and Subsidiaries (UAHN) – The UAHN, an Arizona not-for-profit corporation, controls the University Medical Center Corporation and subsidiaries (UMC) and University Physicians Healthcare and subsidiaries (UPH). The UAHN is comprised of (i) a Hospital Division, which encompasses the University of Arizona Medical Center – University Campus, the University of Arizona Medical Center – South Campus, and more than 40 physician offices and clinics across southern Arizona, (ii) a faculty-physician Practice Plan Division known as the University of Arizona Physicians, which is the practice plan of the faculty-physicians of the University of Arizona College of Medicine, (iii) a Health Plans Division known as the University of Arizona Health Plans, which offers health care insurance plans, and (iv) the University Medical Center Foundation, which provides philanthropic support to the UAHN. The UAHN is governed by a seventeen-member board of directors whose appointments are approved by the Arizona Board of Regents. The State has the ability to impose its will on the UAHN as it must approve amendments to the articles of incorporation and bylaws of the board of directors. The UAHN must also receive approval from the State prior to entering any business transaction that may adversely affect the interest of the State. Complete financial statements may be obtained in writing from the UAHN at: The University of Arizona Health Network, Attn: Administration, 1501 N. Campbell Ave., Tucson, AZ 85724.

Water Infrastructure Finance Authority (WIFA) – The WIFA is authorized to administer the Clean Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act, which required the State to establish the Clean Water Revolving Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. The WIFA has also entered into an agreement with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The WIFA is governed by a twelve-member board of directors. The seven Governor appointed directors serve staggered terms of five years and serve at the pleasure of the Governor; thus, the State has the ability to impose its will on WIFA. Complete financial statements may be obtained from the WIFA's administrative offices at 1110 West Washington Street, Suite 290, Phoenix, AZ 85007, (602) 364-1324.

*Non-major Component Units:*

Greater Arizona Development Authority (GADA) – The purpose of the GADA is to provide cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The GADA was created by an Act of the Arizona Legislature in 1997 and is a body, corporate and politic, of the State. The GADA is governed by a nine-member Board of Directors consisting of four State of Arizona agency heads and five members, one of which shall be a

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representative of a tribal nation in Arizona, appointed by the Governor of the State. Members appointed by the Governor serve staggered five-year terms. A financial benefit/burden relationship exists between the State and GADA as its fund was originally capitalized with General Fund appropriations and the State Legislature has swept monies from its fund over the years to balance the State's budget. Complete financial statements may be obtained from the GADA's administrative office at 1110 West Washington Street, Suite 290, Phoenix, AZ 85007, (602) 364-1324.

Rio Nuevo Multipurpose Facilities District (Rio Nuevo) – The Rio Nuevo was established in 1999 with the passage of Proposition 400 by the voters in the Cities of Tucson and South Tucson. Under applicable ARS, the District can utilize tax incremental financing to help develop multipurpose facilities in the downtown Tucson area. The Rio Nuevo is governed by a nine-member board of directors, with five members appointed by the Governor, two members appointed by the President of the Senate, and the remaining two members appointed by the Speaker of the House of Representatives. All board of directors can be removed at will; thus, the State has the ability to impose its will on Rio Nuevo. Complete financial statements may be obtained from Beach Fleischman & Co. PC, c/o Jim Lovelace, 1985 E. River Rd. #201, Tucson, AZ 85718-7176, (520) 321-4600.

Arizona Power Authority (APA) – The APA purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws. The APA is governed by a commission of five members appointed by the Governor and approved by the Senate. The term of office of each member is six years and the members select a chairman and vice-chairman from among their membership for a term of two years. The APA is required to follow specific State policies; thus, the State has the ability to impose its will on APA. Complete financial statements may be obtained from the APA's administrative offices at 1810 West Adams Street, Phoenix, AZ 85007-2679, (602) 368-4265.

Arizona Commerce Authority (ACA) – The ACA is charged with the following responsibilities: job creation and expansion of capital investment through business attraction, expansion and retention, including business incubation and entrepreneurship; creation, monitoring, and execution of a comprehensive economic and workforce strategy; management and administration of economic development and workforce programs; providing statewide marketing leadership; utilization of all means necessary, prudent and practical to integrate private sector-based innovation, flexibility, focus and responsiveness; and advancement of public policy to meet the State's economic development objectives. The ACA is governed by a nineteen member board of directors consisting of the Governor serving as Chairperson, a Chief Executive Officer, and seventeen members consisting of private sector business leaders serving staggered three-year terms, of which, nine are appointed by the Governor, four are appointed by the President of the Senate, and the other four are appointed by the Speaker of the House of Representatives. A financial benefit/burden relationship exists between the State and ACA as its primary funding source is the allocated State General Fund withholding tax revenues received in each fiscal year according to ARS §43-409. Complete financial statements may be obtained from the ACA's administrative office at 333 North Central Avenue, Suite 1900, Phoenix, AZ 85004, (602) 845-1200.

Component units of the State affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate boards of directors that meet the criteria established in GASB, with the exception of the University Public Schools, Inc. (UPSI) and Campus Research Corporation (CRC). The UPSI is included because it is a legally separate organization that the State believes would be misleading to exclude due to its close affiliation to the State. The CRC is included because the U of A approves the budget and can access its resources.

The following discretely presented component units of the State affiliated with the Universities are reported as *major* component units:

Arizona State University Foundation for a New American University (ASU Foundation) – The ASU Foundation's resources are disbursed at the discretion of the Foundation's independent board of directors, in accordance with donor directions and Foundation policy. The directors of the ASU Foundation make all decisions regarding the business affairs of the ASU foundation, including distributions to ASU.

Arizona Capital Facilities Finance Corporation (ACFFC) – The ACFFC provides facilities for either use by students of ASU or ASU itself.

University of Arizona Foundation (U of A Foundation) – The U of A Foundation supports the U of A through various fundraising activities and contributes funds to the U of A in support of various programs. The restricted resources held by the U of A Foundation are significant to the U of A and can only be used by, or for the benefit of, the U of A or its constituents.

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The following discretely presented component units of the State affiliated with the Universities are reported as *non-major* component units:

Arizona State University Alumni Association, Sun Angel Foundation, and Sun Angel Endowment – These three component units of the State affiliated with the Universities receive funds primarily through donations, dues, and/or affinity partners and contribute funds to ASU for support of various programs.

Arizona State University Research Park, Inc. (ASU Research Park) – ASU Research Park manages a research park to promote and support research activities in coordination with ASU. In developing the research park, bonds were issued that are guaranteed by ASU.

Downtown Phoenix Student Housing, LLC – This component unit of the State affiliated with the Universities provides facilities for use by students of ASU.

UPSI – The UPSI participates with the ASU faculty and staff in implementing various educational innovations in the form of teaching methods, teacher preparation, curriculum, and educational research.

University of Arizona Alumni Association (U of A Alumni Association) – The U of A Alumni Association was established to serve the U of A and its graduates, former students, and friends by attracting, organizing, and encouraging them to advance the U of A's missions - teaching, research, and public service. The economic resources held by the U of A Alumni Association are significant to the U of A and are entirely or almost entirely for the benefit of the U of A.

University of Arizona Law College Association (Law Association) – The Law Association was established to provide support and financial assistance to the College of Law at the U of A. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships. The economic resources held by the Law Association are significant to the U of A and are entirely or almost entirely for the benefit of the U of A.

University of Arizona Campus Research Corporation (CRC) – The CRC was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park (Park) and related properties. The CRC currently leases from the U of A the remaining 67% of building space of the Park not leased to the Arizona Research Park Authority. The CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices, and programs.

University of Arizona Eller Executive Education (EEE) – The EEE was established to advance the missions of the Eller College of Management and the U of A through noncredit, non-degree programs for business, government, and nonprofit leaders. The U of A president appoints all EEE board members and can remove any member at will.

Northern Arizona University Foundation, Inc. (NAU Foundation) – The NAU Foundation receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of NAU for advancement of its mission. The restricted resources of the NAU Foundation can only be used by, or for the benefit of NAU or its constituents.

Complete financial statements for each of the aforementioned component units, except for the U of A Foundation, may be obtained at the following addresses:

ASU Foundation, ACFFC, ASU Alumni Association, Sun Angel Foundation, Sun Angel Endowment, ASU Research Park, LLC, Downtown Phoenix Student Housing, LLC, and the UPSI – Arizona State University, Financial Services, P.O. Box 875812, Tempe, AZ 85287-5812 or (480) 965-3601

U of A Alumni Association – Alumni Association, The University of Arizona, P.O. Box 210109, Tucson, AZ 85721-0109

Law Association – Law College Association, James E. Rogers College of Law at the University of Arizona, 1201 E. Speedway Blvd., Tucson, AZ 85721-0176

CRC – The University of Arizona Science and Technology Park, 9030 South Rita Road, Suite 302, Tucson, AZ 85747

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EEE – Eller Executive Education, 405 McClelland Hall, Tucson, AZ 85721

NAU Foundation and NACFFC – Northern Arizona University, Comptroller's Office, P.O. Box 4069, Flagstaff, AZ 86011

The financial statements of the U of A Foundation are not publicly available. For information regarding the U of A Foundation's financial statements, contact the U of A Comptroller at the following address: University of Arizona, Financial Services, 1303 E. University Blvd., Box 4, Tucson, AZ 85722-3310.

***Related Organizations***

Related organizations are legally separate entities for which the State is not considered to be financially accountable, and that do not meet the criteria established by GASB for inclusion. The State's accountability for these organizations does not extend beyond making the appointments, nor are the economic resources accessible to the State. As a result, financial activity for the organizations described below is not included in the State's financial statements.

Arizona Health Facilities Authority (the Authority) – ARS §36-482 established the Authority to issue tax-exempt bonds and loans for the purpose of improving health care for Arizona residents by providing less expensive financing for health care facilities. Proceeds from bond issues are loaned to various qualifying nonprofit health care organizations. The health care organizations reimburse the Authority for expenses for issuance of the bonds, pay fees of the Authority, and make payments under the loans for the benefit of the holders of the bonds. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve staggered terms of seven years, and can be removed for cause or at will by the Governor with the consent of the Senate. The State cannot abrogate the rights of the Authority until all bonds, together with the interest thereon, are fully paid and discharged and all agreements are fully performed.

Arizona International Development Authority (the Authority) – ARS §41-4502 established the Authority to facilitate the development of international trade or commerce between Arizona and other countries. The Authority is governed by a seven-member board of directors appointed by the Governor and approved by the Senate for five-year terms, and can be removed only for cause.

Arizona Sports and Tourism Authority (the Authority) – ARS §5-802 established the Authority to construct, finance, furnish, maintain, improve, operate, market, and promote the use of a multipurpose facility and do all things necessary or convenient to accomplish those purposes. The Authority may issue revenue bonds in such principal amounts to accomplish the above stated purposes. The Authority is governed by a nine-member board of directors of which five are appointed by the Governor and approved by the Senate and two members each by the President of the Senate and the Speaker of the House. The directors serve terms of five years, may be re-appointed for one full subsequent term, and can be removed only for cause.

Arizona Housing Finance Authority (the Authority) – ARS §41-3902 established the Authority to issue bonds for residential dwelling units and multifamily residential rental projects in rural areas. The Authority may also establish mortgage credit certificate programs to finance residential dwelling units in rural areas. The Authority shall notify a city, town, county, tribal government, or existing corporation (as defined in ARS §35-701) that a multifamily residential rental project is planned for its jurisdiction and, before proceeding, shall obtain written consent from the governing body of the city, town, county, or tribal government. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve terms of seven years, and can be removed only for cause.

***Joint Ventures***

As described in Note 12, the U of A participates in joint ventures. In accordance with U.S. GAAP, the financial activities of these joint ventures are not included in the State's financial statements.

**B. BASIS OF PRESENTATION**

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the State as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

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**Government-wide statements** provide information about the primary government and its component units. The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the State and between the State and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The **Statement of Net Position** presents the State's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The total of assets and deferred outflows of resources, minus the total of liabilities and deferred inflows of resources, is reported as net position. Both the governmental and business-type activities are presented on a consolidated basis by column.

The **Statement of Activities** presents a comparison between direct expenses and program revenues for each function of the State's governmental activities, and its different business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. The State does not allocate indirect expenses to programs or functions.

Program revenues include:

- i charges to customers or applicants for goods, services, privileges provided, and fines or forfeitures
- i operating grants and contributions
- i capital grants and contributions, including special assessments

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Interfund balances have been eliminated from the government-wide financial statements to the extent that they occur within either the governmental or business-type activities. Balances between governmental and business-type activities are presented as internal balances and are eliminated in the total column. Revenues and expenses associated with reciprocal transactions within governmental or within business-type activities have not been eliminated.

**Fund financial statements** provide information about the State's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses 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 non-operating revenues and expenses.

The State reports the following major governmental funds:

*The General Fund* – is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*The Transportation and Aviation Planning, Highway Maintenance and Safety Fund* – accounts for all financial transactions applicable to the general operations of the Arizona Department of Transportation (ADOT). The ADOT builds and maintains the State's highway system and the Grand Canyon Airport. The fund primarily receives revenues from motor vehicle and fuel taxes and federal grants.

*The Land Endowments Fund* – holds lands granted to the State by the Federal government for the benefit of public schools and other public institutions. Principal is maintained intact and investment earnings and lease revenues are distributed to beneficiaries in accordance with State statute.

The State reports the following major enterprise funds:

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*The Universities* – account for transactions of the State’s three universities, which comprise the State’s university system.

*The Industrial Commission Special Fund (Special Fund)* – accounts for the payment of workers’ compensation claims that are not covered by the Risk Management Division of the Department of Administration, private insurance carriers, and self-insured employers.

Additionally, the State reports the following fund types:

*Internal Service Funds* – account for insurance coverage, employee benefits, automotive maintenance and operation, highway equipment rentals, and data processing and telecommunication services provided to State agencies on a cost-reimbursement basis. It is the policy of the State to classify immaterial proprietary fund activities in governmental funds. This policy helps to reduce the number of funds reported in the financial statements to the minimum amount needed. These funds allocate a fixed rate payroll processing charge among all agencies, allocate postage and mailing costs among all agencies, or arrange for the sale of the State’s office equipment and motorized vehicles at public auctions.

*Pension and Other Employee Benefit Trust Funds* – account for the activities of the ASRS, the PSPRS, the EORP, and the CORP, for which the State acts as a trustee. These retirement and other post-employment benefit plans accumulate resources to pay pension, health insurance premium subsidies, and long-term disability benefits of State employees and employees of other governmental entities participating in the plans.

*Investment Trust Funds* – account for transactions by local governments and political subdivisions that elect to participate in the State Treasurer’s investment pools. The Treasurer acts as trustee for the original deposits made into the investment pools.

*Agency Funds* – account for the receipt and disbursement of various taxes, deposits, deductions, property collected by the State, and payment of the health insurance subsidy by the PSPRS, the EORP, and the CORP, where the State acts as an agent for distribution to other governments and organizations.

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. However, the agency funds are custodial in nature and do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenues as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are collected within 31 days after year-end, except for the Department of Economic Security (DES) revenue, reported in the General Fund, and the Transportation and Aviation Planning, Highway Maintenance and Safety Major Fund, as well as certain non-major governmental funds administered by the DES and the ADOT, which consider revenues to be available if collected within 60 days after year-end. Those revenues susceptible to accrual are federal reimbursements, highway user revenue tax, and state sales tax. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When an expense is incurred for purposes for which restricted and unrestricted net position are available, the State considers restricted and unrestricted amounts to have been spent in that order.

**D. DEPOSITS AND INVESTMENTS**

**1. Cash and Cash Equivalents**

On the Statement of Cash Flows, the amount reported as “Cash and Cash Equivalents” is equal to the total of the amounts on the Statement of Net Position (unrestricted/restricted) “Cash”, “Cash with U.S. Treasury”, “Cash and pooled investments with State

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Treasurer”, “Cash held by trustee” and “Collateral investment pool”. For purposes of the Statement of Cash Flows, the State considers only those highly liquid debt instruments with an original maturity of ninety days or less to be cash equivalents.

- i *Cash (not with State Treasurer)* – includes un-deposited receipts, petty cash, bank accounts, non-negotiable certificates of deposit, and demand deposits with banking institutions other than the State Treasurer.
- i *Cash with U.S. Treasury* – consists of unemployment compensation contributions from Arizona employers that are deposited in a trust fund maintained by the United States Treasury.
- i *Cash and pooled investments with State Treasurer* – consists of a centralized management of most State cash resources maintained by the State Treasurer. From the perspective of the various State funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the State Treasurer’s pooled investments are described in Note 2.
- i *Cash held by trustee* – consists of capital projects and bond debt service funds invested by the trustee in accordance with the applicable financing indenture, generally limited to United States Treasury securities and other Federal agency securities, certificates of deposit, commercial paper, and money market funds.
- i *Collateral investment pool* – consists of cash received as collateral on securities lending transactions and investments made with that cash. The State records the collateral received as an asset. A corresponding liability is also recorded for such securities lending transactions.

## 2. Investment Valuation

Investments maintained by the State Treasurer are reported at fair value using JP Morgan prices, as determined by independent, industry recognized data vendors who provide values that are either exchange based or matrix based. Equities are priced utilizing the primary exchange closing price. In the absence of a closing price, the bid price will be utilized. If no pricing source is available, the cost price or last available price from any source will be utilized. All bonds are priced using an evaluated bid, the most recent mid/bid price or the bid price, except securities with a remaining maturity of 90 days or less are priced at amortized cost (amortizing premium/accreting discount on a straight-line to maturity method). The evaluated bid is based on a compilation of primary observable market information or a broker quote in a non-active market. If no pricing source is available, the cost price or the last available price from any source will be utilized.

The ASRS’ publicly traded investments are reported at fair value determined by the custodial agents. The agents’ determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. ASRS’ derivative instruments, which consist of futures, forward contracts, options, swaps, rights, and warrants, are measured at fair value. Changes in fair values of derivative instruments are reported as net increase (decrease) in fair value of investments. The fair value of real estate, private equity and opportunistic investments are based on estimated current values and is accepted industry practice. Fair value is based on estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, the ASRS, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment’s degree of risk. Security transactions and any resulting gains or losses are accounted for on a trade date basis. Net investment income (loss) includes net increase (decrease) in the fair value of investments, interest income, dividend income, real estate, private equity, and opportunistic investments income, and total investment expense. This includes investment management, real estate, private equity, and opportunistic investment expenses and all other significant investment related costs.

For the PSPRS, the EORP, and the CORP, investments are reported at fair market value. Short term investments are reported at cost plus accrued interest. Equity securities are valued at the last reported sales price. Fixed income securities are valued using the last reported sales price or the estimated fair market value as determined by the fixed income broker/dealers plus accrued interest. Investments in hedge funds are valued monthly at the last reported valuations. Limited partnership investments in credit opportunities, private equity, real assets, and real estate are valued on a quarterly or monthly basis at last reported valuations adjusted by any subsequent cash flows. Investment income is recognized as earned.

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**E. TAXES RECEIVABLE**

Taxes receivable include amounts owed by taxpayers for prior periods including assessments for underpayments, penalties, and interest. In the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting. In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting. The remainder is recorded as deferred revenues.

The income tax receivable is composed of individual and corporate estimated payments, withholding payments, and payments with final returns and assessments that relate to income earned through June 30, 2013. Sales and motor vehicle and fuel tax receivables represent amounts that are earned by the State in the fiscal period ended June 30, 2013, but not collected until the following month.

**F. INVENTORIES**

Inventories consist of expendable supplies held for consumption in all funds and merchandise intended for sale to customers in the proprietary funds. Inventories are stated at cost using the first-in, first-out method, weighted average, or lower of cost or market. In the governmental funds, inventories are accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

**G. PROPERTY TAX CALENDAR**

Real property taxes are levied on or before the third Monday in August and become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. A lien attaches on the first day of January preceding assessment and levy.

**H. CAPITAL ASSETS**

Capital assets are stated at cost at the date of acquisition or, if donated, at the estimated fair market value at the date received. Interest incurred during the construction of capital assets is only capitalized in the proprietary funds.

Most capital assets are depreciated over their estimated useful lives. However, the State reports most infrastructure assets using the modified approach, as provided by GASB. Under this approach, rather than being depreciated, costs to maintain and preserve these assets are expensed. This approach is discussed further in the Required Supplementary Information portion of this report. The State has adopted a general policy for capitalization thresholds, depreciation, and estimated useful lives of capital assets. In addition, the State has approved alternative policies for some State agencies.

Depreciable capital assets are depreciated on a straight-line basis. Capitalization thresholds (the dollar values at which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets being depreciated in the government-wide financial statements and the proprietary funds are as follows:

Asset Category	General State Policy		Other Authorized Agency Policies	
	Capitalization Threshold	Estimated Useful Life (years)	Capitalization Threshold	Estimated Useful Life (years)
Land	All capitalized	Not depreciated	All capitalized	Not depreciated
Buildings	All capitalized	25-40	\$0-\$100,000	10-50
Improvements other than buildings	\$5,000	15	-	-
Equipment	\$5,000	3-15	\$0-\$5,000	3-25
Infrastructure	All capitalized	Not depreciated	\$0-\$100,000	10-100
Software	\$1,000,000	5-10	\$1,000,000-\$5,000,000	5-10
Other intangibles	\$100,000	Varied	\$100,000	Varied

Other intangibles include licenses and permits, patents, copyrights and trademarks, rights-of-way and easements, and natural resource extraction rights. These are amortized over the shorter of the legal or estimated useful life if the useful life is definite or limited. If the life is indefinite or unlimited, they are not amortized. In addition, rights-of-way and easements are amortized only if the value is separable from the underlying land and natural resource extraction rights are not amortized unless the value of the underlying asset is identifiable.

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The State is trustee for approximately 9.2 million acres of land acquired through U.S. Government land grants in the early 1900's. The State acquired a substantial portion of this land at no cost and its fair market value at acquisition has not been reliably estimated. Accordingly, this land is not reported in the accompanying financial statements.

The State has interest in and maintains significant special collections, works of art, and historical treasures. Except for ASU, all special collections, works of art, and historical treasures which are held for financial gain are capitalized at fair market value at the date of acquisition or donation. Those special collections, works of art, and historical treasures which are held for educational, research, or public exhibition purposes are not capitalized, as they are not subject to disposal for financial gain or encumbrance. Such items are inventoried for property control purposes. ASU capitalizes all works of art and historical treasures with a unit cost of \$5,000 or more.

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 4 and 7, respectively.

**I. INVESTMENT EARNINGS**

Investment earnings are composed of interest, dividends, and net changes in fair value of applicable investments.

**J. SCHOLARSHIP ALLOWANCES**

Student tuition and fee revenues, and certain other revenues earned by the three State Universities are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Fund Net Position. A scholarship discount and allowance is the difference between the stated charge for goods and services provided and the amount that is paid by the student or third party making payment on behalf of the student. Accordingly, some types of student financial aid such as fee waivers, Pell grants, and scholarships awarded by the Universities are considered to be scholarship allowances. These allowances are netted against applicable revenues in the Statement of Revenues, Expenses and Changes in Fund Net Position.

**K. DEFERRED REVENUE**

Deferred revenue consists of payments to the State for goods and services not yet rendered, or taxes, grants, and other non-exchange transactions for which related resources are not available to pay current liabilities. In the government-wide and proprietary fund financial statements, revenue is deferred when cash, receivables, or other assets are received prior to their being earned. In the governmental fund financial statements, revenue is deferred when that revenue is unearned or unavailable.

**L. COMPENSATED ABSENCES**

In the government-wide and proprietary fund financial statements, the State accrues liabilities for compensated absences as required by the GASB. In the governmental fund financial statements, liabilities for compensated absences are not accrued, because they are not considered due and payable.

In general, State employees accrue vested annual leave at a variable rate based on years of service. Except for uncovered State employees and University employees, an employee generally forfeits accumulated annual leave in excess of 240 hours as of the last day of the last pay period for a calendar year, unless the Director of the Department of Administration authorizes an exception. Uncovered State employees shall forfeit accumulated annual leave in excess of 320 hours as of the end of each calendar year, unless an exception is authorized. University employees may accumulate up to 264 hours of vacation, and any vacation hours in excess of the maximum amount that are unused at December 31 are forfeited. Except for University employees, an employee who separates from State service is paid for all unused and unforfeited annual leave at the employee's rate of pay at the time of separation. University employees, upon termination of employment, are paid all unused vacation benefits not exceeding 176 hours (annual accrual amount), depending on years of service and full-time equivalent employment status.

Some employees accumulate compensatory leave for time worked over 40 hours per week. An employee may accumulate up to 240 hours of compensatory leave (480 if working in a public safety activity or an emergency response activity). An employee who separates from State service is paid for all unused compensatory leave at either the employee's average base salary during the last three years of employment or final base salary, whichever is higher.

For sick leave policy, see Note 13.C.

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**M. LONG-TERM OBLIGATIONS**

In the government-wide and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Amounts due within one year are reported as current liabilities, and amounts due thereafter are reported as non-current liabilities. Premiums and discounts on revenue bonds and COPs are deferred and amortized over the life of the debt instrument using the straight-line method or the effective interest method. Bonds and COPs are reported net of the applicable premium or discount. Bond issuance costs and deferred gains or losses on debt refundings are charged to expense in the period incurred unless those costs are deemed to be material to the State's financial statements by management, in which case, they are deferred and amortized using either the straight-line method or the effective interest method.

In the fund financial statements, governmental fund types recognize proceeds from revenue bonds, COPs, other issuances, and premiums and discounts on debt as other financing sources and uses in the current period. Long-term liabilities are more fully described in Note 7.

**N. NET POSITION/FUND BALANCES**

The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is "Net Position" on the government-wide, proprietary, and fiduciary fund financial statements. The difference between fund assets and liabilities is "Fund Balance" on the governmental fund financial statements.

Net position is reported in three categories:

**Net investment in capital assets** consist 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 position** results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or imposed by law through constitutional provisions, voter initiatives, or court orders.

**Unrestricted net position** consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources, which are imposed by management, but can be removed or modified.

In the governmental fund financial statements, fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Five classifications are available for reporting fund balances:

**Nonspendable fund balance** includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted or committed) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

**Restricted fund balances** have constraints placed upon the use of the resources that are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions, voter initiatives, or court orders.

**Committed fund balances** can be used only for specific purposes pursuant to constraints imposed by a formal action of the Arizona State Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the Legislature, creating, modifying, or rescinding fund balance commitments.

**Assigned fund balance** includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. The State does not have policies or procedures comparable to the policies that underlie this classification and, accordingly, does not report assigned fund balances.

**Unassigned fund balance** is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

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When an expenditure is incurred for purposes for which restricted, committed, and unassigned fund balance is available, the State considers restricted, committed, and unassigned amounts to have been spent in that order.

**Budget Stabilization Fund**

The State's Budget Stabilization Fund (BSF) was enacted in 1990 by ARS §35-144. The BSF is administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. The BSF is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. The BSF is also known as the "Rainy Day Fund."

There is a statutory formula to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. The amount is based on calculations from the Arizona Economic Estimates Commission (EEC). The EEC compares the annual growth rate of inflation adjusted Arizona personal income (AZPI) for the calendar year ending in the fiscal year to the trend growth rate of inflation adjusted AZPI for the most recent 7 years. AZPI in the BSF formula is defined as total AZPI less transfer payments, adjusted by the gross domestic product price deflator index. If the annual growth rate exceeds the trend growth rate, the "excess" percent multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF. If the annual growth rate of AZPI is both less than 2% and less than the trend growth rate, the deficiency when multiplied by the General Fund revenue of the prior year would equal the amount to be withdrawn from the BSF. The BSF's total fund balance cannot be larger than 7% of the current year's General Fund revenues, excluding the beginning balance.

The budgets developed by the Governor and the Joint Legislative Budget Committee and submitted to the State Legislature at the start of each regular session include estimates of the amount to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount is done by the EEC on June 1 of the budget year. The EEC calculations, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. Additionally, by a two-thirds majority, the State Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.

The BSF's fund balance, including earnings on investments, as of June 30, 2013, was \$454.1 million.

**O. NEW ACCOUNTING PRONOUNCEMENTS AND MAJOR FUND CHANGES**

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public relationship. The requirements of this Statement are effective for periods beginning after December 15, 2011. The State has implemented the requirements of this standard, but they had no effect on the financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies the requirements of Statements No. 14 and Statement No. 34 for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. The provisions of this Statement are effective for periods beginning after June 15, 2012. The State has implemented the requirements of this standard.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of U.S. GAAP for state and local governments so that they derive from a single source. The requirements of this Statement are effective for periods beginning after December 15, 2011. The State has implemented the requirements of this standard, but they had no effect on the financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34. The provisions of this Statement are effective for periods beginning after December 15, 2011. The State has implemented the requirements of this standard.

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The Unemployment Compensation and Lottery funds reported as major enterprise funds in fiscal year 2012 did not meet the GASB major fund criteria in fiscal year 2013 and, as a result, are reported as non-major enterprise funds.

<b>NOTE 2. DEPOSITS AND INVESTMENTS</b>
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**A. DEPOSITS AND INVESTMENT POLICIES**

The State's deposits and investments are primarily under the control of the State Treasurer, the Retirement Systems, the Universities, and the Industrial Commission (the Commission). These entities maintain the majority of the deposits and investments of the primary government. The investment policies of these organizations are defined according to State statutes, or a governing board, or both, and are described below.

ARS §35-312, §35-313, and §35-314 authorize the State Treasurer to invest operating, trust, and permanent endowment fund monies. Monies deposited with the State Treasurer by State agencies are invested by the State Treasurer in a pooled fund. Any interest earned is allocated monthly into each respective fund based on average daily cash balances. There is no income from investments associated with one fund that is assigned to another fund.

The State statutes and the State Treasurer's investment policies designed to administer these statutes restrict investments to obligations of the U.S. Government and its agencies, obligations or other evidence of indebtedness of the State and certain local government subdivisions, negotiable certificates of deposit, bonds, debentures and notes issued by entities which are U.S. dollar denominated, commercial paper issued by entities which are U.S. dollar denominated, bankers acceptances, collateralized repurchase agreements, money market mutual funds, exchange traded funds, domestic equities, and other securities. The State Treasurer is not allowed to invest in foreign investments unless the investment is denominated in U.S. dollars.

The State Treasurer maintains external investment pools [the Local Government Investment Pool (LGIP), Local Government Investment Pool - FF&C, Local Government Investment Pool – Medium Term, and Local Government Investment Pool – Medium Term FF&C]. The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with ARS §35-311.

In September 2008, the State agencies' and an external investment pool's share of the Lehman Brothers bond value of \$39.4 million was transferred to the Lehman Brothers Pool due to Lehman Brothers filing for Chapter 11 bankruptcy protection on September 15, 2008. The transfer was made to provide for the decline in fair value of the Lehman Brothers securities.

In December 2011, the United States Bankruptcy Court for the Southern District of New York entered an order confirming the Modified Third Amended Lehman Brothers Joint Plan of Liquidation. During the current year, approximately \$3.5 million was received as payout of funds being held by the Indenture Trustee for Lehman Brothers securities. The payout received was allocated to participants based on the participant's share balance and then transferred to the LGIP, reducing the carry or cost basis in the Lehman Brothers Pool. As of June 30, 2013, the carry or cost basis and the fair value for the Lehman Brothers Pool were \$33.6 million and \$8.1 million, respectively. There was a distribution in October 2013, and future distributions are generally expected every six months thereafter. The remaining amount to be recovered is unknown.

The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Position Value (NPV) of the shares. The NPV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed.

The Central Arizona Water Conservation District is an individual investment account.

The State Treasurer's deposits and investments disclosures include the amounts reported by the State's component units as (unrestricted/restricted) "Cash and pooled investments with State Treasurer" in the accompanying financial statements, as applicable.

State statutes authorize the retirement systems to make investments in accordance with the "Prudent Person" rule. As such, investment management shall discharge the duties of their position with the care, skill, prudence, and diligence, under the

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circumstances then prevailing, that a “prudent person” acting in enterprise of a like character and with like aims as that of the system, subject to certain statutory limitations and restrictions.

The ASRS invests in short-term securities, obligations of the U.S. government or agencies of the U.S. government, corporate bonds, common and preferred stocks (domestic and foreign), mortgages, derivatives, commodities, real estate, private equity, and opportunistic investments. Per ARS §38-718, no more than 80% of the ASRS’ assets may be invested at any given time in equities, measured at market value. No more than 40% of the ASRS’ assets may be in non-U.S. public investments, measured at market value. No more than 60% of the ASRS’ assets may be invested internally, measured at market value. No more than 10% of the ASRS’ assets may be invested in bonds or other evidences of indebtedness of those multinational development banks in which the U.S. is a member nation, including the International Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank, measured at market value. Subject to the limitations noted above, the ASRS Board may authorize the ASRS Director to make investments that are designated by the ASRS Board and that do not exceed 60% of the assets of the investment account measured at cost. The ASRS Board has not formally adopted more restrictive policies for the various types of risks.

Per ARS §38-848D, §38-803A(4), and §38-883A(4), the PSPRS, the EORP, and the CORP, respectively, may not invest at any given time more than 80% of the combined assets of the system or other plans that the Board of Trustees manages in corporate stocks, based on cost value of such stocks irrespective of capital appreciation. In addition, the PSPRS, the EORP, and the CORP investments shall be restricted to stocks and exchange traded funds that, except for bank and insurance stocks and membership interests in limited liability companies, are either: 1) listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended, 2) designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the Securities Exchange Act of 1934, as amended, 3) listed or approved on issuance for listing on an exchange registered under the laws of this State or any other State, 4) listed or approved on issuance for listing on an exchange registered of a foreign country with which the U.S. is maintaining diplomatic relations at the time of purchase, except that no more than 20% of the combined assets of the system or other plans that the board manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation, or 5) an exchange traded fund that is recommended by the chief investment officer of the system, that is registered under the Investment Company Act of 1940, and that is both traded on a public exchange and based on a publicly recognized index. Not more than 5% of the combined assets of the system or other plans that the board manages shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by corporations chartered by the U.S. government or corporate stock issued by a bank or insurance company. Not more than 5% of the voting stock of any one corporation shall be owned by the system and other plans that the board administers, except that this limitation does not apply to membership interests in limited liability companies.

The ABOR governs the investment policies of the Universities. The Universities are generally limited to investing their pooled operating funds in collateralized certificates of deposit and repurchase agreements, U.S. Treasury securities, Federal agency securities, investment grade corporate bonds, or in the LGIP administered by the State Treasurer. Investment of capital project funds is also governed by the financing indenture agreements. For endowment investments, ABOR policy dictates that these funds are to be invested under the direction of an investment committee designated by the president of each university. The investment committee is responsible for advising on the definition, development, and implementation of investment objectives, policies, and restrictions. However, if donors restrict the investments, ABOR policy requires the University to invest those funds separately as directed by the donor, and the individual endowments bear all changes in value.

Per ARS §23-1065, the Commission’s investment committee is responsible for prescribing investment policies and supervising the investment activities of the Commission. The Commission requires that their investment policy be responsive to the unpredictable nature of the incidence and severity of claims, the long periods over which losses may be paid, and the effect on both claims and losses of increases in treatment and rehabilitation costs. The investment committee may invest in any legal investment authorized under ARS §38-718.

**B. CUSTODIAL CREDIT RISK – DEPOSITS AND INVESTMENTS**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. The State Treasurer’s, the Retirement Systems’, and the Universities’ deposits of State treasury monies with financial institutions are required by State statutes to be entirely covered by the Federal Depository Insurance Corporation (FDIC) or, alternatively, collateralized for amounts in excess of the amount insured. Surety collateral for the Universities and the Retirement Systems must be equal to at least 100% of the bank balance

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required to be collateralized (102% for the State Treasurer). Beyond this requirement, these organizations do not have a formal policy specifically addressing custodial credit risk on deposits, except for the State Treasurer. The State statutes require surety collateral for the State Treasurer to consist of either: 1) U.S. Government obligations, State obligations, or obligations of counties or municipalities within the State, 2) State Treasurer's warrant notes, or 3) the safekeeping receipt of the financial institution accepting the deposit. As of June 30, 2013, the State had uninsured deposits in the amount of \$54.0 million that were collateralized with securities held by the pledging financial institution's trust department or agent, but not in the State's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The State does not have a formal policy in regards to custodial credit risk for investments. As of June 30, 2013, the State had \$112.7 million in securities that were uninsured, not registered in the State's name, and held by either the counterparty or counterparty's trust department or agent, but not in the State's name.

**C. INTEREST RATE RISK**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State manages interest rate risk using the segmented time distribution, weighted average maturity, and effective duration methods.

The State Treasurer manages interest rate risk by incorporating ARS limitations into their investment policy and setting forth various thresholds or parameters relating to interest rate risk in accordance with each investment pool's portfolio structure. The State Treasurer's policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored monthly by measuring the weighted average maturity and/or duration.

The ASU's policy for the operating funds limits the final maturity of any fixed-rate security or variable-rate security to five years from the settlement date of the purchase. The capital projects fund's portfolio is not limited as to the overall maturity of its investments, with the funds invested per the financing indentures to coincide with capital spending needs and debt service requirements, which are typically less than three years, with the additional limitation that certificates of deposit and commercial paper have maximum maturities of 360 days and 270 days, respectively.

The Commission approves and contracts with different investment managers of fixed income securities in order to manage the exposure to interest rate risk with each different manager focusing on different goals of yield periods or duration of maturities of their particular portion of the investment pool.

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The following table presents the State Treasurer’s, the ASU’s, and the Commission’s weighted average maturity in years by investment type as of June 30, 2013 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (in years)</b>
Asset backed securities	\$ 386,146	2.34
Certificates of deposit (negotiable)	230,012	0.40
Commercial mortgage backed securities	60,139	23.16
Commercial paper	483,889	0.11
Corporate notes & bonds	1,919,940	3.42
FDIC certificates of deposit	88,106	0.35
Government bonds	312,122	5.77
Money market mutual funds	303,803	0.12
Non-government backed collateralized mortgage obligations (CMOs)	2,002	22.41
Repurchase agreements	2,838,467	0.01
U.S. agency mortgage backed securities	1,327,873	22.32
U.S. agency mortgage backed securities – full faith	736,669	19.12
U.S. agency securities	1,225,916	3.42
U.S. agency securities – full faith	95,811	2.22
U.S. Treasury securities	1,370,566	2.44
Other	2,983	5.15
<b>Total</b>	<b>\$ 11,384,444</b>	<b>5.48</b>

The ASRS has not adopted a specific formal policy for interest rate risk, but does set more restrictive requirements in its contracts with money managers. The ASRS uses effective duration to identify and manage its interest rate risk. Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions.

The following table presents ASRS’ effective duration by investment type as of June 30, 2013 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Effective Duration (in years)</b>
Asset backed securities	\$ 220,534	7.70
Commercial mortgage backed securities	156,333	2.80
Corporate bonds	2,035,549	5.20
Government agency CMOs	18,975	7.10
Government bonds	1,718,469	5.70
Government mortgage backed securities	848,535	3.40
Government related bonds	329,312	7.50
Non-government backed CMOs	46,423	10.60
<b>Total</b>	<b>\$ 5,374,130</b>	<b>5.30</b>

The PSPRS, the EORP, and the CORP do not have a formal policy in regards to interest rate risk. The NAU’s and the U of A’s investment policies for their operating funds limit the maximum maturity of any fixed-rate or variable-rate security to five years from the settlement date of purchase. The NAU’s and the U of A’s endowment funds have no such limitation.

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The following table presents the interest rate risk for the PSPRS, the EORP, the CORP, the NAU, the U of A, and other State agencies utilizing the segmented time distribution as of June 30, 2013 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)					
		Less than 1	1-5	6-10	11-15	16-20	More than 20
Certificates of deposit (negotiable)	\$ 26,832	\$ 9,236	\$ 17,596	\$ -	\$ -	\$ -	\$ -
Collateralized bond obligations (CBOs)	23,192	-	-	12,342	-	-	10,850
Corporate notes & bonds	844,453	29,151	107,419	28,856	2,865	1,946	674,216
Government bonds	5,393	1,740	3,653	-	-	-	-
Money market mutual funds	198,255	198,255	-	-	-	-	-
U.S. agency securities	303,915	137,016	125,842	66	-	22,044	18,947
U.S. Treasury securities	29,452	195	29,194	63	-	-	-
Other	14,881	4,269	3,201	7,411	-	-	-
<b>Total</b>	<b>\$ 1,446,373</b>	<b>\$ 379,862</b>	<b>\$ 286,905</b>	<b>\$ 48,738</b>	<b>\$ 2,865</b>	<b>\$ 23,990</b>	<b>\$ 704,013</b>

The following table presents the State's investments at fair value that are considered to be highly sensitive to interest rate changes as of June 30, 2013 (expressed in thousands):

Interest Rate Terms	Corporate Notes & Securities	U.S. Agency Securities	Other	Total
Investments (including full faith) with coupon tied to the London Interbank Offered Rate (LIBOR) plus/minus a fixed basis point which resets monthly, quarterly, or semi-annually.	\$ 612,203	\$ 156,146	\$ 67,575	\$ 835,924
Asset backed securities (including full faith) with coupon tied to the LIBOR plus/minus a fixed basis point which resets from monthly to quarterly.	222,657	2,916	-	225,573
Mortgage backed securities (including full faith) - when interest rates fall, mortgages are refinanced and paid off early and the reduced stream of future interest payments diminishes fair value of the investment.	50,989	2,065,934	-	2,116,923
Other investments with high sensitivity to rate changes.	-	305,939	2,500	308,439
<b>Total</b>	<b>\$ 885,849</b>	<b>\$ 2,530,935</b>	<b>\$ 70,075</b>	<b>\$ 3,486,859</b>

**D. CREDIT RISK**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment.

State statutes and the State Treasurer's investment policy require that commercial paper must be rated by at least two nationally recognized statistical rating organizations (NRSROs) and that the ratings assigned by at least two of the NRSROs be of the two highest rating categories for short-term obligations. Corporate bonds, debentures, notes, and negotiable certificates of deposit must carry a minimum Baa or better rating from Moody's Investor Service (Moody's) or a BBB or better rating from Standard and Poor's Rating Service (S & P) or their successors. For securities of or any other interests in any open-end management type investment company or investment trust including exchange traded funds, the underlying investments must be securities which are allowable under State statutes. For investments not rated by Moody's, Fitch rating information is used. There is no statute or investment policy on ratings or credit quality for obligations issued by the U.S. Government or its agencies or repurchase agreements. The underlying securities for repurchase agreements are assumed to be implicitly guaranteed by the U.S. Government, as some are collateralized with U.S. agency securities.

The ASRS has not adopted a formal policy with respect to credit risk.

The PSPRS', the EORP's, and the CORP's investment policies are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios. The fixed income portfolio must have a minimum weighted average quality rating of A3 by Moody's and A- by S & P. Fixed income securities must have a

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minimum quality rating of Baa3 by Moody's and BBB- by S & P at the time of purchase. The portion of the bond portfolio in securities rated Baa3 through Baa1 by Moody's and BBB- through BBB+ by S & P must be 20% or less of the fair value of the fixed income portfolio. Commercial paper must have a minimum quality rating of P-1 by Moody's and A-1 by S & P at the time of purchase.

The Universities' policies mirror that of the ABOR, which requires that negotiable certificates of deposit, corporate bonds, debentures and notes, bankers acceptances, and State of Arizona bonds carry a minimum BBB or better rating by S & P or Baa or better rating by Moody's; and that commercial paper be rated by at least two NRSROs and be of the two highest rating categories for short-term obligations of at least two of the NRSROs. In addition, the Universities do not have formal policies that specifically address credit risk over endowment funds. The Universities' endowment funds are primarily invested in their Foundations' endowment pools, which are not rated. The Foundations' investment committees manage the credit risk of the pools' investments. Also, the ASU's capital projects and bond debt service funds are invested by the bond trustee in accordance with the applicable financing indenture.

The Commission's investment policy requires that purchases of fixed income securities will consist of U.S. Treasury or Federal agency obligations or those bonds rated not less than Baa3 by Moody's or BBB- by S & P, except for fixed income managers who have been hired to manage funds in a specialized manner (high yield).

The following table presents the State's investments which were rated by S & P and/or an equivalent national rating organization as of June 30, 2013. The ratings are presented using S & P's rating scale (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	CCC Thru D	A-1	Not Rated
Asset backed securities	\$ 587,862	\$ 356,841	\$ 33,538	\$ 70,822	\$ 39,106	\$ 26,196	\$ 12,883	\$ 47,346	\$ -	\$ 1,130
CBOs	23,192	-	-	-	-	-	-	10,850	-	12,342
Certificates of deposit (negotiable)	256,844	-	117,345	5,321	-	-	-	-	107,346	26,832
Commercial mortgage backed securities	216,337	196,083	-	11,038	5,646	-	2,194	-	-	1,376
Commercial paper	483,889	-	-	-	-	-	-	-	483,889	-
Corporate notes & bonds	4,451,689	66,727	551,139	1,396,238	596,497	363,541	600,956	205,311	-	671,280
Government agency CMOs	18,975	-	18,975	-	-	-	-	-	-	-
Government bonds	1,513,396	22,919	983,904	187,845	263,918	21,250	-	-	33,560	-
Government mortgage backed securities	848,535	-	848,535	-	-	-	-	-	-	-
Government related bonds	329,312	24,454	263,559	40,843	456	-	-	-	-	-
Money market mutual funds	502,058	364,861	125,366	-	-	-	-	-	-	11,831
Non-government backed CMOs	48,425	4,615	919	5,012	829	5,437	209	31,287	-	117
Repurchase agreements	1,043,467	-	1,043,467	-	-	-	-	-	-	-
U.S. agency mortgage backed securities	1,303,455	-	1,299,159	-	-	-	-	-	-	4,296
U.S. agency securities	1,488,442	20,327	1,461,469	2,649	-	-	-	-	-	3,997
Other	73,512	-	-	-	-	-	-	-	-	73,512
<b>Total</b>	<b>\$13,189,390</b>	<b>\$1,056,827</b>	<b>\$6,747,375</b>	<b>\$1,719,768</b>	<b>\$906,452</b>	<b>\$416,424</b>	<b>\$616,242</b>	<b>\$294,794</b>	<b>\$624,795</b>	<b>\$806,713</b>

**E. CONCENTRATION OF CREDIT RISK**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State Treasurer's, the ASRS', the Universities', and the Commission's investment policies provide that no more than 5% of their investments shall be invested in securities issued by a single corporation and its subsidiaries/affiliates. However, securities issued by the U.S. government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempt. The State Treasurer also exempts from this policy the purchase of Treasurer Warrant Notes for the State Agencies Diversified pool, provided the maximum amount of the notes purchased shall not exceed 50% of the market value of the pool, bonds issued by an agency of the State, and pre-refunded municipal bonds issued by any entity that are invested in obligations issued or

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guaranteed by the U.S. government or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities. The PSPRS', the EORP's, and the CORP's investment policies state that no more than 5% of the Fund or its fixed income portfolio at fair value shall be invested in bonds issued by any one institution, agency, or corporation other than bonds used as direct obligations of and fully guaranteed by the U.S. Government. At June 30, 2013, investments in any one issuer, that were more than 5% of the primary government's total investments, are as follows: (i) Federal Home Loan Mortgage Corporation (fair value of \$888.6 million, or 7.4%) and (ii) Federal National Mortgage Association (fair value of \$1.0 billion, or 8.4%).

**F. FOREIGN CURRENCY RISK**

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit. The State does not have a formal policy regarding foreign currency risk. The ASRS, the PSPRS, the EORP, and the CORP are the primary State agencies that have foreign currency risk. Per ARS §38-718, no more than 40% of the ASRS' assets may be invested in foreign securities and those investments shall be made only by investment managers with expertise in those investments. The ASRS has not adopted a formal policy that is more restrictive. According to State statutes, the PSPRS, the EORP, and the CORP shall not invest more than 20% of the combined assets of the system or other plans that the Board of Trustees manages in foreign securities. The following table summarizes the State's foreign currency risk as of June 30, 2013 (expressed in thousands):

<b>Foreign Currency Risk by Investment Type at Fair Value</b>					
<b>Currency</b>	<b>Other</b>				
	<b>Short Term</b>	<b>Fixed Income</b>	<b>Equities</b>	<b>Investments</b>	<b>Total</b>
Australian Dollar	\$ 171	\$ -	\$ 102,077	\$ -	\$ 102,248
Brazilian Real	66	81,850	2,901	-	84,817
British Pound Sterling	5,512	745	600,658	36,367	643,282
Canadian Dollar	(1,651)	4,495	116,092	-	118,936
Columbian Peso	282	19,387	-	-	19,669
Danish Krone	20	-	32,304	-	32,324
Euro Currency	16,704	9,882	674,868	377,264	1,078,718
Hong Kong Dollar	9,229	-	84,924	-	94,153
Hungarian Forint	-	9,764	-	-	9,764
Indonesian Rupiah	47	33,848	-	-	33,895
Israeli Shekel	95	-	5,884	-	5,979
Japanese Yen	2,934	-	516,383	-	519,317
Malaysian Ringgit	570	55,729	(13)	-	56,286
Mexican Peso	4,441	81,459	781	124,663	211,344
New Russian Ruble	123	30,767	-	-	30,890
New Taiwan Dollar	126	-	7,916	-	8,042
New Zealand Dollar	7	-	2,581	-	2,588
Nigerian Naira	391	9,213	-	-	9,604
Norwegian Krone	143	-	17,438	-	17,581
Peruvian Nouveau Sol	-	9,003	-	-	9,003
Philippine Peso	-	3,137	-	-	3,137
Polish Zloty	-	26,539	-	-	26,539
Singapore Dollar	141	-	68,472	-	68,613
South African Rand	696	57,123	4,065	-	61,884
South Korean Won	21	-	18,748	-	18,769
Swedish Krona	390	-	66,806	-	67,196
Swiss Franc	(1,760)	-	260,369	-	258,609
Thailand Baht	6	12,341	-	-	12,347
Turkish Lira	98	29,034	-	-	29,132
Total	\$ 38,802	\$ 474,316	\$ 2,583,254	\$ 538,294	\$ 3,634,666

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**G. SECURITIES LENDING**

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. A corresponding liability is also recorded for such securities lending transactions.

**1. Industrial Commission**

State statutes and the Commission's policies permit the Commission to enter into securities lending transactions with its custodial bank. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses to the securities lending agent. The custodial bank, The Northern Trust Company, manages the securities lending operations through a contractual agreement with the Commission and splits the fees received with the Commission. There was no credit risk (i.e., lender's exposure to the borrowers of its securities) related to the securities lending transactions at June 30, 2013. The Northern Trust Company's indemnification responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examinations Council regulations concerning securities lending. Securities are loaned for collateral that may include cash, U.S. Government securities, and irrevocable letters of credit. Domestic securities are loaned for collateral valued at 102% of the market value of securities loaned plus accrued interest. International securities are loaned for collateral valued at 105% of the market value of securities loaned plus accrued interest. The market value at June 30, 2013 for loaned securities collateralized by cash and non-cash collateral was \$43.8 million and \$189 thousand, respectively. As part of the securities lending transactions, The Northern Trust Company received cash and non-cash collateral valued at \$44.9 million and \$194 thousand, respectively, at June 30, 2013. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the loans is 68 days and cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 43 days as of June 30, 2013. Cash collateral may also be invested separately in term loans, in which case the investments match the loan term. Cash open loans can be terminated on demand by either the lender or the borrower and there were no dividends or coupon payments owing on securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. Investments made with cash collateral received are classified as an asset on the Statement of Net Position. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2013, the Commission had \$44.9 million outstanding as payable for securities lending. A maximum restriction on the amount of securities that can be lent out at any one time of \$43.976 million was set by the Commission on September 29, 2008.

**2. Arizona State Retirement System**

The ASRS is permitted by ARS §38-718(G), to enter into securities lending transactions. The ASRS' custodial bank enters into agreements with counterparts to loan securities and have the same securities redelivered at a later date. Securities eligible for loan include U.S. fixed income securities, U.S. equities, and international equities. The ASRS currently receives as collateral at least 102% of the market value of the loaned securities and maintains collateral at no less than 100% for the duration of the loan. At year-end, the ASRS had limited counter party risk to borrowers because the amount the ASRS owes the borrowers exceeds the amount the borrowers owe the ASRS. Securities loaned are initially fully collateralized by cash (USD and Euro), U.S. Government or agency securities, sovereign debt, corporate bonds and equities. Cash collateral may be reinvested (under certain constraints) in: a) instruments issued or fully guaranteed by the U.S. Government, Federal agencies, or sponsored agencies or sponsored corporations, b) instruments issued by domestic corporations including corporate notes and floating rate notes, c) obligations of approved domestic and foreign banks, d) U.S. dollar-denominated instruments issued by sovereigns, sovereign supported credits, and instruments of foreign banks and corporations, e) repurchase agreements, f) insurance company funding agreements, guaranteed investment contracts and bank investment contracts, and g) money market mutual funds. The ASRS records the collateral received as an asset and the same amount as an obligation for securities on loan. The maturities of the investments are closely matched to those of the security loans to avoid interest rate exposure. The ASRS receives a spread for its lending activities. Investments made with cash collateral are classified as an asset on the Statement of Fiduciary Net Position. A corresponding liability is recorded as the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2013, the fair value of securities on loan was \$871.7 million; of which \$14.8 million were cash collateralized loans. Cash of \$15.5 million received as collateral for securities loaned was reinvested and had a net position value of \$14.8 million, as of June 30, 2013. The securities lending payable at June 30, 2013 was \$15.5 million. The ASRS does not have the ability to pledge or sell the collateral unless there is a borrower default. There are no restrictions on the dollar amount of security loans that

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may be made by the ASRS. The ASRS is indemnified against gross negligence and borrower default by the lending agents, but is not indemnified against cash collateral reinvestment risk.

During the late summer and early fall of 2011, ongoing monitoring of the ASRS securities lending exposure showed growing risks throughout Europe and in the European banking sector. In an effort to reduce the securities lending investment pools' exposure to the European banking sector, the ASRS substantially withdrew from securities lending in 2011. As a result, the market values of securities on loan decreased from \$3.5 billion as of June 30, 2011 to \$49.4 million at June 30, 2012. Throughout fiscal year 2013, the ASRS remained substantially withdrawn from securities lending, but did enter into opportunistic transactions to take advantage of highly profitable and relatively low risk trades. These opportunistic transactions were in place as of June 30, 2013 resulting in a market value of securities on loan of \$871.7 million as of the close of the fiscal year.

During fiscal year 2013, the ASRS received cash of \$8.9 million as partial recovery of the securities lending unrealized loss recognized in fiscal year 2009.

**3. Public Safety Personnel Retirement System, Elected Officials' Retirement Plan, and Corrections Officer Retirement Plan**

The PSPRS, the EORP, and the CORP are permitted by ARS Title 38, Chapter 5, Articles 4, 3, and 6, respectively, to enter into securities lending transactions. The PSPRS, the EORP, and the CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, the EORP, and the CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, the EORP, and the CORP require collateral of at least 102% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value. As of June 30, 2013, the fair values of securities on loan for the PSPRS, the EORP, and the CORP were \$166.2 million, \$9.3 million, and \$42.5 million, respectively. At June 30, 2013, the fair value of the associated collateral for the PSPRS, the EORP, and the CORP were \$171.0 million, \$9.6 million, and \$43.8 million, respectively. The PSPRS, the EORP, and the CORP are indemnified for broker default by the securities lending agent. The PSPRS, the EORP, and the CORP have no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the retirement system or plan.

**4. State Treasurer**

The State Treasurer is permitted under ARS §§35-313 and 35-324 to enter into securities lending transactions. The State Treasurer's custodial bank manages the securities lending program through a contractual agreement. At fiscal year-end, the State Treasurer had no credit risk exposure to borrowers because the amount the State Treasurer owes to the borrowers exceeds the amount the borrowers owe the State Treasurer. All securities are eligible for loan, but equities and U.S. Treasuries comprise a majority of securities that are on loan. There are no restrictions on the dollar amount of security loans that may be made by the State Treasurer. Securities are loaned for collateral that may include cash, U.S. government securities, state and local bonds, other municipalities' bonds and notes, commercial paper, banker acceptances, negotiable certificates of deposit, and corporate bonds, notes, and debentures. Securities are loaned for collateral valued at 102% of the market value of the securities loaned at the close of trading on the preceding business day, except for securities asset types such as U.S. Treasury strips and bills where the market fluctuations do not allow for the sale of such a security at greater than par. For these exceptions, collateral valued at the lesser of 100% of the par value of the security loaned or 102% of the market value is acceptable. Investments made with cash collateral are done on an individual investment pool basis and are restricted to the limitations for that investment pool set forth in the State Treasurer's investment policy, except for investments made for certain endowment equity pools. Permitted investments for these equity pools include those investments authorized in section IV of the State Treasurer's investment policy. Cash collateral investments include: a) obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities including repurchase and tri-party repurchase agreements collateralized at no less than 102% by securities, 100% by cash, and 102% by mortgage-backed securities, b) bonds or other evidences of indebtedness of this state or any of the counties or incorporated cities, towns, or duly organized school districts, c) bonds and notes of other municipalities including repurchase and tri-party repurchase agreements collateralized at no less than 105% by securities and 100% by cash, d) commercial paper, e) bill of exchange or time drafts known as bankers acceptances, f) negotiable certificates of deposit issued by a nationally or state chartered bank or savings and loan, g) bonds, debentures, and notes issued by corporations organized and doing business in the United States, and h) U.S. 2a-7 money market mutual funds which are regulated by the Securities and Exchange Commission and rated in the highest category by at least one NRSRO.

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The State Treasurer records the cash collateral received as an asset and the same amount as obligations under securities loan agreements. As of June 30, 2013, the fair value of securities on loan was \$1.6 billion. The associated fair value of the invested collateral was \$1.7 billion, of which \$917.6 million was invested cash collateral. All securities loans can be terminated on demand by either the State Treasurer or the borrower. For the cash collateral investments, the weighted average maturity was 20 days. The State Treasurer does not have the ability to pledge or sell the non-cash collateral unless there is a borrower default. The State Treasurer is indemnified against gross negligence, bad faith, or willful misconduct and borrower default by the lending agent. There were no borrower defaults during the current fiscal year. At June 30, 2013, the State Treasurer had \$917.6 million outstanding as payable for securities lending, and the following securities on loan were uninsured and held by the bank trust department not in the Treasurer’s name:

U.S. agency securities	\$ 6,656,446
U.S. Treasury securities	<u>733,965,445</u>
Total Fair Value	<u><u>\$ 740,621,891</u></u>

**H. DERIVATIVES**

A derivative instrument is a financial instrument or other contract with all three of the following characteristics:

- i Settlement factors: It has one or more reference rates and one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements, and in some cases, whether or not a settlement is required.
- i Leverage: It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- i Net Settlement: Its terms require or permit net settlement, it can readily be settled net by means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

The ASRS is the primary State agency that has investment derivatives. The ASRS’s derivatives are considered “Investment Derivative Instruments” as defined in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. All funds are considered fiduciary funds.

The ASRS’s derivative instruments, which consist of futures contracts, forward contracts, options, swaps, rights, and warrants, are measured at fair value and reported on the Statement of Fiduciary Net Position. Changes in fair values of derivative instruments are reported as net increase (decrease) in fair value of investments on the Statement of Changes in Fiduciary Net Position.

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The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of derivative instruments for the year then ended as reported in the June 30, 2013 financial statements are as follows (expressed in thousands):

<b>Investment Derivatives by Type</b>					
<b>Investment Derivatives</b>	<b>Changes in Fair Value (1)</b>		<b>Fair Value at June 30, 2013</b>		
	<b>Classification</b>	<b>Amount (2)</b>	<b>Classification</b>	<b>Amount (3)</b>	<b>Notional (4)</b>
Commodity futures long	Net increase (decrease) in fair value of investments	\$ (100,684)	Not applicable	\$ -	\$ 300,018
Commodity futures short	Net increase (decrease) in fair value of investments	27,359	Not applicable	-	(33)
Credit default swaps bought	Net increase (decrease) in fair value of investments	(1,582)	Equity securities	231	41,803
Credit default swaps written	Net increase (decrease) in fair value of investments	197	Equity securities	16	5,782
Fixed income futures long	Net increase (decrease) in fair value of investments	(1,726)	Not applicable	-	168,300
Fixed income futures short	Net increase (decrease) in fair value of investments	(754)	Not applicable	-	(14,888)
Fixed income options bought	Net increase (decrease) in fair value of investments	(289)	Not applicable	-	-
Fixed income options written	Net increase (decrease) in fair value of investments	136	Equity securities	(4)	(5,000)
Foreign currency futures long	Net increase (decrease) in fair value of investments	(34,754)	Not applicable	-	295,022
Foreign currency options bought	Net increase (decrease) in fair value of investments	218	Not applicable	-	-
Foreign currency options written	Net increase (decrease) in fair value of investments	65	Equity securities	(4)	(2,000)
Foreign currency forwards	Net increase (decrease) in fair value of investments	(1,347)	Forward contracts receivable	(5,197)	892,592
Index futures long	Net increase (decrease) in fair value of investments	243,626	Not applicable	-	13,318
Index futures short	Net increase (decrease) in fair value of investments	(920)	Not applicable	-	-
Pay fixed interest rate swaps	Net increase (decrease) in fair value of investments	(1,348)	Equity securities	425	3,100
Receive fixed interest rate swaps	Net increase (decrease) in fair value of investments	(1,553)	Equity securities	(1,986)	74,750
Rights	Net increase (decrease) in fair value of investments	(39)	Equity securities	22	722
Warrants	Net increase (decrease) in fair value of investments	(86)	Equity securities	90	244
Total		<u>\$ 126,519</u>		<u>\$ (6,407)</u>	<u>\$ 1,773,730</u>

(1) Excludes futures margin payments.

(2) Negative values (in brackets) refer to losses.

(3) Negative values refer to liabilities.

(4) Notional may be a dollar amount or size of underlying futures and options; negative values refer to short positions.

The fair value of derivative instruments reported by the ASRS is based on quoted market prices off national exchanges. The fair value of foreign currency forward contracts is based on mathematical models and is valued using a pricing service, which uses published Reuter's foreign currency rates as the primary source for the calculation.

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The credit quality ratings of counterparties as described by NRSROs and the counterparties' related risk concentration, as of June 30, 2013, are as follows (expressed in thousands):

<b>Counterparty Risk and Ratings</b>						
<b>Counterparty Name</b>	<b>Total</b>	<b>Risk</b>	<b>Ratings</b>			
	<b>Net Exposure</b>	<b>Concentration</b>	<b>S&amp;P</b>	<b>Fitch</b>	<b>Moody's</b>	
Bank of America N.A.	\$ 154	1.52%	A	A	A3	
Bank of New York	1	0.01%	A+	AA-	AA3	
Barclay's Bank	1,087	10.73%	A+	A	A2	
BNP Paribas, S.A.	147	1.45%	A+	A+	A2	
Citibank N.A.	626	6.18%	A	A	A3	
Credit Suisse	275	2.72%	A+	A	A1	
Deutsche Bank London	754	7.44%	A+	A+	A2	
Goldman Sachs	259	2.56%	A-	A	A3	
HSBC Bank USA	157	1.55%	AA-	AA-	A1	
JP Morgan Chase Bank N.A.	2,293	22.63%	A+	A+	Aa3	
Morgan Stanley and Co. Inc.	205	2.02%	A-	A	Baa1	
Royal Bank of Canada	142	1.40%	AA-	AA	Aa3	
Royal Bank of Scotland, PLC	150	1.48%	A	A	A3	
Societe Generale	263	2.59%	A	A+	A2	
Standard Chartered Bank	1,248	12.31%	AA-	AA-	A1	
State Street Bank and Trust Co.	89	0.88%	AA-	A+	Aa2	
USB AG	2,066	20.39%	A	A	A2	
Westpac Banking Corporation	217	2.14%	AA-	AA-	Aa2	
Total	<u>\$ 10,133</u>	<u>100.00%</u>				

The maximum amount of loss due to credit risk that the ASRS would incur if the counterparties to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security or netting arrangement, is the total unrealized gain of derivatives at the end of the reporting period.

The ASRS has no general investment policy requiring collateral or other security to support derivative instruments. Each investment manager hired has discretion with respect to derivative investments and risk control. Each investment manager is governed by its Investment Manager Agreement.

The ASRS has no general investment policy with respect to netting arrangements. The ASRS's investment managers have master netting arrangements to allow net settlement with the same counterparty in the event the counterparty defaults on its obligations.

The ASRS's derivatives do not have contingent features.

The aggregate fair value of investment derivative instruments in asset positions at June 30, 2013 was \$10.1 million. This represents the maximum amount of loss in case of default of all counterparties for the aggregated (positive) fair value of over-the-counter positions as of June 30, 2013. There was no collateral received or netting arrangements in place at June 30, 2013 with counterparties that would reduce this exposure.

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The ASRS has exposure to interest rate risk due to the investment in an interest rate swap agreement. The required risk disclosures are included in the Interest Rate Risk schedule in Note 2.C. The fair value balance and notional amount of the interest rate swap outstanding as of June 30, 2013, for the year then ended, as reported in the June 30, 2013 financial statements are as follows (expressed in thousands):

<b>Interest Rate Risk for Interest Rate Swap</b>				
<b>Asset ID</b>	<b>Asset Description</b>	<b>Interest Rate</b>	<b>Fair Value</b>	<b>Notional</b>
<b>PAY FIXED INTEREST RATE SWAPS</b>				
99S0EIVKO/	BWU002SF0 IRS USD R V 03MLIBOR /	2.75%	\$ 425	\$ 3,100
99S0EIVL8	BWU002SF0 IRS USD P F 2.75000			
Total Pay Fixed Interest Rate Swaps			\$ 425	\$ 3,100
<b>RECEIVE FIXED INTEREST RATE SWAPS</b>				
99S0CHEZ0/	SWU0083W7 IRS CAD R F 2.00000 /	2.00%	\$ (3)	\$ 7,868
99S0CHF06	SWU0083W7 IRS CAD P V 03MCDOR			
99S0CKO58/	SWU0006O9 IRS CAD R F 2.25000 /	2.25%	(3)	6,351
99S0CKO66	SWU0006O9 IRS CAD P V 03MCDOR			
99S0EIJN8/	SWU002S11 IRS ZAR R F 6.50000 /	6.55%	(57)	997
99S0EIJO6	SWU002S11 IRS ZAR P V 03MJHBRG			
99S0EM2K3/	SWU023WC8 IRS BRL R F 8.65000 /	8.65%	(38)	815
99S0EM2L1	SWU023WC8 IRS BRL P V 00MCETIP			
99S0EOQE7/	SWU0031Z3 IRS ZAR R F 6.50000 /	6.50%	(294)	5,127
99S0EOQF4	SWU0031Z3 IRS ZAR P V 03MJIBAR			
99S0EPYZ8/	SWU023FY9 IRS BRL R F 8.16000 /	8.16%	(89)	4,980
99S0EPZ04	SWU023FY9 IRS BRL P V 00MBRCDI			
99S0F2PN5/	SWU0283Z8 IRS BRL R F 8.94000 /	8.94%	(568)	13,988
99S0F2PO3	SWU0283Z8 IRS BRL P V 00MBRCDI			
99S0F3K81/	SWU023N12 IRS BRL R F 8.48500 /	8.49%	(163)	11,860
99S0F3K99	SWU023N12 IRS BRL P V 00MBRCDI			
99S0F4N52/	SWU003JU5 IRS MXN R F 5.50000 /	5.50%	(134)	1,704
99S0F4N60	SWU003JU5 IRS MXN P V 01MCTIIE			
99S0FDS57/	SWU003SX9 IRS BRL R F 8.87500 /	8.88%	(572)	13,173
99S0FDS65	SWU003SX9 IRS BRL P V 00MBRCDI			
99S0FFWB4/	SWU003VI8 IRS MYR R F 3.36000 /	3.36%	(13)	1,200
99S0FFWC2	SWU003VI8 IRS MYR P V 03MKLIBO			
99S0FTO56/	SWU003NG1 IRS MXN R F 5.00000 /	5.00%	(59)	2,341
99S0FTO64	SWU003NG1 IRS MXN P V 01MTIIE			
99S0FZ5T1/	SWU004PQ5 IRS BRL R F 10.91000 /	10.91%	7	4,346
99S0FZ5U8	SWU004PQ5 IRS BRL P V 00MBRCDI			
Total Receive Fixed Interest Rate Swaps			\$ (1,986)	\$ 74,750

The ASRS is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule in Note 2.F.

Refer to Note 7.A.4.c. for information on debt derivatives utilized by the ASU.

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**I. STATE TREASURER’S SEPARATELY ISSUED FINANCIAL STATEMENTS**

The State Treasurer issues separately published Annual Audited Financial Statements. These financial statements provide additional information relating to the State Treasurer’s total investing activities, including the investment trust funds. A copy of the State Treasurer’s Office Annual Audited Financial Statements can be obtained from their office at: Office of the Arizona State Treasurer, 1700 W. Washington Street, Phoenix, AZ 85007, (602) 542-7800, or their website at [www.aztreasury.gov](http://www.aztreasury.gov).

**NOTE 3. RECEIVABLES/DEFERRED REVENUE**

**A. TAXES RECEIVABLE**

The following table summarizes taxes receivable at June 30, 2013 (expressed in thousands):

Type of Tax	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Industrial Commission Special Fund	Non-Major Governmental Funds	Non-Major Enterprise Funds	Government-wide Total
Sales	\$ 505,137	\$ -	\$ -	\$ 52,739	\$ -	\$ 557,876
Income – individual and corporate	156,218	-	-	-	-	156,218
Motor vehicle and fuel	-	72,899	-	-	-	72,899
Luxury	7,452	-	-	18,204	-	25,656
Unemployment	-	-	-	-	89,662	89,662
Other	-	-	4,915	4,208	-	9,123
Gross taxes receivable	668,807	72,899	4,915	75,151	89,662	911,434
Allowance for uncollectible taxes	(369,480)	-	-	-	-	(369,480)
Net Taxes Receivable	\$ 299,327	\$ 72,899	\$ 4,915	\$ 75,151	\$ 89,662	\$ 541,954

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**B. DEFERRED REVENUE**

At June 30, 2013, the components of deferred revenue, in terms of revenue unavailable and unearned, were as follows (expressed in thousands):

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total Deferred Revenue</u>
<b>Current Deferred Revenue for Governmental Funds:</b>			
General Fund:			
Delinquent sales tax	\$ 62,411	\$ -	\$ 62,411
Delinquent income tax	2,544	-	2,544
Tobacco settlement	50,000	-	50,000
Child support administrative reimbursements	4,345	-	4,345
Advance insurance premium taxes	-	41,012	41,012
Advance land lease payments	-	291	291
Public assistance overpayments	831	-	831
Advance county acute and long term care payments	-	30,070	30,070
Federal grants	64,472	-	64,472
Transportation & Aviation Planning, Highway Maintenance & Safety Fund:			
Loans & notes receivable for asset purchases and construction	6,865	-	6,865
Land Endowments Fund:			
Land sales receivable	465,952	-	465,952
Land leases receivable	4,438	-	4,438
Advance land lease payments	-	23,340	23,340
Non-Major Funds:			
Public assistance overpayments	780	-	780
Advance payments for Hawaii/Arizona PMMIS Alliance	-	670	670
Total Current Deferred Revenue for Governmental Funds	<u>662,638</u>	<u>95,383</u>	<u>758,021</u>
<b>Noncurrent Deferred Revenue for Governmental Funds:</b>			
General Fund:			
Advance land lease payments	-	3,970	3,970
Land Endowments Fund:			
Land sales receivable	12,266	-	12,266
Advance land lease payments	-	81,188	81,188
Total Noncurrent Deferred Revenue for Governmental Funds	<u>12,266</u>	<u>85,158</u>	<u>97,424</u>
Total Current and Noncurrent Deferred Revenue for Governmental Funds	<u>\$ 674,904</u>	<u>\$ 180,541</u>	<u>\$ 855,445</u>
<b>Current Deferred Revenue for Proprietary Funds:</b>			
Universities:			
Unexpended cash advances received		\$ 46,554	
Auxiliary sales and services		6,003	
IBM lease related to acquisition of research park		4,900	
Student tuition and fees		63,918	
Deposits		491	
Other		7,024	
Industrial Commission Special Fund:			
Other		104	
Non-Major Funds:			
Policyholders' advance premiums		2,999	
Magazine subscriptions		2,083	
Other		52	
Internal Service Funds:			
Other		13	
Total Current Deferred Revenue for Proprietary Funds		<u>\$ 134,141</u>	
<b>Noncurrent Deferred Revenue for Proprietary Funds:</b>			
Universities:			
IBM lease related to acquisition of research park		\$ 470	
Total Noncurrent Deferred Revenue for Proprietary Funds		<u>\$ 470</u>	

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**NOTE 4. CAPITAL ASSETS**

Capital asset activities for the fiscal year ended June 30, 2013 were as follows (expressed in thousands):

	<b>Primary Government</b>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments &amp; Reclassifications</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>					
Non-depreciable capital assets:					
Land	\$ 2,886,458	\$ 90,346	\$ (22,929)	\$ 13,947	\$ 2,967,822
Construction in progress	3,535,660	610,679	(761,932)	(15,347)	3,369,060
Development in progress	85,586	6,720	-	(85,586)	6,720
Infrastructure	12,207,437	752,907	(9,152)	-	12,951,192
Total Non-depreciable Capital Assets	<u>18,715,141</u>	<u>1,460,652</u>	<u>(794,013)</u>	<u>(86,986)</u>	<u>19,294,794</u>
Depreciable capital assets:					
Buildings	2,106,913	5,614	(819)	50,007	2,161,715
Improvements other than buildings	159,380	686	(739)	572	159,899
Equipment	795,147	66,762	(40,329)	(10,545)	811,035
Software and other intangibles	130,947	20,931	(334)	88,507	240,051
Infrastructure	22,134	-	-	(238)	21,896
Total Depreciable Capital Assets	<u>3,214,521</u>	<u>93,993</u>	<u>(42,221)</u>	<u>128,303</u>	<u>3,394,596</u>
Less accumulated depreciation for:					
Buildings	(722,830)	(52,221)	654	(4,231)	(778,628)
Improvements other than buildings	(89,486)	(4,686)	472	58	(93,642)
Equipment	(599,169)	(54,094)	37,629	(498)	(616,132)
Software and other intangibles	(112,658)	(15,491)	334	(67,354)	(195,169)
Infrastructure	(11,382)	(655)	-	4	(12,033)
Total Accumulated Depreciation	<u>(1,535,525)</u>	<u>(127,147)</u>	<u>39,089</u>	<u>(72,021)</u>	<u>(1,695,604)</u>
Total Depreciable Capital Assets, Net	<u>1,678,996</u>	<u>(33,154)</u>	<u>(3,132)</u>	<u>56,282</u>	<u>1,698,992</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 20,394,137</u>	<u>\$ 1,427,498</u>	<u>\$ (797,145)</u>	<u>\$ (30,704)</u>	<u>\$ 20,993,786</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments &amp; Reclassifications</u>	<u>Ending Balance</u>
<b>Business-type Activities:</b>					
Non-depreciable capital assets:					
Land	\$ 202,913	\$ 14,467	\$ (7,248)	\$ -	\$ 210,132
Construction in progress	332,382	213,799	(45,061)	(212,365)	288,755
Development in progress	3,949	-	(3,949)	-	-
Collections	19,173	587	(22)	-	19,738
Total Non-depreciable Capital Assets	<u>558,417</u>	<u>228,853</u>	<u>(56,280)</u>	<u>(212,365)</u>	<u>518,625</u>
Depreciable capital assets:					
Buildings	4,622,149	210,019	(2,661)	203,471	5,032,978
Improvements other than buildings	4,816	37	-	-	4,853
Equipment	1,527,822	116,753	(49,506)	6,023	1,601,092
Software and other intangibles	19,328	6,302	-	-	25,630
Infrastructure	449,069	9,710	(7)	2,869	461,641
Total Depreciable Capital Assets	<u>6,623,184</u>	<u>342,821</u>	<u>(52,174)</u>	<u>212,363</u>	<u>7,126,194</u>
Less accumulated depreciation for:					
Buildings	(1,806,220)	(146,261)	552	-	(1,951,929)
Improvements other than buildings	(3,255)	(195)	-	-	(3,450)
Equipment	(1,110,251)	(90,585)	44,542	-	(1,156,294)
Software and other intangibles	(11,949)	(3,183)	-	-	(15,132)
Infrastructure	(169,873)	(14,956)	2	-	(184,827)
Total Accumulated Depreciation	<u>(3,101,548)</u>	<u>(255,180)</u>	<u>45,096</u>	<u>-</u>	<u>(3,311,632)</u>
Total Depreciable Capital Assets, Net	<u>3,521,636</u>	<u>87,641</u>	<u>(7,078)</u>	<u>212,363</u>	<u>3,814,562</u>
Total Business-type Activities Capital Assets, Net	<u>\$ 4,080,053</u>	<u>\$ 316,494</u>	<u>\$ (63,358)</u>	<u>\$ (2)</u>	<u>\$ 4,333,187</u>

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Depreciation expense was charged to governmental functions as follows (expressed in thousands):

General government	\$ 30,768
Health and welfare	15,816
Inspection and regulation	903
Education	2,667
Protection and safety	52,281
Transportation	15,755
Natural resources	<u>8,957</u>
Total Governmental Activities	<u>\$ 127,147</u>

Depreciation expense was charged to business-type activities as follows (expressed in thousands):

Industrial Commission Special Fund	1,369
Universities	251,725
Other	<u>2,086</u>
Total Business-type Activities	<u>\$255,180</u>

**NOTE 5. PENSION BENEFITS**

The State participates in the ASRS, the PSPRS, the EORP, and the CORP. Benefits are established by State statutes and provide retirement, death, and survivor benefits to State employees, public school employees and employees of counties, municipalities, and other State political subdivisions.

**A. PARTICIPATING EMPLOYERS**

The number of participating government employer groups as of June 30, 2013 for each pension plan is shown below:

<u>ASRS</u>	<u>PSPRS</u>	<u>EORP</u>	<u>CORP</u>
585	237	38	41

**B. CONTRIBUTIONS, BENEFITS, AND REFUND PAYMENTS**

For the ASRS, contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Pension benefit and refund payments are recognized when due and payable in accordance with the terms of the plan.

For the PSPRS, the EORP, and the CORP, member and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Pension benefits are recognized when due and payable in accordance with the terms of the plan. Refunds are due and payable by state law within 20 days of receipt of a written application for a refund. Refunds are recorded when paid.

**C. FUNDING POLICY**

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the ARS. These contribution requirements may be amended by the Arizona State Legislature.

**Cost-sharing plans**

For the year ended June 30, 2013, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 10.90% and 10.25% of the members' annual covered payroll, respectively. The State's contributions to the ASRS for the years ended June 30, 2013, 2012, and 2011 were \$185.5 million, \$180.8 million, and \$160.5 million, respectively, for the primary government which were equal to the required contributions for these years.

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In addition, active EORP members were required by statute to contribute 10% of the members' annual covered payroll. The State was required to contribute a designated portion of certain fees collected by the Supreme Court plus additional contributions of 34.60% of the members' annual covered payroll, as determined by actuarial valuation. The State's contributions to EORP for the years ended June 30, 2013, 2012, and 2011 were \$2.5 million, \$2.2 million, and \$2.1 million, respectively, which were equal to the required contributions for these years.

**Agent plans**

For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 19.10 – 129.23%. Active CORP members were required by statute to contribute 8.41% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 9.86 – 10.71%.

**D. ANNUAL PENSION COST**

The State's annual pension costs, required contributions, and excess other post-employment benefit (OPEB) contributions applied to pensions (see Note 6.A. and B. for explanation) for each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2013, is as follows (expressed in thousands):

	Annual Pension Costs	Pension Contributions Made	
		Required Contributions	Excess OPEB Contributions
PSPRS	\$ 36,833	\$ 36,833	\$ 548
CORP	39,537	39,537	3,020

The State's annual pension costs, the percentage of annual pension cost contributed to the plan, and the net pension for the current and preceding year for each of the agent, multiple-employer defined benefit pension plans, is as follows (expressed in thousands):

	Fiscal Year Ended	Annual Pension Costs	Percentage of Annual Cost Contributed	Net Pension
PSPRS	6/30/2013	\$ 36,833	101%	\$ 3,175
	6/30/2012	31,253	102%	2,627
	6/30/2011	29,418	101%	2,128
CORP	6/30/2013	39,537	108%	15,874
	6/30/2012	32,058	109%	12,854
	6/30/2011	29,466	110%	9,866

**E. FUNDED STATUS AND FUNDING PROGRESS**

The State's funded status for each of the agent, multiple-employer defined benefit pension plans, as of the most recent actuarial valuation, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as a Percentage of Covered Payroll
PSPRS	6/30/2013	\$ 505,249	\$ 1,067,721	\$ (562,472)	47.3%	\$ 82,363	(682.9)%
CORP	6/30/2013	900,160	1,289,715	(389,555)	69.8%	346,980	(112.3)%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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**F. ACTUARIAL METHODS AND ASSUMPTIONS**

The State's actuarial methods and significant assumptions for each of the agent, multiple-employer defined benefit pension plans for the most recent actuarial valuation as of 6/30/2013 and actuarial valuation as of 6/30/2011 that was used to determine the fiscal year 2013 annual required contribution are as follows:

	PSPRS	CORP	PSPRS	CORP
Actuarial valuation date	6/30/2011	6/30/2011	6/30/2013	6/30/2013
Actuarial cost method	entry age normal	entry age normal	entry age normal	entry age normal
Actuarial assumptions:				
Investment rate of return	8.25%	8.25%	7.85%	7.85%
Projected salary increases	5.0 – 8.0%	5.0 – 8.0%	4.5 – 8.5%	4.5 – 7.75%
Payroll growth	5.0%	5.0%	4.5%	4.5%
Cost-of-living adjustments	None	None	None	None
Amortization method	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed
Remaining amortization period	25 years for unfunded, 20 years for overfunded	25 years for unfunded, 20 years for overfunded	23 years for unfunded, 20 years for overfunded	23 years for unfunded, 20 years for overfunded
Asset valuation method	7-year smoothed market	7-year smoothed market	7-year smoothed market 80%/120% market	7-year smoothed market 80%/120% market

**G. UNIVERSITIES' RETIREMENT PLANS**

Faculty, academic professionals, service professionals, and administrative staff at the three universities (the ASU, the NAU, and the U of A) may select one of three retirement plans: the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Fidelity Investments Tax-Exempt Services Company (Fidelity), or the ASRS. The ASRS is a defined benefit plan and the other three plans are defined contribution plans. The two defined contribution plans are administered by independent insurance and annuity companies approved by the ABOR. In addition, the U of A employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. In a defined contribution plan, benefits depend solely on the contributed amounts and the returns earned on investments of those contributions. Contributions made by employees vest immediately and the Universities' contributions vest no later than after five years of full-time employment. Employees and Universities' contributions and associated returns earned on investments may be withdrawn starting upon termination of employment, death, or retirement. The distribution of employee contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company.

The Arizona State Legislature establishes and may amend active plan members' and the Universities' contribution rates. For the year ended June 30, 2013, plan members and the three Universities were each required by statute to contribute an amount equal to 7.00% of an employee's compensation, except for a 7.00% member contribution and a 7.65% University contribution for the ASRS defined contribution plan.

Contributions to these plans for the year ended June 30, 2013, were as follows (expressed in thousands):

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	\$ 30,626	\$ 30,626	\$ 61,252
Fidelity	20,483	20,483	40,966
ASRS	13	12	25

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**NOTE 6. OTHER POST-EMPLOYMENT BENEFITS**

**A. PLAN DESCRIPTION**

**Cost-sharing plans**

In addition to the pension benefits described, the ASRS provides health insurance premium supplemental benefits and disability benefits to retired members, disabled members, and eligible dependents through the Health Benefit Supplement Fund (HBS) and the Long Term Disability Fund (LTD), which are cost-sharing, multiple-employer defined benefit post-employment plans. Title 38, Chapter 5 of the ARS assigns the authority to establish and amend the benefit provisions of the HBS plan and the LTD plan to the Arizona State Legislature. The ASRS issues a publicly available financial report that includes the financial information and disclosure requirements for the HBS plan and the LTD plan. Information on how to obtain this report is included in Note 1.A.

The EORP, by statute, is a cost-sharing, multiple employer plan. However, because of its statutory structure, in accordance with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, paragraphs 5 and 41, the EORP's OPEB is reported for such purposes as an agent, multiple-employer plan. Information on how to obtain the EORP's publicly available financial report is included in Note 1.A. However, the EORP's OPEB benefit is relatively insignificant to the State's financial statements and, therefore, is not further described in these notes or the RSI that follows.

**Agent plans**

In addition to pension benefits described, the PSPRS and the CORP each offer a health insurance premium subsidy benefit to retired members and survivors, which are agent, multiple-employer defined benefit post-employment plans. Title 38, Chapter 5 of the ARS assigns the authority to establish and amend the health insurance subsidy benefit provisions to the Arizona State Legislature. The PSPRS and the CORP do not administer a separate healthcare plan as defined under IRC § 401(h) or an equivalent agreement. In addition, the PSPRS and the CORP are not statutorily authorized to maintain a separate account for the health insurance subsidy assets and benefits payments. Therefore, in accordance with GASB Statement No. 43, the health insurance subsidy benefit is reported as an agency fund. There are no accumulated assets or liabilities, only contributions and benefit distributions are presented in these funds. All assets of the PSPRS and the CORP are available to pay both pension benefits and the health insurance subsidy benefits. The PSPRS and the CORP each issue publicly available financial reports that include the financial information and disclosure requirements for the health insurance subsidy benefits. Information on how to obtain these reports is included in Note 1.A.

**B. CONTRIBUTIONS, BENEFITS, AND REFUND PAYMENTS**

**Cost-sharing plan**

The ASRS recognition of contributions for the HBS plan and the LTD plan are the same as the pension benefit in Note 5.B. Benefit and refund payments are recognized when due and payable in accordance with the terms of the HBS plan and LTD plan.

**Agent plans**

The PSPRS and the CORP recognition of employer contributions and refunds for the health insurance subsidy benefit are the same as the pension benefit in Note 5.B. Contributions in excess of the health insurance subsidy payments are reported as excess pension contributions in the pension benefit plan. Health insurance subsidy benefits are recognized when due and payable in accordance with the terms of the plan.

**C. FUNDING POLICY**

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the ARS. These contribution requirements are established and may be amended by the Arizona State Legislature.

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**Cost-sharing plan**

For the year ended June 30, 2013, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 0.24% of the members' annual covered payroll for LTD. In addition, the State also contributed 0.65% for the HBS. The State's contributions for LTD to the ASRS for the years ended June 30, 2013, 2012, and 2011 were \$4.3 million, \$4.4 million, and \$4.5 million, respectively, for the primary government which were equal to the required contributions for these years. The State's contributions for the HBS to the ASRS for the years ended June 30, 2013, 2012, and 2011 were \$11.8 million, \$11.5 million, and \$10.5 million, respectively, for the primary government which were equal to the required contributions for these years.

**Agent plans**

For the year ended June 30, 2013, the PSPRS participating State agencies were required to contribute at actuarially determined rates of 1.39 – 6.81% of covered payroll. The CORP participating State agencies were required to contribute at actuarially determined rates of 1.28 – 1.59% of covered payroll.

**D. ANNUAL OPEB COST**

The State's annual OPEB costs, OPEB contributions made, and increase in OPEB obligation for each of the agent, multiple-employer defined benefit post-employment plans for the year ended June 30, 2013, is as follows (expressed in thousands):

	Annual OPEB Costs	OPEB Contributions Made	Increase in OPEB Obligation
PSPRS	\$ 2,158	\$ 1,610	\$ 548
CORP	5,179	2,159	3,020

The State's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and preceding year for each of the agent, multiple-employer defined benefit post-employment plans, is as follows (expressed in thousands):

	Fiscal Year Ended	Annual OPEB Costs (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
PSPRS	6/30/2013	\$ 2,158	74.6%	\$ 3,175
	6/30/2012	2,225	77.6%	2,627
	6/30/2011	2,180	79.9%	2,128
CORP	6/30/2013	5,179	41.7%	15,874
	6/30/2012	5,213	42.7%	12,854
	6/30/2011	5,010	41.8%	9,866

**E. FUNDED STATUS AND FUNDING PROGRESS**

The State's funded status for each of the agent, multiple-employer defined benefit post-employment plans, as of the year ended June 30, 2013, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as a Percentage of Covered Payroll
PSPRS	6/30/2013	-	\$ 29,165	\$ (29,165)	0.0%	\$ 82,363	(35.4)%
CORP	6/30/2013	-	59,723	(59,723)	0.0%	346,980	(17.2)%

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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**F. ACTUARIAL METHODS AND ASSUMPTIONS**

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The State’s actuarial methods and significant assumptions for each of the agent, multiple-employer defined benefit post-employment plans for the most recent actuarial valuation as of 6/30/2013 and actuarial valuation as of 6/30/2011 that was used to determine the fiscal year 2013 annual required contribution are as follows:

	PSPRS	CORP	PSPRS	CORP
Actuarial valuation date	6/30/2011	6/30/2011	6/30/2013	6/30/2013
Actuarial cost method	entry age normal	entry age normal	entry age normal	entry age normal
Actuarial assumptions:				
Investment rate of return	8.25%	8.25%	7.85%	7.85%
Projected salary increases	5.0 – 8.0%	5.0 – 8.0%	4.5 – 8.5%	4.5 – 7.75%
Payroll growth	5.0%	5.0%	4.5%	4.5%
Cost-of-living adjustments	None	None	None	None
Amortization method	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed
Remaining amortization period	25 years for unfunded, 20 years for overfunded	25 years for unfunded, 20 years for overfunded	23 years for unfunded, 20 years for overfunded	23 years for unfunded, 20 years for overfunded
Asset valuation method	7-year smoothed market	7-year smoothed market	7-year smoothed market 80%/120% market	7-year smoothed market 80%/120% market

**NOTE 7. LONG-TERM OBLIGATIONS**

**A. REVENUE BONDS**

**Governmental Activities**

**1. Department of Administration**

The State has pledged portions of its revenues towards the payment of debt service on the State Lottery Revenue Bonds Series 2010A. These bonds provide additional working capital to the State to pay appropriated expenditures of the State’s General Fund. The bonds are payable solely from and secured by pledged revenues consisting of, until July 1, 2012, amounts distributable to the State’s General Fund from the State Lottery pursuant to Lottery law, and from and after July 1, 2012, all Lottery revenues deposited to the Lottery Fund net of operating expenses of the Lottery. At June 30, 2013, pledged revenues totaled \$174.4 million, of which 21.5% (\$37.5 million) was required to cover debt service. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of July 1, 2029 is \$600.0 million.

**2. Arizona Department of Transportation**

The ADOT has issued Senior and Subordinated Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1.6 billion. During the year, Highway Revenue Bonds totaling \$715.5 million were issued to (i) finance portions of the ADOT’s Five-Year Transportation Facilities Construction Program, (ii) pay interest on any

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bonds issued for highway purposes, (iii) pay costs of issuing the bonds, and (iv) refund portions of the ADOT's outstanding Subordinated Series 2003A Bonds (\$48.4 million), Subordinated Refunding Series 2004B Bonds (\$68.5 million), Senior Refunding Series 2005A Bonds (\$100.4 million), Senior Series 2005B Bonds (\$84.9 million), and Senior Series 2006 Bonds (\$239.5 million) to reduce the total debt service payments by \$9.5 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$22.3 million. The payment to the refunded bond escrow agent totaled \$611.9 million, representing principal of \$541.6 million and interest of \$70.3 million.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes. On September 21, 2006, House Bill 2206 became effective and eliminated the restriction that limited the principal amount of the Highway Revenue Bonds that could be outstanding at any time to \$1.3 billion. Also during fiscal year 2007, the ADOT received legislative authority to begin issuing Highway Revenue Bonds with maturities of up to 30 years in length, replacing the 20 year maturity requirement that had been in place since 1980.

The ADOT has pledged future motor vehicle and related fuel fees and taxes to repay \$1.7 billion in outstanding Highway Revenue Bonds issued since 2001. Proceeds from the bonds finance portions of the ADOT's Five Year Transportation Facilities Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2038. The total principal and interest remaining to be paid on the bonds is \$2.7 billion. Principal and interest paid for the current year and total pledged revenues were \$138.7 million and \$524.3 million, respectively. The annual principal and interest payments on the bonds required 26.5% of the pledged revenues.

The Maricopa County Regional Area Road Construction Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the ADOT. These bonds are secured by a portion of transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$981.8 million.

The ADOT has pledged future transportation excise taxes to repay \$926.0 million in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, AZ. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$1.2 billion. Principal and interest paid for the current year and total pledged revenues were \$103.6 million and \$227.9 million, respectively. The annual principal and interest payments on the bonds required 45.5% of the pledged revenues.

In the current and prior fiscal years, the ADOT refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the ADOT at June 30, 2013 totaled \$257.6 million.

### **3. School Facilities Board**

On April 11, 2013, the School Facilities Board (SFB) issued Taxable State School Improvement Revenue Refunding Bonds Series 2013 (2013 Bonds) for \$316.2 million. The 2013 Bonds include \$316.2 million of serial bonds with interest rates ranging from 0.29% to 2.01% and maturity dates ranging from 2014 to 2020. The 2013 Bonds are subject to optional redemption prior to maturity on any date pursuant to the debt documents. The SFB realized net proceeds from the 2013 Bonds of \$315.1 million, after payment of \$1.1 million for underwriters' discount and issuance costs. The net proceeds of the 2013 Bonds were used to refund, in advance of maturity, \$281.5 million of the outstanding Series 2005 School Improvement Revenue Refunding Bonds (2005 Bonds); \$94.2 million of the 2005 Bonds were not refunded and remain outstanding at June 30, 2013. The advance-refunding resulted in a debt service savings of \$16.1 million and a net present value benefit of \$16.9 million (difference between the present values of the old debt and new debt service payments). The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$19.5 million. This difference was deferred, and is being amortized to interest expense through fiscal year 2020 on a straight-line basis.

In current and prior fiscal years, the SFB refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded

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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 these legally defeased bonds are not reflected in the accompanying financial statements.

The SFB has pledged portions of its gross revenues towards payment of debt related to State school improvement revenue bonds, State school improvement revenue refunding bonds, State school trust revenue bonds, and State school trust revenue refunding bonds outstanding at June 30, 2013. These bonds finance the correction of existing deficiencies in school facilities in the State of Arizona. These pledged revenues include Education Transaction Privilege Taxes approved by voters as part of Proposition 301 and expendable State School Trust Revenues. Expendable State School Trust Revenues include State Trust Lands' land lease revenue, interest earnings on land sales financed over time, and a formula distribution from the State's Permanent Fund prescribed by the State's Constitution. Pledged revenues do not include sales of State Trust Lands, sales of natural products derived from State Trust Lands, or royalties from minerals extracted from State Trust Lands. These revenues are held in perpetuity for the benefit of various beneficiaries of the State Land Trust and are not available to pay debt service. Expendable State School Revenues in excess of \$72.263 million are not available to pay debt service on the State school trust revenue bonds and State school trust revenue refunding bonds per the debt documents. At June 30, 2013, pledged revenues totaled \$617.5 million, of which 13.2% (\$81.4 million) was required to cover current year debt service. Future pledged revenues required to pay all future debt service on these bonds through final maturity of July 1, 2020 is \$585.1 million.

**Business-Type Activities**

**4. Universities**

**a. University of Arizona**

The U of A's bonded debt consists of various issues of system revenue bonds and Stimulus Plan for Economic and Educational Development (SPEED) revenue bonds that are generally callable with interest payable semi-annually. Bond proceeds are used to pay for acquiring or constructing capital facilities and infrastructure and for refunding obligations from previously issued bonds.

For all outstanding SPEED revenue bonds, up to 80% of the debt service payments are payable from the U of A's SPEED revenue bond account monies, which are derived from certain revenues of the Lottery. To the extent SPEED revenue bond account monies are not sufficient to make debt service payments, the SPEED revenue bonds are secured by a pledge of certain gross revenues, such as student tuition and fees, but that pledge is subordinate to the pledge of those gross revenues for the U of A's system revenue bonds.

On December 19, 2012, the U of A sold System Revenue Refunding Bonds Taxable Series 2012C (2012C Bonds) for \$43.920 million dated January 17, 2013. The 2012C Bonds include \$37.670 million of serial bonds with interest rates ranging from 0.65% to 3.42% and maturity dates ranging from 2014 to 2027. The 2012C Bonds also include a term bond consisting of \$6.250 million with an interest rate of 3.91% due June 1, 2034. The 2012C Bonds are subject to optional redemption at a redemption price equal to the greater of (1) par, or (2) the net present value of remaining debt service payments, discounted to the date of redemption at a rate based on U.S. Treasury Securities plus 25 basis points. The 2012C Bonds with maturity on June 1, 2034 are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2012C Bonds sold at a discount of \$14 thousand. The U of A realized net proceeds of \$43.540 million after payment of \$366 thousand for issuance costs and underwriter discounts. The net proceeds were used for the following:

- i Current-refund a portion of the System Revenue Bonds Series 2003 with an outstanding principal balance of \$8.165 million. The current refunding generated a net present value economic gain of \$742 thousand (difference between the present values of the old debt and the new debt service payments) for the U of A. The refunding decreases the U of A's debt service by \$112 thousand in year one and \$603 thousand in year two. In addition, annual debt service decreases by an average of \$3 thousand in years three through twelve. The current-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$236 thousand. This difference, reported in the accompanying financial statements as a deduction from long-term obligations, is being amortized to interest expense through the year 2024 using the straight-line method.
- i Advance-refund a portion of the System Revenue Bonds Series 2004B with an outstanding balance of \$32.945 million. The advance refunding generated a net present value economic gain of \$2.172 million (difference between the present

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values of the old debt and the new debt service payments) for the U of A. The advance-refunding decreases the U of A's debt service by \$445 thousand in year one, \$653 thousand in year two, and \$1.021 million in year three. In addition, annual debt service decreases by an average of \$3 thousand in years four through twenty-two. The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2.206 million. This difference, reported in the accompanying financial statements as a deduction from long-term obligations, is being amortized to interest expense through the year 2034 using the straight-line method. The refunded System Revenue Bonds Series 2004B will be paid by investments held in an irrevocable trust with a combined carrying value of \$34.436 million. Accordingly, the trust account assets and liability for the defeased bonds are not included in the accompanying financial statements.

On March 26, 2013, the U of A sold System Revenue Bonds Series 2013A (2013A Bonds) for \$69.175 million and System Revenue Refunding Bonds Series 2013B (2013B Bonds) for \$34.985 million dated April 10, 2013. The 2013A Bonds include \$25.295 million of serial bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2016 to 2033. The 2013A Bonds also include three term bonds consisting of \$11.455 million with an interest rate of 5.00% due June 1, 2038, \$14.605 million with an interest rate of 4.00% due June 1, 2043, and \$17.820 million with an interest rate of 4.13% due June 1, 2048. The 2013A Bonds with maturity on or after June 1, 2024, are subject to optional redemption without premium. The 2013A Bonds with maturity on June 1, 2038, June 1, 2043, and June 1, 2048 are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2013A Bonds sold at a premium of \$3.501 million. The U of A realized net proceeds from the 2013A bonds of \$72.216 million after payment of \$460 thousand for issuance costs and underwriter discounts. The net proceeds were used to finance the Cancer Center in Phoenix.

The 2013B Bonds include \$30.905 million of serial bonds with interest rates ranging from 3.00% to 5.00% with maturity dates ranging from 2013 to 2033. The 2013B Bonds also include three term bonds consisting of \$1.110 million with an interest rate of 3.75% due June 1, 2038, \$1.335 million with an interest rate of 4.00% due June 1, 2043, and \$1.635 million with an interest rate of 4.13% due June 1, 2048. The 2013B Bonds with maturity on or after June 1, 2024, are subject to optional redemption without premium. The 2013B Bonds with maturity on June 1, 2038, June 1, 2043, and June 1, 2048 are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2013B Bonds sold at a premium of \$5.495 million. The U of A realized net proceeds from the 2013B bonds of \$40.244 million after payment of \$236 thousand for issuance costs and underwriter discounts. The net proceeds were used to finance a portion of the Environment and Natural Resources Phase II project and to refund, in advance of maturity, a portion of the System Revenue Bonds Series 2004A and 2005A totaling \$3.535 million and \$26.470 million, respectively. The advance-refunding generated a net present value benefit of \$1.912 million (difference between the present values of the old debt and the new debt service payments) for the U of A. The advance-refunding reduced the U of A's debt service by \$514 thousand in the first year, \$38 thousand in the second year, and an average of \$124 thousand in years three through thirteen. The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2.682 million. This difference, reported in the accompanying financial statements as a deduction from long-term obligations, is being amortized to interest expense through the year 2031 using the straight-line method. The refunded System Revenue Bonds will be paid by investments held in an irrevocable trust with a combined carrying value of \$32.541 million. Accordingly, the trust account assets and liability for the defeased bonds are not included in the accompanying financial statements.

On May 16, 2013, the U of A sold SPEED Revenue Bonds Series 2013 (2013 Bonds) for \$70.125 million dated May 30, 2013. The 2013 Bonds include \$25.880 million of serial bonds with interest rates of 4.00% and 5.00% and maturity dates ranging from 2016 to 2031. The 2013 Bonds also include four term bonds consisting of \$4.840 million with an interest rate of 3.75% due August 1, 2033, \$10.175 million with an interest rate of 5.00% due August 1, 2038, \$12.980 million with an interest rate of 5.00% due August 1, 2043, and \$16.250 million with an interest rate of 4.00% due August 1, 2048. The serial bonds with maturity on or after August 1, 2024, are subject to optional redemption without premium. The 2013 Bonds with maturity on August 1, 2033, August 1, 2038, August 1, 2043, August 1, 2048 are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2013 Bonds sold at a premium of \$6.688 million. The U of A realized net proceeds of \$76.300 million after payment of \$513 thousand for issuance costs and underwriter discounts. The net proceeds will be used to finance the Environment and Natural Resources Phase II project and the Health Sciences Education Building Shell Space project.

In fiscal year 2012, the U of A refunded, in advance of maturity, a portion of the outstanding System Revenue Bonds Series 2004A. At June 30, 2013, the outstanding principal balance on the refunded bonds was \$9.335 million, which will be paid by investments held in an irrevocable trust with a fair value of \$9.770 million. Accordingly, the trust account assets and liability for the defeased bonds are not included in the accompanying financial statements.

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The U of A's outstanding Series 2010 SPEED Revenue Bonds were issued as designated Build America Bonds under the provisions of the American Recovery and Reinvestment Act (ARRA). As such, the U of A is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the U of A must file certain required information with the Federal government between 90 and 45 days prior to the interest payment date. The amount paid to the U of A by the Federal government may be reduced or eliminated due to such issues as failure by the U of A to submit the required information, any amounts owed by the U of A to the Federal government, or changes in the law that would reduce or eliminate such payments. Due to the federal sequestration, the U of A will receive an 8.7% reduction (totaling \$140 thousand) in the federal interest subsidy for the August 1, 2013 debt service payment, and a 7.2% reduction (totaling \$232 thousand) in the federal interest subsidy for the February 1 and August 1, 2014 debt service payments.

The U of A has pledged portions of its gross revenues towards the payment of debt related to all system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2013. The bonds generally provide financing for various capital projects of the U of A. These pledged revenues include student tuition and fees, auxiliary enterprise revenue, sales and service revenue, and other operating revenues such as indirect cost recovery and certain investment income. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. At June 30, 2013, pledged revenues totaled \$994.1 million, of which 5.7% (\$56.5 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 4% of pledged revenues. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of August 1, 2048 is \$1.5 billion.

**b. Northern Arizona University**

The NAU's bonded debt consists of various issues that are generally callable at a prescribed date with interest payable semi-annually. All issues are at a fixed rate. Bond proceeds primarily pay for acquiring, constructing, or renovating capital facilities. System revenue bonds are repaid from pledged gross revenues that primarily consist of student tuition and fees and certain auxiliary revenues.

On June 20, 2013, the NAU sold \$75.2 million of SPEED Revenue Bonds Taxable Series 2013 (Series 2013 Bonds) for the purpose of the construction of a new sciences and health services facility at the NAU's main campus, and the construction build-out of approximately 15 thousand square feet in the existing Health Sciences Education Building at the U of A College of Medicine Phoenix Campus. The 2013 Bonds include serial bonds of \$39.9 million with interest rates ranging from 4.00% to 5.00%. The 2013 Bonds also include three term bonds that are subject to annual sinking fund contributions. The first term bond is for \$15.6 million with an interest rate of 5.00% that matures August 1, 2038; the second term bond is for \$7.5 million with an interest rate of 5.00% that matures on August 1, 2043; the third term bond is for \$12.2 million with an interest rate of 4.25% and matures on August 1, 2043. The 2013 Bonds are generally subject to redemption prior to maturity. The 2013 Bonds are limited obligations that are payable solely from, and secured solely by, a pledge from the NAU account of the SPEED Fund, which is derived from certain revenues of the Lottery not to exceed 80% of the annual debt service and other NAU monies equal to at least 20%, and as much as 10% of annual debt service. To the extent monies of the SPEED Fund are not sufficient to make debt service payments, the 2013 Bonds are also secured by a pledge of certain gross revenues, but that pledge is junior and subordinate to the pledge of those gross revenues for the NAU's system revenue bonds.

In prior years, the NAU defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2013, \$34.3 million of such bonds outstanding are considered defeased.

The Series 2009A and 2010 Bonds were issued as designated Build America Bonds under the provisions of the ARRA. As such, the NAU is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the NAU must file certain required information with the Federal government between 90 and 45 days prior to the interest payment date. The amount paid to the NAU by the Federal government may be reduced or eliminated due to such issues as failure by the NAU to submit the required information, any amounts owed by the NAU to the Federal government, or changes in the law that would reduce or eliminate such payments. The NAU is currently not aware of any such issues that may adversely affect the amount of payments to be received from the Federal government related to such designated Build America Bonds. For accounting purposes, any direct payments received from the U.S. Treasury Department are recorded as nonoperating revenue.

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For the 2010 and 2013 revenue bonds, up to 80% of the debt service payments are payable from the NAU's SPEED revenue bond account monies, which are derived from certain revenues of the Lottery. To the extent SPEED revenue bond account monies are not sufficient to make debt service payments, the SPEED revenue bonds are secured by a pledge of certain gross revenues, such as student tuition and fees, but that pledge is subordinate to the pledge of those gross revenues for the NAU's system revenue bonds.

The NAU has pledged portions of its gross revenues towards the payment of debt related to system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2013. The bonds generally provide financing for various capital projects of the NAU. These pledged revenues include student tuition and fees, certain auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. Pledged revenue has averaged \$206.1 million for the prior five years. At June 30, 2013, pledged revenues totaled \$263.2 million, of which 9.6% (\$25.2 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 10% of pledged revenues. Future pledged revenues required to pay all remaining related debt service for the bonds through final maturity of August 1, 2043 are \$839.8 million.

**c. Arizona State University**

At June 30, 2013, the ASU had issued a combination of fixed and variable rate bonds. The ASU's long-term obligations generally are structured with level debt service, semi-annual interest, and call options at a prescribed date. Certain revenue bonds of the ASU have been defeased through advance refundings by depositing sufficient U.S. Government securities in an irrevocable trust to pay all future debt service. Accordingly, the liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of all defeased bonds outstanding at June 30, 2013 totaled \$23.6 million.

The ASU has pledged gross revenues as defined in the bond indentures towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2013. These related revenue bonds are primarily for new academic and research facilities, academic and laboratory renovations, and infrastructure improvements. The pledged revenues include student tuition and fees, certain auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. For the year ended June 30, 2013, pledged revenues totaled \$1.1 billion, of which 6.9% (\$72.7 million, net of federal direct payments) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for revenue bonds through final maturity of July 1, 2043 is \$1.5 billion. In addition, the ASU has pledged the same revenues on a subordinated basis to secure the Series 2006 Arizona State University Research Park, Inc. Development Refunding Bonds and the Series 2010 A/B and 2011 SPEED revenue bonds. Research Park bonds outstanding at June 30, 2013 were \$7.8 million with annual debt service payments of approximately \$1.2 million through July 1, 2021. SPEED revenue bonds outstanding at June 30, 2013, were \$64.7 million with annual debt service payments of approximately \$2.6 million through June 30, 2016, \$5.7 million through June 30, 2031, and \$2.7 million through August 1, 2031, net of federal direct payments.

In January, 2013 the ASU issued \$110.9 million in system revenue and refunding bonds, Tax-Exempt Series 2013A and Taxable Series 2013B, with an average maturity of 15.6 years and an average interest rate of 3.47%. The bonds were issued to fund the construction of the Tempe campus student fitness complex expansion, the new Downtown campus student fitness complex, various information technology infrastructure projects, a new Tempe campus mixed-use facility, and to refund various outstanding bonds of the ASU and the ACFFC (Adelphi Commons II Student Housing). The refunded debt is considered defeased and related liabilities are not included in the accompanying financial statements. The issuance of the refunding bonds, with an average maturity of 10.04 years and an average interest rate of 2.8%, resulted in a \$6.6 million reduction in future debt service payments, with an economic gain of \$5.5 million based upon the present value savings.

In June 2008, the Legislature approved the SPEED which provides the ASU capital improvement funds for critical construction and deferred maintenance projects. SPEED projects are debt financed with revenue bonds, repaid primarily with Lottery revenues. Specifically, up to 80% of SPEED debt service is paid from Lottery revenues, with the balance being the responsibility of the ASU as evidenced by the subordinated pledge of the ASU revenues.

The Taxable Series 2010A System Revenue Bonds and the Taxable Series 2010A SPEED Revenue Bonds were issued as Build America Bonds under the provisions of the ARRA. As such, the ASU is eligible to receive Federal Direct Payments from the U.S. Treasury equal to 35% of the interest owed on each interest payment date. The amount paid to the ASU by the Federal government may be reduced or limited due to such issues as failure by the ASU to submit the required information, offsets to

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reflect any amounts owed by the ASU to the Federal government, or changes in the law that would reduce or eliminate such payments. During fiscal year 2013, the Federal government reduced federal direct payment claims filed between March 1, 2013 and September 30, 2013 by 8.7% due to federal budget sequestration. The ASU's direct payments were reduced by \$173 thousand. For accounting purposes, any direct payments received from the U.S. Treasury are recorded as nonoperating revenue.

The ASU has outstanding two series of variable rate demand system revenue refunding bonds, Series 2008A and Series 2008B, totaling \$96.8 million with final maturities of July 1, 2034. The interest rate in effect on June 30, 2013 was 0.05% for the Series 2008A Bonds and 0.07% for the Series 2008B Bonds. To provide credit and liquidity support for the bonds, on March 1, 2012, the ASU entered into an Irrevocable Transferable Direct-Pay Letter of Credit (LOC) with JPMorgan Chase Bank, N.A. (JPMorgan), under which the ASU has agreed to a commitment fee for the LOC of 0.38% per annum. Should the Series 2008A/B bond rating change, the commitment fee could increase according to the fee agreement. Assuming all of the \$48.4 million Series 2008A and \$48.4 million Series 2008B bonds are not resold within 365 days, the ASU would be responsible to make quarterly installment principal payments, with the last payment on the fourth anniversary of JPMorgan acquiring the bonds, plus interest to be calculated as established in the LOC.

Securities and cash restricted for bonds debt service held by the trustee at June 30, 2013 totaled \$51.1 million.

The ASU presently plans to issue up to \$87.3 million in SPEED revenue bonds during fiscal year 2014.

Effective January 1, 2007, the ASU entered into a \$103.0 million notional amount swap agreement (hedging derivative instrument) expiring on July 1, 2034, in conjunction with the 2008 variable rate demand system revenue refunding bonds (2008 Bonds). The \$103.0 million notional amount is not exchanged; it is only the basis on which the interest payments are calculated and it decreases as principal payments are made on the 2008 Bonds. The intention of the swap was to effectively convert the variable rate interest on the 2008 Bonds to a synthetic fixed rate. Under the terms of the swap agreement, the ASU pays the counterparty interest calculated at a fixed rate of 3.91% and receives payments from the counterparty based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index set weekly. The SIFMA rate at June 30, 2013 was 0.06%. At June 30, 2013, the synthetic fixed interest rate on the bonds was:

<b>Interest Rate Swap</b>	<b>Terms</b>	<b>Rates (%)</b>
Fixed payment to counterparty	Fixed	3.91
Variable payment from counterparty	SIFMA	(0.06)
Net interest rate swap payments		3.85
Variable-rate bond coupon payments	Spread to SIFMA	0.06
Synthetic fixed interest rate on bonds		3.91

The ASU continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the ASU effectively pays a fixed rate on the debt. If the counterparty defaults or if the swap is terminated, the ASU will revert to paying a variable rate. A termination of the swap agreement may also result in the ASU making or receiving a termination payment.

The ASU is exposed to interest rate risk based on the SIFMA indexed variable payment received from the counterparty versus the variable rate paid to bondholders. The swap exposes the ASU to basis risk should the weekly SIFMA rate paid by the counterparty fall below the weekly interest rate due on the bonds.

As of June 30, 2013, the ASU was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the ASU would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A by Fitch, A by S&P and A3 by Moody's as of June 30, 2013. Based on current ratings, the counterparty was not required to provide collateral. In the event a rating downgrade occurs, the counterparty may be required to provide collateral if the ASU's overall exposure exceeds predetermined levels. Collateral may be held by the ASU or a third party custodian.

As of June 30, 2013, the swap had a fair value of \$(14.1) million, which represents the cost to the ASU to terminate the swap. The June 30, 2012 fair value was \$(22.9) million. The fair value was developed by an independent third party, with no vested interest in the transaction, using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates.

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These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. In accordance with GASB 53, as amended by GASB 63, the fair value of the ASU's hedging derivative instrument is reported on the statement of net position as a deferred outflow of resources (interest rate swap) and a liability (derivative instrument - interest rate swap).

**Summary of Revenue Bonds**

The following schedule summarizes revenue bonds outstanding at June 30, 2013 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2013
Governmental Activities:				
Department of Transportation	2001-2013	2014-2038	2.00-5.25%	\$2,659,260
School Facilities Board	2002-2013	2014-2020	.14-5.50%	538,830
Department of Administration	2010	2014-2029	3.00-5.00%	408,630
Business-type Activities:				
University Revenue Bonds	1992-2013	2014-2049	.06-6.64%	2,237,710

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2013 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service						
	Governmental Activities			Business-type Activities			
	Total Principal	Total Interest	Total	Total Principal	Total Interest	Net Payments (Receipts) on Swap Agreement	Total
2014	\$ 200,525	\$ 160,084	\$ 360,609	\$ 64,240	\$ 103,506	\$ 3,631	\$ 171,377
2015	217,970	149,586	367,556	74,165	102,409	3,529	180,103
2016	240,260	140,675	380,935	75,710	99,503	3,422	178,635
2017	242,020	132,565	374,585	87,015	96,157	3,309	186,481
2018	251,085	123,493	374,578	80,445	93,081	3,191	176,717
2019-2023	1,103,535	480,141	1,583,676	422,520	410,341	13,971	846,832
2024-2028	799,600	239,865	1,039,465	473,630	301,617	10,009	785,256
2029-2033	423,985	87,620	511,605	403,495	191,083	4,957	599,535
2034-2038	127,740	18,036	145,776	307,335	105,709	269	413,313
2039-2043	-	-	-	188,410	34,577	-	222,987
2044-2048	-	-	-	57,235	5,789	-	63,024
2049	-	-	-	3,510	70	-	3,580
Total	<u>\$ 3,606,720</u>	<u>\$ 1,532,065</u>	<u>\$ 5,138,785</u>	<u>\$ 2,237,710</u>	<u>\$ 1,543,842</u>	<u>\$ 46,288</u>	<u>\$ 3,827,840</u>

**B. GRANT ANTICIPATION NOTES**

Grant Anticipation Notes (GANs) are issued by the ADOT and secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The balance of GANs issued in prior years and outstanding at the start of the fiscal year was \$335.2 million.

In prior fiscal years, the ADOT refinanced various GAN issues through advance-refunding arrangements. Under the terms of the refunding GAN issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded GAN 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 GANs are not reflected in the accompanying financial statements. Refunded GANs for the ADOT at June 30, 2013 totaled \$44.0 million.

The ADOT has pledged federal revenues to repay \$296.2 million in outstanding GANs issued since 2004. Proceeds from the GANs pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona. The GANs are payable solely from federal revenues and are payable through 2026. The total principal and interest remaining to be

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paid on the GANs is \$376.2 million. Principal and interest paid for the current year and total pledged revenues were \$55.3 million and \$802.9 million, respectively. The annual principal and interest payments on the GANs required 6.9% of the pledged revenues.

Grant Anticipation Notes currently outstanding are as follows (expressed in thousands):

Grant Anticipation Notes Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2013
Governmental Activities: Department of Transportation	2004-2012	2014-2026	2.50-5.25%	\$ 296,240

Future debt service principal and interest payments on Grant Anticipation Notes issues for fiscal years ended June 30 are summarized below (expressed in thousands):

Annual Debt Service			
Governmental Activities			
Fiscal Year	Total Principal	Total Interest	Total Debt Service
2014	\$ 48,530	\$ 14,256	\$ 62,786
2015	53,040	11,855	64,895
2016	47,350	9,553	56,903
2017	11,770	7,393	19,163
2018	12,325	6,838	19,163
2019-2023	71,270	24,552	95,822
2024-2026	51,955	5,539	57,494
Total	\$ 296,240	\$ 79,986	\$ 376,226

**C. CERTIFICATES OF PARTICIPATION**

**Governmental Activities**

**1. Department of Administration**

The State has issued COPs to finance construction or improvements of various capital assets. Additionally, the State issued COPs Series 2010A and 2010B to finance the acquisition of certain property from the State by the trustee, with which the proceeds of were deposited to the State's General Fund to pay appropriated expenditures of the State. The COPs Series 2010A and 2010B sale-leaseback transactions are nominal sales, with the State retaining all rights of ownership and control of the properties. Accordingly, they are accounted for under the financing method since the State has such an extensive continuing involvement in the properties for the entire duration of the agreement. The State's obligation to make lease payments and any other obligations of the State under the lease are subject to, and dependent upon, annual appropriations made by the Legislature and annual allocations of such appropriations being made by the Department of Administration for such purpose. The Department of Administration agrees to use its best efforts to budget, obtain, allocate, and maintain sufficient appropriated monies to make lease payments. In the event any such appropriation and allocation is not made, the leases will terminate and there can be no assurance that the proceeds for the re-leasing or sale of the projects will be sufficient to pay principal and interest with respect to the then outstanding COPs. The scheduled payments of principal and interest with respect to the COPs are guaranteed under certificate insurance policies. The State's obligation to make lease payments does not constitute a debt or liability of the State within the meaning of any constitutional or statutory limitation. Neither the full faith and credit nor the general taxing power of the State is pledged to make payments of principal or interest due with respect to the COPs. Such payments will be made solely from amounts derived under the terms of the lease, including lease payments, and amounts from time to time on deposit under the terms of the declaration of trust.

On February 13, 2013, the State issued Refunding COPs Series 2013A and 2013B (2013A COPs and 2013B COPs, collectively known as the 2013 COPs) for \$24.5 million and \$38.1 million, respectively. The 2013A COPs include \$24.5 million of serial certificates with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2013 to 2029. The 2013B COPs include \$38.1 million of serial certificates with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2013

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to 2023. The 2013 COPs are subject to optional or extraordinary redemption pursuant to the debt documents. The State realized net proceeds from the 2013 COPs of \$69.5 million after receipt of \$7.3 million original issue premium and payment of \$438 thousand for underwriters' discount and issuance costs. The net proceeds of the 2013A COPs were used to provide funding to call the Industrial Development Authority of the City of Phoenix, Arizona Series 2001 Government Office Lease Revenue Bonds with an outstanding principal balance of \$26.9 million. The Series 2001 Government Office Lease Revenue Bonds were originally issued to finance construction of the Capitol Mall L.L.C. II Project, which was subsequently leased to the State. The 2013B COPs were used to refund, in advance of maturity, the Series 2002A and 2004B COPs, with outstanding principal balances of \$23.8 million and \$16.4 million, respectively. A portion of the proceeds of the 2013B COPs was deposited in an irrevocable trust and invested in U.S. government obligations to pay the maturing principal of, and the related interest on the 2004B COPs to the date of their redemption. Furthermore, these refunded maturities are considered legally defeased and, therefore, are not included in the State's financial statements. The refundings resulted in a debt service savings of \$9.6 million and a net present value benefit of \$8.2 million (difference between the present values of the old debt and new debt service payments). The refundings resulted in an immaterial difference between the reacquisition price and the net carrying amount of the old debt. This difference was charged to operations as a direct expense in the current year.

## 2. School Facilities Board

The SFB Series 2010 COPs are not subject to mandatory sinking fund prepayment. However, as a means to provide a source of funds that will be available to pay the principal with respect to the Series 2010 COPs at maturity, the lease agreement with the trustee for the 2010 COPs will provide for mandatory sinking fund payments to be made as part of the base rent due under the lease. Beginning August 15, 2012, annual deposits to the sinking fund in the amount of \$5.7 million are scheduled to be made on August 15 of each year through August 15, 2027, at which time, the accumulated balance (including investment earnings and losses) in the sinking fund will be sufficient to retire the Series 2010 COPs on their stated maturity date of September 1, 2027.

In prior fiscal years, the SFB refinanced various COPs through advance-refunding arrangements. Under the terms of the refundings, sufficient assets to pay all principal, redemption premiums, if any, and interest on the refunded COPs have been placed in irrevocable trust accounts at commercial banks and invested in U.S. 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 these legally defeased COPs are not reflected in the accompanying financial statements.

## Business-Type Activities

### 3. Universities

#### a. University of Arizona

The U of A utilizes COPs and various capital leases to acquire buildings, equipment, and land. The COPs are generally callable, and the capital leases are subject to prepayment.

In fiscal year 2012, the U of A refunded, in advance of maturity, a portion of the outstanding COP Series 2004A (2004A COPs). At June 30, 2013, the outstanding principal balance for the 2004A COPs was \$16.3 million, which will be paid by investments held in an irrevocable trust with a fair market value of \$17.0 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the accompanying financial statements.

#### b. Northern Arizona University

The NAU's COPs consist of various issues that are generally callable at a prescribed date with interest payable semiannually. All issues are at a fixed rate.

On February 20, 2013, the NAU sold \$36.0 million of Tax-exempt Refunding COPs Series 2013 (2013 COPs). Refunded were \$28.0 million of the Series 2004 COPs for maturities from September 1, 2016 to September 1, 2030, and \$9.2 million of the Series 2005 COPs for maturities from September 1, 2018 to September 1, 2023. The refunding set aside \$41.2 million into an escrow that purchased SLGS Certificates and Notes with maturities between September 1, 2016 and September 1, 2030. The present value of the refunded debt prior to February 20, 2013 was \$57.8 million and the net present value savings was \$2.9 million. The advance refunding decreases the NAU's debt service by \$922 thousand in year one, \$142 thousand in year two,

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\$192 thousand in years three and four, and \$1.4 million in year five. In addition, annual debt service decreases by an average of \$20 thousand in years six through fifteen.

In the current and prior fiscal years, the NAU defeased certain COPs by either placing the proceeds of new COPs, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded COPs. Accordingly, the trust account assets and liability for the defeased COPs are not included in the accompanying financial statements. At June 30, 2013, \$46.0 million of such outstanding COPs are considered defeased.

**c. Arizona State University**

At June 30, 2013, the ASU has issued fixed rate COPs. The ASU's long-term obligations generally are structured with level debt service, semi-annual interest, and call options at a prescribed date. Certain COPs of the ASU have been defeased through advance refundings by depositing sufficient U.S. Government securities in an irrevocable trust to pay all future debt service. Accordingly, the liabilities for these defeased COPs are not included in the accompanying financial statements. The principal amount of all such COPs outstanding at June 30, 2013 was \$67.4 million.

In June 2013, the ASU issued \$64.8 million of refunding COPs to partially refund the Series 2004 and 2005A COPs. The refunded debt is considered defeased and the related liabilities are not included in the accompanying financial statements. The issuance of refunding COPs, with an average maturity of 8.89 years and an average interest rate of 3.09% resulted in a \$5.6 million reduction in future debt service payments, with an economic gain of \$5.2 million based on present value savings.

Securities and cash restricted for COP debt service held by the trustee at June 30, 2013 totaled \$7.3 million.

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A summary of the COPs issued as of June 30, 2013 is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
<b>Governmental Activities:</b>					
Department of Administration:					
4000 Bed Prison, Wastewater Upgrades, Forensic Unit 2008A	2008	2028	\$ 238,990	\$ 200,895	3.50 – 5.00
General Fund Budget Reconciliation 2010A	2010	2030	709,090	683,860	2.25 – 5.25
General Fund Budget Reconciliation 2010B	2010	2030	289,705	279,135	2.00 – 5.00
Refund 2001 PLTO, 2002A/2004B COPs	2013	2029	62,630	56,100	2.00 – 5.00
School Facilities Board:					
New School Construction 2003A	2003	2014	372,730	42,480	5.00
New School Construction 2003B	2004	2015	194,610	29,690	4.00 – 5.25
New School Construction 2004A	2004	2019	47,160	23,275	5.00
New School Construction 2004B	2005	2017	190,040	56,190	4.25 – 5.25
New School Construction 2004C	2005	2020	47,585	28,275	4.75 – 5.00
Refunding Certificates of 2003A	2005	2018	201,125	195,500	4.00 – 5.00
Refunding Certificates of 2003B	2005	2019	80,055	74,735	3.50 – 5.00
Refunding Certificates of 2004B	2005	2020	53,045	51,775	3.50 – 5.00
New School Construction 2008	2009	2024	580,035	488,575	4.00 – 5.75
Refunding Certificates of 2003B	2011	2020	11,100	11,100	3.00 – 3.50
Refunding Certificates of 2004B	2011	2020	10,000	10,000	3.00 – 5.00
Refunding Certificates of 2008	2011	2020	37,685	37,685	3.00 – 5.00
Qualified School Construction 2010	2011	2028	91,325	91,325	6.00
<b>Total Governmental Activities</b>			<u>\$ 3,216,910</u>	<u>\$ 2,360,595</u>	

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Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
<b>Business-type Activities:</b>					
Arizona State University:					
2002 Certificates of Participation	2002	2019	\$ 103,800	\$ 5,545	4.76
2004 Certificates of Participation	2005	2031	80,275	25,690	4.89
2005A Certificates of Participation	2005	2031	110,115	66,835	4.36
2006 Certificates of Participation	2006	2031	15,810	13,035	4.53
2006 Refunding Certificates of Participation	2007	2027	65,890	64,580	4.15
2011A Mercado Refunding Certificates of Participation	2011	2025	8,465	7,920	4.27
2013 Refunding Certificates of Participation	2013	2027	64,780	64,780	3.09
University of Arizona:					
Fixed Student Union	1999	2020	21,607	3,065	5.13 – 5.30
Med. Research. Bldg./Biomed Sci.&Biotech Bldg./Tech. Infra.	2004	2014	153,960	5,300	5.21
Chem.Bldg./Res.Life/Highland Pkg.Garage/Rfnd. COPS 1994A	2004	2015	42,020	4,035	5.25
Refund COPS 1999A	2005	2024	12,660	12,660	4.00 – 5.00
Refund COPS 1999	2005	2024	14,825	14,825	5.00
Refund COPS 2001A	2005	2022	16,330	16,330	4.13 – 5.00
Refund COPS 1999, 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	29,460	18,025	4.00 – 5.00
Refund COPS 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	58,650	54,990	4.00 – 5.00
Biomedical Research Collaborative Bldg. Project	2006	2031	18,240	15,230	4.00 – 5.00
Refund COPS 2001A, 2001B, 2002A, 2004B	2007	2031	105,080	99,395	4.00 – 4.50
Refund COPS 2001B	2012	2014	2,145	1,135	3.00
Refund COPS 2003A	2012	2022	10,190	10,190	1.48 – 3.42
Refund COPS 2002B	2012	2023	20,600	20,600	2.00 – 5.00
Refund COPS 2003B & 2004A	2012	2031	124,940	124,940	3.00 – 5.00
Northern Arizona University:					
2004 Certificates of Participation	2005	2016	37,585	3,565	4.85
2005 Certificates of Participation	2006	2031	40,255	24,390	4.65
2006 Certificates of Participation	2006	2018	12,445	1,670	4.35
2013 Refunding Certificates of Participation	2013	2031	36,005	36,005	4.78
<b>Total Business-type Activities</b>			<b>\$ 1,206,132</b>	<b>\$ 714,735</b>	

Principal and interest debt service requirements on COPs outstanding at June 30, 2013 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service					
	Governmental Activities			Business-type Activities		
	Total Principal	Total Interest	Total Amount Required	Total Principal	Total Interest	Total Amount Required
2014	\$ 164,930	\$ 114,281	\$ 279,211	\$ 38,052	\$ 32,531	\$ 70,583
2015	172,940	106,120	279,060	32,234	31,686	63,920
2016	181,505	97,391	278,896	37,133	28,131	65,264
2017	190,575	88,158	278,733	42,820	27,822	70,642
2018	200,105	78,454	278,559	48,265	25,858	74,123
2019-2023	723,245	273,832	997,077	249,041	94,453	343,494
2024-2028	566,070	122,115	688,185	171,330	42,380	213,710
2029-2031	161,225	8,182	169,407	95,860	7,072	102,932
Total	<u>\$ 2,360,595</u>	<u>\$ 888,533</u>	<u>\$ 3,249,128</u>	<u>\$ 714,735</u>	<u>\$ 289,933</u>	<u>\$ 1,004,668</u>

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**D. LEASES**

**1. Leases**

The State has entered into capital lease agreements for the acquisition of buildings and equipment. Capital lease assets and liabilities are reported on the government-wide Statement of Net Position. A lease is reported as a capital lease if one or more of the following criteria are met:

- i Title to or ownership of the asset is transferred to the State at the end of the lease.
- i The lease contains a bargain purchase option.
- i The lease term is equal to 75% or more of the useful life of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25% of the total useful life of the asset.)
- i The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair market value of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25% of the total useful life of the asset.)

The future minimum lease payments for long-term capital leases as of June 30, 2013 are summarized below (expressed in thousands):

Fiscal Year	Annual Debt Service	
	Governmental Activities	Business-type Activities
2014	\$ 47,550	\$ 10,555
2015	47,802	11,240
2016	47,983	10,948
2017	46,000	10,583
2018	44,437	10,345
2019-2023	213,981	51,912
2024-2028	137,176	51,447
2029-2033	6,965	45,837
2034-2038	-	14,818
2039-2072	-	3,188
Total minimum lease payments	591,894	220,873
Less: amount representing interest	(179,350)	(85,354)
Less: amount representing executory costs	(52,228)	-
Present Value of Net Minimum Lease Payments	\$ 360,316	\$ 135,519

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**2. Capital Assets Financed through Capital Leases**

The following table summarizes the historical costs of assets acquired under capital leases (expressed in thousands):

	Governmental Activities	Business-type Activities
Land	\$ 435	\$ 5,063
Buildings	362,983	154,670
Equipment	27,416	1,124
	390,834	160,857
Less: accumulated depreciation	(58,416)	(28,253)
Carrying Value	<u>\$ 332,418</u>	<u>\$ 132,604</u>

**E. COMPENSATED ABSENCES**

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. The compensated absence liability attributable to governmental activities will be liquidated primarily by the General Fund. During fiscal year 2013, the State paid for compensated absences as follows: 74.99% from the General Fund, 18.28% from other funds, and 6.73% from other major funds.

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**F. CHANGES IN LONG-TERM OBLIGATIONS**

The following is a summary of changes in Long-term Obligations (expressed in thousands):

	Balance July 1, 2012, as restated	Increases	Decreases	Balance June 30, 2013	Due Within One Year	Due Thereafter
<b>Governmental Activities:</b>						
Long-term Debt:						
Revenue bonds	\$ 3,593,420	\$ 1,031,635	\$ (1,018,335)	\$ 3,606,720	\$ 200,525	\$ 3,406,195
Grant anticipation notes	335,230	-	(38,990)	296,240	48,530	247,710
Certificates of participation	2,495,825	62,630	(197,860)	2,360,595	164,930	2,195,665
Capital leases	391,184	15,158	(46,026)	360,316	21,976	338,340
Installment purchase contracts	177	-	(177)	-	-	-
Notes payable	55,666	51,550	(1,399)	105,817	-	105,817
Premiums and discounts on debt	396,465	136,210	(57,928)	474,747	43,181	431,566
Deferred amounts on refundings	(813)	(19,540)	408	(19,945)	(3,196)	(16,749)
<b>Total Long-term Debt</b>	<b>7,267,154</b>	<b>1,277,643</b>	<b>(1,360,307)</b>	<b>7,184,490</b>	<b>475,946</b>	<b>6,708,544</b>
Other Long-term Liabilities:						
Compensated absences	300,207	214,490	(202,847)	311,850	161,997	149,853
Pollution remediation obligations	30,582	-	(8,499)	22,083	3,703	18,380
<b>Total Other Long-term Liabilities</b>	<b>330,789</b>	<b>214,490</b>	<b>(211,346)</b>	<b>333,933</b>	<b>165,700</b>	<b>168,233</b>
<b>Total Long-term Obligations</b>	<b>\$ 7,597,943</b>	<b>\$ 1,492,133</b>	<b>\$ (1,571,653)</b>	<b>\$ 7,518,423</b>	<b>\$ 641,646</b>	<b>\$ 6,876,777</b>
<b>Business-type Activities:</b>						
Long-term Debt:						
Revenue bonds	\$ 1,988,765	\$ 404,345	\$ (155,400)	\$ 2,237,710	\$ 64,240	\$ 2,173,470
Certificates of participation	756,980	100,975	(143,220)	714,735	38,052	676,683
Capital leases	130,047	13,792	(8,320)	135,519	3,909	131,610
Installment purchase contracts	8,397	-	(2,639)	5,758	1,661	4,097
Notes payable	223	-	(223)	-	-	-
Premiums and discounts on debt	87,966	49,547	(14,462)	123,051	3,855	119,196
Deferred amounts on refundings	(33,391)	(17,087)	4,382	(46,096)	(2,007)	(44,089)
<b>Total Long-term Debt</b>	<b>2,938,987</b>	<b>551,572</b>	<b>(319,882)</b>	<b>3,170,677</b>	<b>109,710</b>	<b>3,060,967</b>
Other Long-term Liabilities:						
Compensated absences	72,372	93,345	(87,424)	78,293	18,738	59,555
<b>Total Other Long-term Liabilities</b>	<b>72,372</b>	<b>93,345</b>	<b>(87,424)</b>	<b>78,293</b>	<b>18,738</b>	<b>59,555</b>
<b>Total Long-term Obligations</b>	<b>\$ 3,011,359</b>	<b>\$ 644,917</b>	<b>\$ (407,306)</b>	<b>\$ 3,248,970</b>	<b>\$ 128,448</b>	<b>\$ 3,120,522</b>

The above long-term obligations relating to governmental activities include internal service funds. Amounts for compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position because \$155.789 million of compensated absences are attributable to internal service funds. These amounts are included in the reconciliation as part of internal service fund net position.

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**NOTE 8. INTERFUND TRANSACTIONS**

**INTERFUND BALANCES AND TRANSFERS**

**Interfund Receivables/Payables**

Interfund balances as of June 30, 2013 are as follows (expressed in thousands):

Due From	Due To								
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Universities Funds	Industrial Commission Special Fund	Non-Major Enterprise Funds	Internal Service Funds	Total Due To
General Fund	\$ -	\$ -	\$ 333	\$ 9,459	\$ 200,061	\$ -	\$ 9	\$ 2,465	\$ 212,327
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	5,227	-	-	3,314	-	-	175	-	8,716
Land Endowments Fund	-	-	-	4,294	-	-	-	10	4,304
Non-Major Governmental Funds	16,413	3,803	-	1,546	-	6	-	333	22,101
Non-Major Enterprise Funds	33,711	-	-	4,970	11,041	-	-	2	49,724
Internal Service Funds	132	-	15,018	257	-	-	-	83	15,490
<b>Total Due From</b>	<b>\$ 55,483</b>	<b>\$ 3,803</b>	<b>\$ 15,351</b>	<b>\$ 23,840</b>	<b>\$ 211,102</b>	<b>\$ 6</b>	<b>\$ 184</b>	<b>\$ 2,893</b>	<b>\$ 312,662</b>

Interfund balances represent (1) amounts due to and from the internal service funds for goods and services rendered, and (2) cash transferred between funds for various interfund activities subsequent to the balance sheet date. The cash is recorded in the fund which initiated the transfer, and a corresponding liability is recorded. The receiving fund records an interfund receivable.

**Interfund Transfers**

Transfers for the year ended June 30, 2013 are as follows (expressed in thousands):

Transferred From	Transferred To							Total Transfers Out
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Funds	Non-Major Governmental Funds	Universities Fund	Industrial Commission Special Fund		
General Fund	\$ -	\$ 821	\$ 406	\$ 156,972	\$ 688,150	\$ -	\$ 846,349	
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	-	-	-	283,088	-	-	283,088	
Land Endowments Fund	2	-	-	39,370	-	-	39,372	
Non-Major Governmental Funds	71,655	189	-	9,755	-	6,000	87,599	
Non-Major Enterprise Funds	102,287	-	-	57,141	11,041	-	170,469	
Internal Service Funds	45,716	-	15,018	-	-	-	60,734	
<b>Total Transfers In</b>	<b>\$ 219,660</b>	<b>\$ 1,010</b>	<b>\$ 15,424</b>	<b>\$ 546,326</b>	<b>\$ 699,191</b>	<b>\$ 6,000</b>	<b>\$ 1,487,611</b>	

Interfund transfers represent legally authorized non-exchange transfers of funds. These transfers include: (1) legislative appropriations from the General Fund, (2) other legislative transfers, (3) statutorily required transfers, (4) transfers related to the elimination of funds, and (5) transfers for debt service.

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**NOTE 9. ACCOUNTING CHANGES**

**A. FUND FINANCIAL STATEMENTS**

Fund Balance and Net Position have been restated as follows (expressed in thousands):

	Governmental Funds	Proprietary Funds	Fiduciary Funds
	Non-major Governmental	Universities	Pension and Other Employee Benefit Trust Funds
Fund Balance/Net Position, as previously reported	\$ 1,417,889	\$ 2,809,654	\$ 34,520,858
Fund reclassifications	97,610	1,335	-
Prior period adjustment	-	-	(24,744)
Fund Balance/Net Position, as restated	\$ 1,515,499	\$ 2,810,989	\$ 34,496,114

**B. GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Government-wide Net Position has been restated as follows (expressed in thousands):

	Governmental Activities	Business-type Activities
Net Position, as previously reported	\$ 18,939,163	\$ 2,789,335
Fund reclassifications	97,610	1,335
Net Position, as restated	\$ 19,036,773	\$ 2,790,670

**1. Fund Reclassifications and Prior Period Adjustment**

The State received monies in fiscal year 2012 pursuant to the consent judgment of the National Mortgage Settlement that were incorrectly deposited in an agency fund. In fiscal year 2013, these monies were properly reclassified and the beginning fund balance was restated \$97.6 million to show the change.

Effective July 1, 2012, the NAU blended the financial activities of its component unit NACFFC in accordance with GASB 61.

For the year ended June 30, 2012, changes to the methodology determining the fair value of the Real Estate portfolio resulted in a reduction of \$24.7 million in beginning net position.

STATE OF ARIZONA  
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**NOTE 10. GOVERNMENTAL FUND BALANCES**

Detail of the fund balance categories and classifications shown in the aggregate on the governmental funds balance sheet for the year ended June 30, 2013 are as follows (expressed in thousands):

	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Total
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Inventory	\$ 844	\$ 7,207	\$ -	\$ -	\$ 8,051
Permanent fund principal	-	-	4,153,278	-	4,153,278
<b>Restricted for:</b>					
General government	15,316	-	-	120,957	136,273
Health and welfare	111,043	-	-	9,200	120,243
Inspection and regulation	4,504	-	-	-	4,504
Education	10,127	-	-	491,835	501,962
Protection and safety	20,505	-	-	-	20,505
Natural resources	-	-	-	8,437	8,437
Debt service	-	-	-	59,994	59,994
Capital projects	-	712,799	-	457,650	1,170,449
School facilities improvements	30,692	-	-	-	30,692
<b>Committed to:</b>					
General government	-	-	-	128,629	128,629
Health and welfare	26,192	-	-	130,366	156,558
Inspection and regulation	-	-	-	94,964	94,964
Education	9,985	-	-	-	9,985
Protection and safety	2,419	-	-	87,595	90,014
Transportation	-	156,084	-	-	156,084
Natural resources	25,842	-	-	63,472	89,314
School facilities improvements	8,799	-	-	-	8,799
<b>Unassigned:</b>	156,935	-	(26,266)	-	130,669
<b>Total Fund Balances</b>	<b>\$ 423,203</b>	<b>\$ 876,090</b>	<b>\$ 4,127,012</b>	<b>\$ 1,653,099</b>	<b>\$ 7,079,404</b>

**NOTE 11. FUND DEFICIT**

**A. RISK MANAGEMENT FUND (RMF)**

The RMF, an internal service fund, had a deficit of \$340.6 million primarily due to the RMF receiving annual funding only for expected paid insurance losses (including loss adjustment expenditures) within the State's self-insured retention for the specific fiscal year. Accrued insurance losses of the RMF are not considered when determining funding for each fiscal year.

**B. RETIREE SICK LEAVE FUND (RASL)**

The RASL, an internal service fund, pays retirees for their accumulated sick leave upon retirement from State service when they meet certain criteria. Beginning with fiscal year 2008, the State applied the provisions of GASB Statement No. 16, *Accounting for Compensated Absences* to the RASL. This results in a liability in the RASL which is significantly greater than the actual funding of the RASL, because the liability is based upon an estimate of the total RASL benefit earned by existing employees at fiscal year-end; however, State agencies pay for only one year based on a 0.40% charge on gross payroll. The \$151.9 million fund deficit is primarily due to the above funding mechanism.

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**NOTE 12. JOINT VENTURES**

**A. LARGE BINOCULAR TELESCOPE CORPORATION**

The U of A is a participant in the Large Binocular Telescope Corporation (LBT). The LBT was formally incorporated as a nonprofit corporation in August 1992 pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the U of A and the Arcetri Astrophysical Observatory in Florence, Italy. The purpose of the joint venture is to design, develop, construct, own, operate, and maintain a binocular telescope located in Arizona. The current members of the LBT are the U of A, INAF Astrophysical Observatory, Research Corporation, Ohio State University, and LBT Beteiligungsgesellschaft.

The U of A has committed resources equivalent to 25% of the LBT's construction costs and annual operating costs. As of June 30, 2013, the U of A has made cash contributions of \$18.2 million toward the project's construction costs, which were recorded as non-current investments on the Statement of Net Position. The U of A's financial interest represents its future viewing/observation rights. As of December 31, 2007, the assets had been substantially completed and the telescope entered the commissioning phase. During calendar year 2007, the telescope became operational for research purposes; thus, depreciation of the property and equipment has commenced. The U of A recorded its proportionate share of the use of the viewing/observation rights, \$807 thousand in calendar year 2012, as a reduction in its investment. At June 30, 2013, the investment totaled \$13.6 million. According to the audited financial statements of the LBT for the year ended December 31, 2011, assets, liabilities, revenues, and expenses totaled \$130.0 million, \$3.0 million, \$14.0 million, and \$13.0 million, respectively.

The LBT's separate audited financial statements can be obtained from the University of Arizona Comptroller at the University of Arizona, Financial Services, 1303 E. University Blvd., Box 4, Tucson, AZ 85719-0521.

**B. GIANT MAGELLAN TELESCOPE ORGANIZATION**

The Giant Magellan Telescope Organization (GMTO) is a non-stock, nonprofit, jointly governed corporation founded to own and administer the planning, design, construction, and operation of the 25-meter Giant Magellan Telescope, a proposed astronomical telescope and its associated buildings, equipment and instrumentation, to be located in northern Chile. The GMTO is jointly governed by several leading educational and research institutions from the United States, South Korea, and Australia, including the U of A. The U of A comprises two of the fifteen members of the GMTO Board of Directors, and is one of eleven founders and participants. The GMTO will hold all rights, title and interest to and in the telescope. Although the U of A does not have a defined equity interest, as a founder the U of A will receive viewing rights to the telescope in proportion to their voluntary contributions to the project.

Although no contributions were made during the current fiscal year, the U of A has contributed \$9.8 million to the GMTO as of June 30, 2013, and future contributions are expected. The U of A will also be responsible for manufacturing the telescope's mirrors and will receive compensation from other GMTO founders and participants based on individual contractual agreements. As of June 30, 2013, the U of A has received payment on eight contracts related to the project: \$24.3 million from Observatories of the Carnegie Institution of Washington for mirror construction and process development; \$10.2 million from the GMTO for mirror construction; \$6.9 million from the GMTO for acquisition of glass and mold materials; \$3.8 million from the GMTO for acquisition of glass; \$2.5 million from the Observatories of the Carnegie Institution of Washington to develop mirror testing systems; and \$371 thousand from the GMTO to develop mirror testing systems, \$66 thousand from GMTO for design study, and \$37 thousand from GMTO for engineering support.

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**NOTE 13. COMMITMENTS, CONTINGENCIES, AND COMPLIANCE**

**A. INSURANCE LOSSES**

The Department of Administration – Risk Management Division manages the State’s property, environmental, general liability, and workers’ compensation losses. The State has determined that the management of these losses can be performed effectively and efficiently through the Risk Management Division. Consequently, all agencies are required to participate in this program. The State’s Risk Management Division evaluates the proper mix of purchased commercial insurance and self-insurance annually.

The Commission’s Special Fund provides payment of workers’ compensation losses which are not covered by the State Compensation Fund, the Department of Administration – Risk Management Division, private insurance carriers, or self-insured employers. The workers’ compensation claims paid by the Special Fund encompass claims against uninsured or underinsured employers and insolvent insurance carriers and would include payments for vocational rehabilitation, medical conditions incurred prior to 1973, apportionment claims for pre-existing industrial and non-industrial related physical impairments, and compensation for loss of earnings associated with the disability.

The State records claims liability when the reported loss is probable and reasonably estimated. On an annual basis, independent actuarial firms are engaged to estimate the State’s total year-end outstanding claims liability, which takes into account recorded claims and related allocated claims adjustment expenditures, loss development factors, and an estimate for incurred but not reported claims. There were no non-incremental claims adjustment expenses included in the liability for claims and adjustments.

The management and payment of these losses is accomplished through the funding mechanism of the Risk Management Fund and the Special Fund. As discussed in the above paragraph, an independent annual actuarial analysis is performed to evaluate the needed funding. The Risk Management Division will assess each agency an annual portion of the necessary funding for the Risk Management Fund based on their exposures and prior loss experience. Investment earnings (including interest, dividends, and securities lending income) and assessments on gross premium revenues primarily fund the Special Fund. To provide funding for workers’ compensation claims, the Special Fund may direct payment to the State Treasurer an amount not to exceed 1.50% of all premiums received by the State Compensation Fund, private carriers, and self-insured plans during the immediately preceding calendar year. During calendar years 2004 through 2012, this 1.50% assessment was levied under ARS §23-1065(A) because of a deficit net position balance. In 2013, the rate was reduced to 1.25%.

AMI Risk Consultants, Inc. was retained to evaluate the medical and compensation related liabilities of the Special Fund as of June 30, 2013. The total estimated loss reserve of \$477.8 million increased by less than 2%, or \$8.9 million, over the prior year estimated loss reserve of \$468.9 million. There were no major shifts in any award categories. A confidence level of 80% was used in calculating medical and compensation related liabilities. A confidence level of 80% indicates a confidence that the estimated liability will be adequate to cover actual costs 80 out of 100 years. The reserves were discounted at an assumed rate of 1.69% for the compensation claims and zero percent for the medical claims. For medical benefits, it was assumed that the inflation in medical costs will equal the investment return earned by the Special Fund on those reserves.

The Special Fund levied the following assessment taxes for calendar year 2013: 1.25% assessment under ARS §23-1065(A), .50% assessment under ARS §23-966(D) based on insolvent carrier losses, and .50% assessment under ARS §23-1065(F), based on the total apportionment liability. The Special Fund has filed pending proof of claim requests with ancillary receivers and liquidators holding deposits and surety bonds of several insolvent companies. Since the actual amount that will ultimately be received cannot be determined, the Special Fund will continue to recognize receipt of insolvent carrier deposits (“settlement income”) as revenue at the time received rather than recording a receivable.

Occasionally, the Risk Management Division agrees with claimants to purchase an annuity contract to settle specific claims when it is determined that it is in the best interest of the State to do so. In these instances, the State obtains a release agreement from the claimant and transfers its obligation to make future periodic payments to an assignment company. The State requires a secondary guarantor which is obtained when the assignment company transfers the obligation to make the payments through the use of a qualified assignment (typically a life insurance company with an approved rating). As a result of these requirements, the likelihood that the State will be required to make future payments on these claims is remote.

There have been no significant reductions in the current fiscal year insurance coverage. There have been no settlements that have exceeded insurance premium coverage in the last three fiscal years.

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The following table presents the changes in claims liabilities balances (short- and long-term combined) during fiscal years ended June 30, 2012 and June 30, 2013 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2012	\$ 362,803	\$ 58,543	\$ 56,583	\$ 364,763
2013	364,763	80,719	49,867	395,615
Industrial Commission Special Fund:				
2012	413,740	78,366	23,173	468,933
2013	468,933	33,555	24,641	477,847

**B. LITIGATION**

In *Cave Creek Unified School District vs. State of Arizona*, plaintiffs claimed that ARS §15-901.01, which the voters had enacted by referendum and required the Legislature to appropriate funds to adjust school equalization assistance funding for inflation by increasing both the base level and the transportation components of the revenue control limit each fiscal year by a statutorily defined growth rate, had been violated with the Legislature’s fiscal year 2010-2011 K-12 education budget reconciliation bill because only the transportation component of the revenue control limit was increased. The plaintiffs further asserted that because the voters enacted ARS §15-901.01 by referendum, the bill also violated the Arizona Constitution’s Voter Protection Act (VPA) provisions, which prohibit the Legislature from eliminating voter-enacted measures and from altering them except as the VPA allows. The Trial Court denied the plaintiff’s application for declaratory judgment and injunctive relief and granted the State’s motion to dismiss the amended complaint for failure to state a claim for which relief could be granted. The Court of Appeals reversed the Trial Court’s decision. The State petitioned the Supreme Court for review, which it granted. The Supreme Court considered whether the voters could constitutionally impose a mandate on the Legislature to increase appropriations. The Supreme Court has found that the voters could impose restrictions on the Legislature’s discretion through voter-protected statutes and that the Legislature must fund, on a go-forward basis, all components of the base level ARS §15-901.01. Since the ruling, the plaintiffs have indicated that they plan to seek a remedy restoring prior years’ inflationary increases on remand. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, it is possible that the State could incur losses ranging from \$700.0 million to \$1.2 billion.

The State has a variety of claims pending against it that arose during the normal course of its activities. Management believes, based on advice of legal counsel, losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the State. All losses for any unsettled litigation or contingencies involving workers’ compensation, medical malpractice, construction and design, highway operations, employment practices, criminal justice, fidelity and surety, environmental property damage, general liability, environmental liability, building and contracts, auto liability, or auto physical damage are determined on an actuarial basis and included in the Accrued Insurance Losses of the internal service funds and the Industrial Commission Special Fund.

**C. ACCUMULATED SICK LEAVE**

Sick leave includes any approved period of paid absence granted an employee due to illness, injury, or disability. Most State employees accrue sick leave at the rate of eight hours per month without an accumulation limit. State employees are eligible to receive payment for an accumulated sick leave balance of at least 500 hours, with a maximum of 1,500 hours, upon retirement directly from State service. The benefit value is calculated by taking the State employee’s 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% for 500 hours to a maximum of 50% for 1,500 hours. The maximum benefit value is \$30 thousand. The benefit shall be paid either in a lump sum or in installments over a three-year period. The RASL Fund is accounted for in the financial statements as an internal service fund and accounts for the retiree accumulated sick leave liability of \$154.0 million at June 30, 2013.

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**D. UNCLAIMED PROPERTY**

The State of Arizona’s Uniform Unclaimed Property Act requires the deposit of certain unclaimed assets into a managed agency fund. A total of approximately \$1.0 billion (net of refunds issued) has been collected since the inception of the fund. The State is also holding securities valued at \$31.0 million and mutual funds valued at \$8.8 million. In accordance with ARS §44-313 and ARS §44-314, for fiscal year 2013, \$25.0 million was deposited in the Department of Revenue Administrative Fund, \$2.5 million was deposited in the Housing Trust Fund, \$2.0 million was deposited in the Seriously Mentally Ill Housing Trust Fund, \$60.9 million was deposited in the General Fund, and \$995 thousand was deposited in other funds as required by State statute. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The GASB requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. At June 30, 2013, \$338.6 million of this liability is reported in the General Fund because it is the fund to which the property ultimately escheats in Arizona.

**E. CONSTRUCTION COMMITMENTS**

The ADOT had outstanding commitments under construction contracts of \$558.5 million at June 30, 2013.

	(in thousands)	
	Expenditures to Date	Remaining Commitments
Construction contracts:		
Rural roadways	\$ 334,215	\$ 144,703
Small urban roadways	70,842	11,122
Urban roadways	267,163	109,264
Large urban roadways	271,416	51,515
General roadways	147,214	68,162
Sub-total	1,090,850	384,766
Design contracts	237,026	76,562
Other commitments	229,271	97,130
Total	\$ 1,557,147	\$ 558,458

**F. ARIZONA STATE LOTTERY**

Annuities are purchased for all prizes over \$400 thousand for which winners will receive the jackpot in annual installments for The Pick on-line game. These annuities are purchased from qualifying insurance companies which have the highest ratings from among A.M. Best Company, S & P, Moody’s, Duff & Phelps, or Weiss. The Lottery may incur future liabilities on these annuities. Aggregate future payments to prize winners on existing annuities totaled \$48.8 million at June 30, 2013. Approximately \$41.5 million of the total aggregate future payments at June 30, 2013 relate to annuities purchased from five separate insurance companies, of which approximately \$13.0 million relates to a single insurance company.

**NOTE 14. TOBACCO SETTLEMENT**

The State is one of many states participating in the settlement of litigation with the tobacco industry over the reimbursement of healthcare costs. The settlement money is intended to compensate the State for costs it has incurred in providing health and other services to its citizens that were necessitated by the use of tobacco products. The State expects to receive settlement payments through 2025.

The State recorded tobacco settlement revenue of \$149.1 million in the fund statements and the government-wide statements in fiscal year 2013. Future settlement payments are subject to several adjustments, but the amounts are not presently determinable. These adjustments include a volume adjustment, which could reflect any decreasing cigarette production under a formula that also takes into account increased operating income from sales. Other factors that might affect the amounts of future payments include ongoing and future litigation against the tobacco industry and the future financial health of the tobacco manufacturers. Because the net realizable value of the future settlement payments is not measurable and there is no obligation for the tobacco

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companies to make settlement payments until cigarettes are shipped, the State did not record a receivable for the future payments related to cigarette sales after June 30, 2013.

**NOTE 15. SUBSEQUENT EVENTS**

The Department of Economic Security issued State of Arizona Unemployment Insurance Tax Anticipation Notes, Series 2013A and Series 2013B in order to repay the outstanding Title XII loan balance. On September 26, 2013, the amount of \$201.2 million was deposited to the Unemployment Compensation Fund, and \$140.2 million of the loan balance was paid off. On September 27, 2013, the amount of \$2.2 million was paid to the Bank of New York Mellon for the note-related expenses. The balance remains in the Unemployment Compensation Fund to provide payment of unemployment benefits during the fiscal year 2014 until unemployment insurance tax receipts are sufficient to cover benefit payments. The short-term notes of eight month duration will be paid from unemployment insurance taxes collected in the fiscal year 2014.

On December 19, 2013, the SFB issued Refunding Certificates of Participation Series 2013A-1 (2013A-1 COPs) for \$30.0 million and Refunding Certificates of Participation Series 2013A-2 (2013A-2 COPs) for \$50.0 million. The proceeds of the 2013A-1 COPs and the 2013A-2 COPs will be used to: (i) refund, in advance of maturity, portions of the outstanding principal balances of the Series 2003B COPs, the Series 2004A COPs, the Series 2004B COPs, and the Series 2004C COPs, and (ii) pay costs of issuance. Under the terms of the refunding COP issues, sufficient assets to pay all principal and interest on the refunded COP 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.

**NOTE 16. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES**

The accounting policies of the State's component units conform to U.S. GAAP applicable to governmental units adopted by the GASB, except for those component units affiliated with the State's Universities. Because the component units affiliated with the Universities are not governmental entities, they follow FASB statements for not-for-profit organizations for financial reporting purposes. Each component unit has a June 30 year-end.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Measurement Focus and Basis of Accounting**

The State's component units and component units affiliated with the Universities are presented using the economic resources measurement focus and the accrual basis of accounting.

**2. Net Assets**

Component units affiliated with the Universities classify net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the component units affiliated with the Universities and changes therein are classified and reported as follows:

- i *Unrestricted net assets* include assets and contributions that are not restricted by donors or for which such restrictions have expired.
- i *Temporarily restricted net assets* include contributions for which donor imposed restrictions have not been met (either by the passage of time or by actions of the Foundations), charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. Donor-restricted contributions are classified as temporarily restricted even if the restrictions are satisfied in the same reporting period in which the contributions are received.
- i *Permanently restricted net assets* include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity and only the board-approved payout be made available for program operations in accordance with donor restrictions.

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**3. Cash and Cash Equivalents**

Cash and cash equivalents includes monies held in certificates of deposit, overnight money market accounts, and U.S. Government or U.S. Treasury money market funds with original maturities of three months or less. Cash equivalents are stated at cost, which approximates fair value.

**4. Investments**

The fair values of publicly traded securities are based on quoted market prices and exchange rates, if applicable. Absolute return limited partnership interests are recorded at fair value based on quoted market prices (where the underlying investment is a mutual fund) or as determined by the fund manager based on the net asset value. Purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using the average cost for securities sold. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Investment income or loss comprises the sum of realized and unrealized gains and losses on investments and interest and dividends, less an investment management fee.

In addition, investments include Universities' endowment funds totaling \$294.9 million managed by the Foundations. These funds are primarily held in pooled endowment funds managed for the Universities under service contracts with the Foundations and invested in the Foundations' endowment pools.

**5. Income Taxes**

The Universities-affiliated component units qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, except for the ACFFC and, accordingly, there is no provision for income taxes in the accompanying financial statements. In addition, they qualify for the charitable contribution deduction and have been classified as organizations that are not private foundations. Any unrelated business income would be taxable. The ACFFC is exempt from taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code. The ACFFC does not qualify for the charitable contribution deduction.

**6. Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

**7. Net Assets Released from Restriction**

The major Universities-affiliated component units' expenses are not incurred in the temporarily restricted or permanently restricted net asset categories. As the restrictions on these net assets are met, the net assets are reclassified to unrestricted net assets. The total net assets reclassified are reported as net assets released from restriction in the accompanying Statement of Activities.

**8. Use of Estimates**

The preparation of the Universities-affiliated component units' financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**B. DEPOSITS AND INVESTMENTS**

**1. Component Units**

**a. Deposits and Investment Policies**

The investments of the WIFA are stated at fair value, except guaranteed investment contracts, which are stated at cost since they are non-participating contracts. The investments of the UAHN are stated at fair value.

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**b. Custodial Credit Risk - Deposits and Investments**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from the outside party. The WIFA and the UAHN do not have a formal policy regarding custodial credit risk for deposits.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The WIFA and the UAHN do not have a formal policy regarding custodial credit risk for investments. The investments of the UAHN are uninsured and held by brokers in the UAHN's name.

**c. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The WIFA does not have a formal policy regarding interest rate risk. The following table presents the interest rate risk for the WIFA utilizing the segmented time distribution method as of June 30, 2013 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Guaranteed investment contracts	\$ 80,105	\$ 38,477	\$ 2,109	\$ -	\$ 39,519
Money market mutual funds	1,612	1,612	-	-	-
U.S. agency securities	34,871	-	24,802	-	10,069
U.S. Treasury securities	8,539	8,370	135	34	-
Total	\$ 125,127	\$ 48,459	\$ 27,046	\$ 34	\$ 49,588

The UAHN's investment policy limits the portfolio duration related to debt securities to the Lehman Brothers Intermediate Government/Credit Index. This is an index based on all publicly issued intermediate government and corporate debt securities with average maturities of four to five years. The following table presents the estimated maturities of the UAHN's investments, utilizing the segmented time distribution method as of June 30, 2013 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Commercial paper	\$ 4,013	\$ 4,013	\$ -	\$ -	\$ -
Global fixed income debt securities	1,394	40	595	759	-
Money market mutual funds	25,865	25,865	-	-	-
U.S. fixed income debt securities	31,599	1,372	10,427	4,461	15,339
U.S. Treasury securities	10,547	10,547	-	-	-
Total	\$ 73,418	\$ 41,837	\$ 11,022	\$ 5,220	\$ 15,339

**d. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. The WIFA does not have a formal policy regarding credit risk but their investments are in accordance with the master bond indenture. The following table presents the WIFA's investments which were rated by S & P and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2013 (expressed in thousands):

Investment Type	Fair Value	AAA	AA	Not Rated
Guaranteed investment contracts	\$ 80,105	\$ 40,586	\$ 39,519	\$ -
Money market mutual funds	1,612	-	-	1,612
U.S. agency securities	34,871	-	34,871	-
Total	\$ 116,588	\$ 40,586	\$ 74,390	\$ 1,612

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The UAHN's investment in fixed income securities is limited to investment grade securities with a credit rating of BBB, or equivalent, or better. The following table presents the UAHN's investments which were rated by S & P and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2013 (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	A-1	Not Rated
Commercial paper	\$ 4,013	\$ -	\$ -	\$ -	\$ -	\$ 4,013	\$ -
Global fixed income debt securities	1,394	331	616	332	114	-	1
Money market mutual funds	25,865	-	-	-	-	-	25,865
U.S. fixed income debt securities	31,599	6,502	15,781	7,103	2,196	-	17
Total	\$ 62,871	\$ 6,833	\$ 16,397	\$ 7,435	\$ 2,310	\$ 4,013	\$ 25,883

**e. Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The WIFA's investment policy contains no limitations on the amount that can be invested in any one issuer. At June 30, 2013, investments in any one issuer, that were more than 5% of the WIFA's total investments, are as follows: (i) Bayerische Landesbank (fair value of \$40.6 million, or 12.9%), (ii) Royal Bank of Canada (fair value of \$31.4 million, or 10.0%), and (iii) Federal Home Loan (fair value of \$34.9 million, or 11.1%).

**2. Universities-Affiliated Component Units**

Investments of the Universities-affiliated component units include the following amounts at June 30, 2013. Investments are stated at fair value (expressed in thousands):

	ASU Foundation	U of A Foundation	NAU Foundation
Money market funds and cash equivalents	\$ 52,541	\$ -	\$ 348
Domestic/international equity securities and mutual funds	458,751	226,559	77,838
Fixed income	101,269	128,520	26,084
Absolute return limited partnerships and funds	-	186,658	-
Other investments	65,394	115,261	-
Total Investments	\$ 677,955	\$ 656,998	\$ 104,270

**C. PROGRAM LOANS**

The WIFA has made loans to local governments and others in Arizona to finance various projects pursuant to the requirements of the Clean Water and Safe Drinking Water Acts. The loans are generally payable in semi-annual installments due January 1 and July 1 of each year, including interest. However, several loans are payable monthly or quarterly. Changes in the program loans during fiscal year 2013 are as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Clean Water Fund	\$ 797,443	\$ 23,343	\$ (51,689)	\$ 769,097
Drinking Water Fund	332,772	37,564	(24,121)	346,215
Total	\$ 1,130,215	\$ 60,907	\$ (75,810)	\$ 1,115,312

Repayment of these loans will be made from pledged property taxes, net revenues from the systems, transaction privilege taxes, or from special assessments. Most loans have a .30% to 3.00% annual administrative fee.

Some program loans require a monthly or quarterly payment into a debt service reserve to assure payments of the loans. The debt service reserve is a liability of the WIFA to the borrowers and interest on the reserve accrues to the borrowers. As of June 30, 2013, the debt service reserve was \$303 thousand and \$2.2 million for the Clean Water and Drinking Water funds, respectively, and no allowance for loan loss was recorded.

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**D. PLEDGES RECEIVABLE**

Pledges receivable (unconditional promises to give) are recorded at their net realizable value, which is net of a discount and loss allowance. The ASU Foundation’s pledges are discounted using the applicable risk free rate at the date the pledge was recognized. The discount rates range from 1.20% to 10.90%. An allowance for uncollectible pledges is estimated based on the ASU Foundation’s collection history and is recorded as a reduction to contribution support and revenue and an increase in the allowance for uncollectible pledges.

Pledges receivable, as of June 30, 2013, include the following (expressed in thousands):

	ASU Foundation
Gross pledges receivable	\$ 170,455
Present value discount	(12,094)
Allowance for uncollectible pledges	(40,580)
Net Pledges Receivable	<u>\$ 117,781</u>

**E. DIRECT FINANCING LEASE AGREEMENTS**

**1. ASU Foundation**

The ASU Foundation leases a portion of the Fulton Center building (the ASU Foundation's headquarters) to the ASU under a direct financing lease. At the end of lease, the ASU Foundation and affiliates will gift their portion of the building to the ASU and the ASU will receive title to the building. The ASU Foundation's net investment in this direct financing lease at June 30, 2013 is \$25.0 million.

**2. ACFFC**

Pursuant to a Sublease Agreement, dated April 7, 2004 and amended on April 1, 2009 (the Sublease), Nanotechnology Research, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the Research Park to the ASU. The ASU will make lease payments at times in amounts sufficient to pay all principal and interest on the Series 2009A and 2009B Bonds. The Sublease has successive annual renewals without action from either party through the period ending March 31, 2034. The Sublease is subject to early termination by Nanotechnology or the ASU upon the payment in full of the Series 2009A and 2009B Bonds. Upon termination or expiration of the Sublease, the ACFFC's interest in the premises, including all buildings and improvements on the leased premises, transfers to the ASU without further consideration. ACFFC's net investment in the Nanotechnology facility direct financing lease is \$31.8 million at June 30, 2013.

Pursuant to the ASU Lease Agreement, dated July 1, 2005, McAllister Academic Village, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the non-residential portion of Hassayampa Academic Village (Hassayampa, HAV) to the ASU which consists of the academic, tutorial, retail, and food service facilities. The lease was amended effective September 1, 2008 to change the annual renewal period through June 30, 2039 to correspond with the maturity of the Hassayampa 2008 Bonds. Any right, title, or interest of Hassayampa in and to the academic portions of the Hassayampa project will pass to the ASU without further cost upon payment in full of the Hassayampa 2008 Bonds. Lease payments are based on the fixed interest rates determined by the Hassayampa 2008 Bonds maturity schedule. ACFFC's net investment in the McAllister (HAV) direct financing lease is \$12.2 million at June 30, 2013.

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**F. CAPITAL ASSETS**

Capital asset activity for the UAHN for the fiscal year ended June 30, 2013 was as follows (expressed in thousands):

	University of Arizona Health Network and Subsidiaries				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Non-depreciable capital assets:					
Land	\$ 14,671	\$ -	\$ (55)	\$ 203	\$ 14,819
Construction in progress	21,859	56,512	-	(34,429)	43,942
Total Non-depreciable Capital Assets	36,530	56,512	(55)	(34,226)	58,761
Depreciable capital assets:					
Buildings	443,676	589	-	11,191	455,456
Improvements other than buildings	1,285	-	-	(75)	1,210
Equipment	289,041	2,856	(135)	23,110	314,872
Total Depreciable Capital Assets	734,002	3,445	(135)	34,226	771,538
Less accumulated depreciation for:					
Buildings	(169,839)	(16,022)	(8)	-	(185,869)
Improvements other than buildings	(644)	(353)	-	-	(997)
Equipment	(214,488)	(22,604)	133	-	(236,959)
Total Accumulated Depreciation	(384,971)	(38,979)	125	-	(423,825)
Total Depreciable Capital Assets, Net	349,031	(35,534)	(10)	34,226	347,713
Total UAHN Capital Assets, Net	\$ 385,561	\$ 20,978	\$ (65)	\$ -	\$ 406,474

Capital assets for the Universities-affiliated component units for the fiscal year ended June 30, 2013 include the following (expressed in thousands):

	ACFFC	U of A Campus Research Corporation	Downtown Phoenix Student Housing
Buildings and improvements	\$ 185,011	\$ 19,831	\$ 114,042
Furniture, fixtures, and equipment	80,586	5,668	10,420
Total cost or donated value	265,597	25,499	124,462
Less: Accumulated Depreciation	(78,042)	(7,580)	(21,770)
Total Property and Equipment, Net	\$ 187,555	\$ 17,919	\$ 102,692

**G. LONG-TERM OBLIGATIONS**

**1. Component Units**

**a. Water Infrastructure Finance Authority**

The WIFA's bonds are callable and interest is payable semiannually. The bonds are special obligations of the WIFA payable solely from and secured by the WIFA's assets. The bonds are not obligations, general, specific, or otherwise, of the State or any other political subdivision, thereof, other than the WIFA.

In prior fiscal years, the WIFA refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. The amount outstanding on the refunded bonds for the WIFA at June 30, 2013 totaled \$282.9 million.

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During fiscal year 2013, bond issuance costs and discounts, bond issuance premiums, and deferred losses on refunding of bonds were amortized on a straight-line basis based on the term of the underlying bonds payable. Amortization expense as of June 30, 2013 for bond issuance costs and discounts, bond issuance premiums, and deferred losses on refunding of bonds was \$362 thousand, \$6.6 million, and \$4.1 million, respectively.

**b. University of Arizona Health Network and Subsidiaries**

The UMC is subject to certain financial covenants under the Master Trust Indenture (the Indenture). In addition, the Indenture places certain restrictions on the incurrence of additional indebtedness and the sale or acquisition of property. The UMC is the only member of the obligated group responsible for the public debt offerings by the UMC.

The UPH is also subject to certain financial and nonfinancial covenants under its bond agreements.

The UAHN has established and maintains separate funds as a bond reserve fund on outstanding bonds payable. These funds, which totaled \$22.8 million at June 30, 2013, are held by the trustee and are reflected as restricted investments held by trustee in the accompanying financial statements.

The bonds or other obligations of the UAHN do not constitute general obligations of the ABOR, the U of A, the State, or any political subdivision thereof.

**Summary of Revenue Bonds**

The following schedule summarizes revenue bonds outstanding at June 30, 2013 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2013
Component Units:				
Water Infrastructure Finance Authority	2004-2012	2014-2031	.2-5.00%	\$ 863,900
University of Arizona Health Network and Subsidiaries	2004-2012	2014-2040	4.08-6.48%	310,128

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2013 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service			Fiscal Year	Annual Debt Service		
	Water Infrastructure Finance Authority				University of Arizona Health Network and Subsidiaries		
	Principal	Interest	Total		Principal	Interest	Total
2014	\$ 45,150	\$ 38,815	\$ 83,965	2014	\$ 6,228	\$ 16,478	\$ 22,706
2015	46,495	34,830	81,325	2015	6,095	16,208	22,303
2016	49,990	34,696	84,686	2016	6,405	15,911	22,316
2017	49,110	32,881	81,991	2017	6,745	15,644	22,389
2018	52,300	31,077	83,377	2018	7,100	16,034	23,134
2019-2023	285,390	116,770	402,160	2019-2023	42,170	71,376	113,546
2024-2028	254,015	49,176	303,191	2024-2028	54,870	58,792	113,662
2029-2031	81,450	5,058	86,508	2029-2033	70,800	43,949	114,749
Total	\$ 863,900	\$ 343,303	\$ 1,207,203	2034-2038	79,135	20,676	99,811
				2039-2040	30,580	1,909	32,489
				Total	\$ 310,128	\$ 276,977	\$ 587,105

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**c. Changes in Long-Term Obligations**

The following is a summary of changes in long-term obligations for the component units (expressed in thousands):

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Due Within One Year	Due Thereafter
<b>Water Infrastructure Finance Authority:</b>						
Long-term Debt:						
Revenue bonds	\$ 910,370	\$ -	\$ (46,470)	\$ 863,900	\$ 45,150	\$ 818,750
Revenue bond premium	87,632	-	(6,561)	81,071	-	81,071
Deferred amounts, net	(33,538)	-	4,118	(29,420)	-	(29,420)
<b>Total Long-term Debt</b>	<b>964,464</b>	<b>-</b>	<b>(48,913)</b>	<b>915,551</b>	<b>45,150</b>	<b>870,401</b>
Other Long-term Liabilities:						
Compensated absences	88	82	(77)	93	93	-
<b>Total Other Long-term Liabilities</b>	<b>88</b>	<b>82</b>	<b>(77)</b>	<b>93</b>	<b>93</b>	<b>-</b>
<b>Total Long-term Obligations</b>	<b>\$ 964,552</b>	<b>\$ 82</b>	<b>\$ (48,990)</b>	<b>\$ 915,644</b>	<b>\$ 45,243</b>	<b>\$ 870,401</b>
<b>University of Arizona Health Network and Subsidiaries:</b>						
Long-term Debt:						
Revenue bonds	\$ 326,468	\$ -	\$ (16,340)	\$ 310,128	\$ 6,228	\$ 303,900
Revenue bond premium and discount	(2,003)	-	(198)	(2,201)	-	(2,201)
Notes payable	704	9,440	(407)	9,737	872	8,865
Capital leases	2,510	-	(1,870)	640	640	-
Line of credit	13,950	18,250	(12,466)	19,734	19,733	1
<b>Total Long-term Debt</b>	<b>341,629</b>	<b>27,690</b>	<b>(31,281)</b>	<b>338,038</b>	<b>27,473</b>	<b>310,565</b>
Other Long-term Liabilities:						
Compensated absences	28,577	31,350	(32,011)	27,916	24,404	3,512
Other	2,455	613	(2,787)	281	-	281
<b>Total Other Long-term Liabilities</b>	<b>31,032</b>	<b>31,963</b>	<b>(34,798)</b>	<b>28,197</b>	<b>24,404</b>	<b>3,793</b>
<b>Total Long-term Obligations</b>	<b>\$ 372,661</b>	<b>\$ 59,653</b>	<b>\$ (66,079)</b>	<b>\$ 366,235</b>	<b>\$ 51,877</b>	<b>\$ 314,358</b>

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**2. Universities-Affiliated Component Units**

A summary of bonds payable as of June 30, 2013 include the following (expressed in thousands):

	<u>Final Maturity</u>	<u>Amount</u>
ASU Foundation:		
Series 2004A Variable Rate Revenue Bonds	2034	\$ 22,420
Series 2004B Variable Rate Revenue Bonds	2022	8,120
Series 2003 Lease Revenue Bonds	2034	43,395
ACFFC:		
Series 2011 Tax-Exempt Revenue Refunding Bonds	2018	15,785
Series 2009 Revenue Bonds	2024	36,795
Series 2009A Lease Revenue Refunding Bonds	2034	22,955
Series 2009B Lease Revenue Refunding Bonds	2022	9,165
Series 2008 Revenue Bonds	2028	14,620
Series 2008 Revenue Refunding Bonds	2039	143,135
Series 2008 Variable Rate Demand Revenue Refunding Bonds	2030	38,495
Series 2005 Tax-Exempt Refunding Bonds	2035	15,735
Deferred Cost of Refunding		(374)
Unamortized Bond Premium		2,666
Downtown Phoenix Student Housing:		
Series 2007A&C Revenue Bonds	2042	118,570
Series 2007D Tax-Exempt Revenue Bonds	2042	22,700
Unamortized Bond Discount		(1,099)

Scheduled future maturities of Universities-affiliated component units' bonds payable are as follows (expressed in thousands):

<u>Fiscal Year</u>	<u>ASU Foundation</u>	<u>ACFFC</u>	<u>Downtown Phoenix Student Housing</u>
2014	\$ 1,835	\$ 8,660	\$ 430
2015	1,940	9,300	610
2016	2,035	9,865	810
2017	2,140	10,555	1,025
2018	2,245	11,275	1,245
Thereafter	63,740	249,322	136,051
Total	<u>\$ 73,935</u>	<u>\$ 298,977</u>	<u>\$ 140,171</u>

**H. NET ASSETS TRANSFER**

During 2012, the ASU and Collegiate Golf Foundation agreed to terminate the existing land lease. Upon termination on September 30, 2011, Collegiate Golf Foundation transferred all property and equipment to the ASU. The ASU and Collegiate Golf Foundation entered into a licensing agreement commencing October 1, 2011 and expiring on June 30, 2012, granting Collegiate Golf Foundation access to the premises and the improvements on such premises for the purpose of operating, managing, and maintaining the Karsten Golf Course at the ASU. Collegiate Golf Foundation transferred all remaining assets and liabilities to the ASU as of July 1, 2012.

**I. CONDUIT DEBT**

The purpose of the GADA is to provide cost-effective capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The GADA's bond structure allows it to lower borrowing costs for Arizona's communities by issuing and selling bonds tax-exempt and by sharing financing costs among several borrowers. Principal and interest are payable semi-annually. Loans are secured by the Pledged Collateral Reserve Fund, a requirement that is calculated

STATE OF ARIZONA  
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and deposited by the GADA from the GADA Fund, which is held by the State Treasurer. Some borrowers also have separate, additional reserve funds, which are held by the Trustee. An intercept mechanism of state-shared revenues for political subdivisions enhances the security of the GADA bonds.

In previous years, the State appropriated a total of \$20.0 million to the GADA for the express purpose of securing bonds issued by the GADA. Although issued in the name of the GADA, loans funded through the GADA bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to ARS §41-2259, the GADA's bonds do not constitute nor create a general, special, or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the *restricted* net position of \$10.5 million in the Pledged Collateral Reserve Fund. At June 30, 2013, the total outstanding face value of all bonds issued by the GADA was \$433.3 million.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION**

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>ADMINISTRATION, ARIZONA DEPARTMENT OF</b>			
500 BED MAXIMUM SECURITY	\$ 20,000,000	\$ 20,000,000	\$ 1,057,249
ADMINISTRATIVE ADJUSTMENTS	-	1,426,708	1,426,708
AUTOMATION PROJECTS GF	16,800,000	16,800,000	16,800,000
AUTOMATION PROJECTS INFO TECHNOLOGY	1,500,000	1,500,000	1,500,000
AUTOMATION PROJECTS WEB PORTAL	5,600,000	5,600,000	5,344,080
BUILDING RENEWAL FY09-10	3,609	3,609	2,921
BUILDING RENEWAL FY10-11	809,069	809,069	793,500
BUILDING RENEWAL FY11-12	5,476,906	5,476,906	4,333,990
BUILDING RENEWAL FY12-13	10,372,600	10,372,600	1,714,984
CAPITOL MALL FIRE SYSTEM REPLACE FY08-09	15,731	15,731	8,967
COP DEBT SERVICE 2009 3RD SS CH 6 SEC 32	60,107,500	60,107,500	60,107,500
COP DEBT SERVICE 2009 6TH SS CH 4 SEC 2A	24,012,300	24,012,300	24,012,300
CORRECTIONS BUILDING RENEWAL FY11-12	1,966,892	1,630,500	-
COUNTY ATTORNEYS IMMIGRATION ENFORCEMENT FY11-12	1,213,200	1,213,200	1,152,219
DEPARTMENT OF LAW PRO-RATA ADJUSTMENTS	(3,987,800)	-	-
DJC HVAC AND ELECTRICAL RENOVATIONS	187,877	187,877	-
HB1464 PERSONNEL REFORM FY98-99	273,045	273,045	-
HRIS CERTIFICATE OF PARTICIPATION	3,319,600	3,319,600	3,319,600
INSURANCE PREMIUM HOLIDAY ADJUSTMENTS	(25,000,000)	(5,618,500)	-
LEASE-PURCHASE AND RENTAL RATES ADJUSTMENTS	259,400	3,700	-
OPERATING LUMP SUM APPROPRIATION	34,398,500	33,032,100	31,037,439
OPERATING LUMP SUM APPROPRIATION - ST BD	211,600	216,900	203,920
PERSONNEL SYSTEM SUPPLEMENTAL	2,000,000	2,000,000	1,771,021
PUBLIC SAFETY COMMUNICATIONS	527,200	542,700	455,923
RELIEF BILL CASH TRANSFER FY13	-	44,372	44,372
RELOCATION FY99-00	4,877	4,877	357
RELOCATION FY00-01	55,301	55,301	-
RELOCATION FY01-02	59,026	59,026	-
RELOCATION FY02-03	58,149	58,149	-
RETENTION PAYMENTS ADJUSTMENTS	16,633,400	185,800	-
RETIREMENT CONTRIBUTION RATE ADJUSTMENTS	9,202,800	4,100	-
RETIREMENT RATE ADJUSTMENTS	6,602,900	7,600	-
REV PERSONNEL ST SURPLUS PROP SPEC SVCS	-	878,021	878,021
STATE SURPLUS PROPERTY SALES PROCEEDS	1,260,000	1,585,000	1,444,857
STATEWIDE INFO SECURITY AND PRIVACY OFC	853,100	867,300	690,533
UTILITIES	8,275,600	8,275,600	7,892,504
WHITE MOUNTAIN APACHE TRIBES WATER RIGHT	2,000,000	2,000,000	-
<b>ADMINISTRATIVE HEARINGS, OFFICE OF</b>			
OPERATING LUMP SUM APPROPRIATION	825,600	841,100	841,100
<b>AGRICULTURE, ARIZONA DEPARTMENT OF</b>			
AGRICULTURAL EMPLOYMENT RELATIONS BOARD	23,300	23,300	23,300
AGRICULTURE CONSULTING AND TRAINING PARI-MUTUEL	128,500	128,500	128,500
ANIMAL DAMAGE CONTROL	65,000	65,000	65,000
OFFSITE NUCLEAR EMERGENCY RESPONSE PLANS	-	92,113	92,113
OPERATING LUMP SUM APPROPRIATION	7,577,300	7,699,900	7,686,123
RED IMPORTED FIRE ANT	23,200	23,200	23,200
<b>AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM</b>			
ADMINISTRATIVE ADJUSTMENTS	-	29,643,324	29,643,324
ALTCS SERVICES	1,177,910,000	1,177,910,000	1,136,911,236
CHILDREN'S REHABILITATIVE SERVICES	128,599,100	127,941,500	114,787,808
CHIP - SERVICES	21,622,300	21,622,300	18,575,336
DES ELIGIBILITY	53,661,700	75,824,239	60,941,141
DISPROPORTIONATE SHARE PAYMENTS	13,487,100	13,487,100	4,202,300
DSH - VOLUNTARY	28,457,100	77,248,900	49,272,989
GRADUATE MEDICAL EDUCATION	90,977,300	169,735,319	166,469,246
NEW AND EXPANDED GRADUATE MED ED PRG FY06-07	5,453,359	5,453,359	-
OPERATING LUMP SUM APPROPRIATION	75,619,400	84,933,300	79,371,053
PROP 204 AHCCCS ADMINISTRATION	6,620,400	9,556,300	9,200,999

The Notes to Required Supplementary Information are an integral part of this schedule.

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 REQUIRED SUPPLEMENTARY INFORMATION  
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 GENERAL FUND  
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
PROP 204 DES ELIGIBILITY	37,716,400	33,945,700	17,854,586
PROPOSITION 204 SERVICES	1,147,391,800	1,147,895,406	1,093,829,542
RURAL HOSPITAL REIMBURSEMENT	13,858,100	13,858,100	13,008,100
TRADITIONAL MEDICAID SERVICES	3,382,591,300	3,354,331,055	3,185,116,652
<b>ARIZONA STATE UNIVERSITY</b>			
BIOMEDICAL INFORMATICS	1,955,200	1,955,200	1,955,200
DOWNTOWN PHOENIX CAMPUS	15,535,800	22,200,800	22,200,800
OPERATING LUMP SUM APPROPRIATION-EAST	12,253,300	17,990,300	17,990,300
OPERATING LUMP SUM APPROPRIATION-MAIN	139,906,500	207,802,000	207,802,000
OPERATING LUMP SUM APPROPRIATION-WEST	22,823,100	32,862,200	32,862,200
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT	-	13,555,000	13,555,000
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT-POLY	-	917,000	917,000
<b>ATTORNEY GENERAL - DEPARTMENT OF LAW</b>			
ADMINISTRATIVE ADJUSTMENTS	-	44,392	44,392
LEGAL ARIZONA WORKERS ACT FY07-08	100,000	100,000	-
MILITARY INSTALLATION/PLANNING FY11-12	206	85,206	84,684
OPERATING LUMP SUM APPROPRIATION	36,870,800	38,667,300	37,794,953
STATE GRAND JURY	176,800	176,800	176,658
<b>AUDITOR GENERAL</b>			
OPERATING LUMP SUM APPROPRIATION	20,202,793	20,608,393	15,189,476
OPERATING LUMP SUM APPROPRIATION FY10-11	1,326,997	1,326,997	901,457
<b>CAPITAL POSTCONVICTION PUBLIC DEFENDER OFFICE, STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	4,412	4,412
<b>CHARTER SCHOOLS, STATE BOARD FOR</b>			
ADMINISTRATIVE ADJUSTMENTS	-	10,385	10,385
OPERATING LUMP SUM APPROPRIATION	750,600	760,300	753,471
<b>CORPORATION COMMISSION</b>			
OPERATING LUMP SUM APPROPRIATION	636,300	651,100	650,496
RAILROAD WARNING SYSTEMS FY00-01	47,510	47,510	-
<b>CORRECTIONS, STATE DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	8,811,236	8,811,236
BUILDING RENEWAL FUND EXPENDITURES	6,543,486	6,879,878	4,141,339
OPERATING LUMP SUM APPROPRIATION	750,670,968	750,860,268	745,267,929
PRIVATE PRISON PER DIEM	4,210,586	4,210,586	4,186,323
TEMPORARY TRANSACTION PRIVILEGE & USE TAX	200,261,546	200,261,546	200,261,546
<b>COURT OF APPEALS DIVISION I</b>			
ADMINISTRATIVE ADJUSTMENTS	-	1,052	1,052
OPERATING LUMP SUM APPROPRIATION - DIVISION I	9,591,200	9,745,000	9,700,325
<b>COURT OF APPEALS DIVISION II</b>			
OPERATING LUMP SUM APPROPRIATION - DIVISION II	4,195,100	4,223,900	4,223,828
<b>DEAF AND BLIND, ARIZONA SCHOOLS FOR THE</b>			
ADMINISTRATION STATEWIDE	3,587,000	4,599,727	4,470,358
ADMINISTRATIVE ADJUSTMENTS	-	1,763,474	1,763,474
PHOENIX DAY SCHOOL FOR THE DEAF	3,375,100	3,291,654	2,813,018
PRESCHOOL AND OUTREACH PROGRAMS	2,277,400	1,705,542	1,593,158
REGIONAL COOPERATIVES	797,500	807,890	785,143
SCHOOL BUS REPLACEMENT	738,000	738,000	716,469
TUCSON CAMPUS	9,911,300	9,918,987	9,399,835
<b>ECONOMIC SECURITY, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	127,019,459	127,019,459
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	315,700,500	320,097,400	290,655,344
ATTORNEY GENERAL LEGAL SERVICES	21,922,800	22,337,900	19,942,669
CASE MANAGEMENT-TITLE XIX	49,143,800	57,200,000	51,111,876
CHILDREN SUPPORT SERVICES	67,408,500	81,882,000	73,873,826
CPS EMERGENCY AND RESIDENTIAL PLACEMENT	22,201,700	38,301,700	33,146,600
DACS ADULT SERVICES	6,924,100	7,924,100	7,489,664
DACS COMMUNITY AND EMERGENCY SERVICES	3,724,000	3,724,000	3,014,930
DACS COORDINATED HOMELESS PROGRAM	2,522,600	2,522,600	2,356,890
DACS COORDINATED HUNGER PROGRAM	1,754,600	1,754,600	1,635,853

The Notes to Required Supplementary Information are an integral part of this schedule.

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STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DACS DOMESTIC VIOLENCE PREVENTION	9,903,700	9,903,700	9,019,261
DAY CARE SUBSIDY	121,396,600	119,396,600	90,305,000
DBME TANF CASH BENEFITS	44,999,400	47,599,400	46,531,731
DBME TRIBAL PASS-THRU FUNDING	4,680,300	4,680,300	4,680,300
DCSE COUNTY PARTICIPATION	8,600,200	8,600,200	6,049,328
DCYF ADOPTION SERVICES (DCFS)	48,071,700	47,671,700	47,053,028
DCYF ADOPTION SERVICES FAMILY PRESERV FY05-06	1,000,000	1,000,000	-
DCYF ADOPTION SERVICES TANF	19,802,400	26,700,300	26,700,300
DCYF FOSTER CARE PLACEMENT TANF-SSBG	4,398,300	4,398,300	4,398,300
DCYF FOSTER CARE PLACEMENT-GF	10,239,500	11,839,500	11,768,955
DCYF FOSTER CARE PLACEMENT-TANF	6,574,800	6,574,800	2,450,407
DCYF INDEPENDENT LIVING MAINT	2,719,300	1,669,300	1,669,300
DCYF PERMANENT GUARDIANSHIP SUBSIDY	11,215,300	11,365,300	10,464,237
DDD CASE MANAGEMENT-STATE ONLY	3,846,000	2,846,000	671,000
DDD HOME AND COMMUNITY BASED SERVICES STATE ONLY	32,615,300	18,515,300	9,359,613
DDD STATE FUNDED LTC SERVICES	26,528,100	29,428,100	23,210,259
DERS JOBS	2,000,000	2,000,000	-
HOME AND COMMUNITY BASED SERVICES-TITLE XIX	873,088,392	842,002,392	761,620,554
INDEPENDENT LIVING REHABILITATION SVCS	166,000	116,000	116,000
INSTITUTIONAL SERVICES-TITLE XIX	24,698,300	26,969,900	22,104,345
JOBS	9,894,700	9,894,700	9,894,700
LTC ARIZONA TRAINING PROGRAM AT COOLIDGE	20,325,700	24,083,900	19,167,968
LTC MEDICAL SERVICES	177,494,400	166,494,400	157,340,979
MEDICAL CLAWBACK	-	2,848,400	2,848,400
REHABILITATION SERVICES	3,594,400	2,294,400	2,294,400
SPECIAL SUPPLEMENTAL APPROPRIATION	55,000,000	55,000,000	55,000,000
TEMPORARY TRANSACTION PRIVILEGE & USE TAX	46,651,308	46,651,308	46,651,308
WORKFORCE INVESTMENT ACT SERVICES	57,154,600	57,154,600	48,964,085
<b>EDUCATION, DEPARTMENT OF</b>			
ACHIEVEMENT TESTING	3,217,400	3,222,054	3,222,054
ADDITIONAL STATE AID TO SCHOOLS	303,188,200	303,188,200	286,677,098
ARIZONA STRUCTURED ENGLISH IMMERSION	8,791,400	8,791,400	8,791,400
BASIC STATE AID DEFERRED PAYMENT FY11-12	-	952,627,700	916,245,784
BASIC STATE AID ENTITLEMENT	1,481,153,816	1,481,153,816	1,481,153,814
BASIC STATE AID K12 ROLLOVER	-	21,900,000	21,900,000
ED LEARNING AND ACCOUNTABILITY SYSTEM	6,200,000	6,223,600	6,223,600
EDUCATION LEARN AND ACCOUNTABILITY-EXPEN	2,499,931	2,499,931	2,499,931
EMPOWERMENT SCHOLARSHIP ACCOUNT	-	200,000	62,157
ENGLISH LANGUAGE ACQUISITION FY06-07	2,827	2,827	-
ENGLISH LEARNER ADMINISTRATION	3,958,200	4,002,416	4,002,416
ENGLISH LEARNER TEACHER FY04-05	473,636	473,636	(3,519)
INNOVATIVE EDUCATION GRANTS	3,000,000	3,000,000	2,845,318
K-3 READING	40,000,000	40,003,654	39,972,694
MATH AND SCIENCE INITIATIVES FY08-09	2,806	2,806	-
OPERATING LUMP SUM APPROPRIATION-ADMINISTRATION	-	7,717,598	7,716,999
OPERATING LUMP SUM APPROPRIATION-STATE BOARD	1,212,200	1,222,736	1,222,736
OTHER STATE AID TO DISTRICTS FY07	983,900	983,900	573,963
READING FIRST INITIATIVE FY07-08	97,003	97,003	-
SPECIAL EDUCATION FUND	33,242,100	33,242,100	33,242,100
STATE BLOCK GRANT FOR VOCATIONAL EDUCATION	11,492,700	11,503,942	11,503,942
TEMPORARY TRANSACTION PRIVILEGE & USE TAX	641,447,984	641,447,984	641,447,984
<b>EMERGENCY AND MILITARY AFFAIRS, DEPARTMENT OF</b>			
ADMINISTRATION	1,621,300	1,685,800	1,668,659
ADMINISTRATIVE ADJUSTMENTS	-	402	402
COCONINO COUNTY CAMPBELL FLOOD FY11-12	194,283	194,283	168,925
COCONINO COUNTY TWISTER FY10-11	136,160	136,160	345
DECEMBER 2010 FLOODING FY10-11	66,402	66,402	66,402
EMERGENCY MANAGEMENT	704,300	709,900	709,900
EUZ701 SEARCH AND RESCUE	111,833	311,833	300,591

The Notes to Required Supplementary Information are an integral part of this schedule.

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 GENERAL FUND  
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 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
FEBRUARY 2005 WINTER STORMS FY07-08	103,013	103,013	10,539
FEBRUARY 2005 WINTER STORMS FY10-11	35,501	35,501	1,462
GLADIATOR FIRE EMERGENCY	7,177	7,177	7,177
GLADIATOR WILDFIRE EMERGENCY	-	20,000	20,000
GREENLEE COUNTY FLOODING	-	100,000	41,549
HAZARD MATERIALS CONTINGENCY FY03-04	3,539	3,539	-
HAZARD MATERIALS CONTINGENCY FY07-08	48,358	48,358	-
HOPI TRIBE FLOODING FY10-11	49,967	49,967	181
HORSESHOE TWO FIRE AND MONUMENT FIRE EMERGENCY	982	982	982
JANUARY 2010 WINTER STORM FY09-10	23,257	273,257	269,805
MILITARY AFFAIRS	1,280,400	1,265,800	1,258,150
MILITARY AFFAIRS COMMISSION FY10-11	62,867	152,867	51,395
MONSOON 2010 FLOODING FY10-11	43,021	43,021	43,021
NORTHERN ARIZONA WINTER STORM FY10-11	329,819	329,819	68,735
NORTHERN GREENLEE COUNTY FLOODING	30,899	130,899	6,147
NUCLEAR EMERGENCY MANAGEMENT FUND-BUCKEYE GF TRF	-	69,909	69,909
NUCLEAR EMERGENCY MANAGEMENT FUND-GF TSF	-	443,577	443,577
NUCLEAR EMERGENCY MANAGEMENT FUND-MARICOPA-GF TRF	-	500,477	500,477
OPERATION GOOD NEIGHBOR FY05-06	153,819	153,819	153,819
POST-GLADIATOR FIRE FLOODING	-	100,000	63,757
ROOSEVELT COOLING TOWER FY05-06	50,000	50,000	-
SCHULTZ FIRE POST-FIRE FLOOD FY10-11	620,480	620,480	620,479
SEDONA FLASH FLOOD FY09-10	33,306	33,306	(62)
SERVICE CONTRACTS FY10-11	831,761	831,761	753,523
SERVICE CONTRACTS FY12-13	1,215,000	1,215,000	572,902
SUMMER 2006 MONSOONS AND FLOODING FY07-08	249,171	249,171	79,599
TOMBSTONE WATERLINE FLOODING	11,952	67,952	67,952
WALLOW FIRE EMERGENCY	2,933	2,933	2,933
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>			
OPERATING LUMP SUM APPROPRIATION	12,873,200	13,177,600	1,954,033
<b>EQUAL OPPORTUNITY, GOVERNOR'S OFFICE OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	108	108
OPERATING LUMP SUM APPROPRIATION	187,900	179,900	177,415
<b>EQUALIZATION, STATE BOARD OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	13,288	13,288
OPERATING LUMP SUM APPROPRIATION	625,800	634,000	503,501
<b>EXECUTIVE CLEMENCY, BOARD OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	1,181	1,181
OPERATING LUMP SUM APPROPRIATION	826,200	823,200	822,924
<b>FINANCIAL INSTITUTIONS, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	3,608	3,608
OPERATING LUMP SUM APPROPRIATION	2,927,000	2,958,800	2,948,794
<b>FIRE, BUILDING AND LIFE SAFETY, DEPARTMENT OF</b>			
OPERATING LUMP SUM APPROPRIATION	1,693,300	1,723,900	1,723,193
<b>FORESTER, OFFICE OF THE STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	186,109	186,109
ENVIRONMENTAL COUNTY GRANTS	75,000	75,000	75,000
GENERAL FUND TRANSFER TO FIRE SUPPRESSION	-	3,000,000	3,000,000
INMATE FIRE CREWS	695,700	695,700	687,723
OPERATING LUMP SUM APPROPRIATION	3,281,300	3,311,800	3,150,243
<b>GENERAL ACCOUNTING OFFICE</b>			
BUDGET STABILIZATION FUND	200,000,000	200,000,000	200,000,000
EQUALIZATION AID - COCHISE	5,614,700	5,614,700	5,614,700
EQUALIZATION AID - GRAHAM	16,867,300	16,867,300	16,867,300
EQUALIZATION AID - NAVAJO	5,370,100	5,370,100	5,370,100
NAMED CLAIMANTS BILL	-	283,682	283,682
OPERATING STATE AID - COCHISE	5,784,600	5,784,600	5,784,600
OPERATING STATE AID - COCONINO	1,847,900	1,847,900	1,847,900
OPERATING STATE AID - GILA	410,000	410,000	410,000

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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OPERATING STATE AID - GRAHAM	2,373,200	2,373,200	2,373,200
OPERATING STATE AID - MARICOPA	8,315,700	8,315,700	8,315,700
OPERATING STATE AID - MOHAVE	1,785,600	1,785,600	1,785,600
OPERATING STATE AID - NAVAJO	1,689,700	1,689,700	1,689,700
OPERATING STATE AID - PIMA	7,353,500	7,353,500	7,353,500
OPERATING STATE AID - PINAL	2,107,800	2,107,800	2,107,800
OPERATING STATE AID - SANTA CRUZ	63,500	63,500	63,500
OPERATING STATE AID - YAVAPAI	957,600	957,600	957,600
OPERATING STATE AID - YUMA LA PAZ	2,802,600	2,802,600	2,802,600
RURAL COUNTY REIMBURSEMENT SUBSIDY	848,800	848,800	848,800
WOOLSEY FLOOD DISTRICT	-	67,815	67,815
<b>GEOLOGICAL SURVEY, ARIZONA</b>			
OPERATING LUMP SUM APPROPRIATION	865,100	872,500	872,500
<b>GOVERNOR, OFFICE OF THE</b>			
EMERGENCY FUND	-	2,074,000	2,074,000
OPERATING LUMP SUM APPROPRIATION	7,164,318	7,266,018	3,380,942
OPERATING LUMP SUM APPROPRIATION FY10-11	2,554,050	2,554,050	2,443,557
OPERATING LUMP SUM APPROPRIATION-OSPB	2,024,231	2,055,331	1,892,383
OPERATING LUMP SUM APPROPRIATION-OSPB FY10-11	1,503,566	1,503,566	251,952
<b>HEALTH SERVICES, DEPARTMENT OF</b>			
2% HEALTH PROVIDER REIMBURSEMENT	4,072,400	4,072,400	1,379,600
ADMINISTRATIVE ADJUSTMENTS	-	3,007,102	3,007,102
ADULT CYSTIC FIBROSIS	105,200	105,200	76,858
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	113,446,100	114,096,300	97,397,706
AIDS REPORTING AND SURVEILLANCE	1,000,000	1,000,000	983,149
ALZHEIMER DISEASE RESEARCH	125,000	125,000	125,000
ASH CORRECTIVE ACTION PLAN SUPPLEMENTAL FY04-05	398,060	398,060	-
BREAST AND CERVICAL CANCER SCREENING	1,346,700	1,346,700	1,110,242
COMMUNITY PLACEMENT TREATMENT	1,130,700	1,130,700	-
COUNTY TUBERCULOSIS PROVIDER CARE AND CONTROL	590,700	590,700	517,253
HIGH RISK PERINATAL SERVICES	2,093,400	2,093,400	1,738,089
MEDICAID BEHAVIORAL HEALTH - PROP 204	137,526,200	387,526,200	132,442,011
MEDICAID BEHAVIORAL HEALTH - TRADITIONAL	1,000,205,992	750,205,992	199,614,573
MEDICAID SPECIAL EXEMPTION PAYMENTS BHS	24,383,000	24,383,000	8,269,494
MEDICARE CLAWBACK PAYMENTS	13,838,800	13,838,800	13,838,800
NON MEDICAID SERIOUSLY MENTAL ILL SVS	92,988,000	92,988,000	92,161,295
POISON CONTROL CENTER FUNDING	990,000	990,000	580,673
PROP 204 ADMINISTRATION TITLE XIX MATCH	6,446,700	6,446,700	2,131,400
REG HA DISPENSERS-AUDIOL PATHOL FY03-04	62,243	62,243	-
RENAL AND NON-RENAL DISEASE MANAGEMENT	198,000	198,000	198,000
RURAL HOSPITAL EMERGENCY AND TRAUMA SVS	300,000	300,000	300,000
SUPPORTED HOUSING	5,324,800	5,324,800	5,218,221
TANF PERINATAL SERVICES FY99-00	47,270	47,270	-
TEMPORARY TRANSACTION PRIVILEGE & USE TAX	46,651,308	46,651,308	46,651,308
<b>HISTORICAL SOCIETY OF ARIZONA, PRESCOTT</b>			
ADMINISTRATIVE ADJUSTMENTS	-	53,537	53,537
OPERATING LUMP SUM APPROPRIATION	652,600	659,600	617,033
<b>HISTORICAL SOCIETY, ARIZONA</b>			
ARIZONA EXPERIENCE MUSEUM	441,400	412,100	412,100
FIELD SERVICES AND GRANTS	65,000	65,700	65,700
OPERATING LUMP SUM APPROPRIATION	2,031,100	2,049,600	2,049,600
PAPAGO PARK MUSEUM	1,613,600	534,500	534,500
<b>HOUSE OF REPRESENTATIVES</b>			
OPERATING LUMP SUM APPROPRIATION	14,092,441	14,223,941	11,850,491
OPERATING LUMP SUM APPROPRIATION FY09-10	2,778,308	2,778,308	-
OPERATING LUMP SUM APPROPRIATION FY10-11	1,353,951	1,353,951	-
<b>INDEPENDENT REDISTRICTING COMMISSION</b>			
LEGAL SERVICES	-	1,135,226	1,135,226
OPERATING LUMP SUM APPROPRIATION FY12-13	1,450,000	1,453,500	1,453,440

The Notes to Required Supplementary Information are an integral part of this schedule.

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STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>INDIAN AFFAIRS, ARIZONA COMMISSION OF</b>			
OPERATING LUMP SUM APPROPRIATION	54,300	54,100	53,424
<b>INSURANCE, DEPARTMENT OF</b>			
OPERATING LUMP SUM APPROPRIATION	5,184,200	5,214,500	4,984,555
<b>JOINT LEGISLATIVE BUDGET COMMITTEE</b>			
OPERATING LUMP SUM APPROPRIATION FY10-11	2,467,864	2,523,864	68,390
OPERATING LUMP SUM APPROPRIATION FY11-12	2,487,352	2,487,352	1,810,754
<b>JUVENILE CORRECTIONS, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	689,400	689,400
OPERATING LUMP SUM APPROPRIATION	45,163,000	45,826,400	42,328,052
<b>LAND DEPARTMENT, STATE</b>			
CAP USER FEES	481,200	481,200	481,140
DUE DILIGENCE FUND	500,000	500,000	-
NATURAL RESOURCE CONSERVATION DISTRICTS	390,000	390,000	389,994
OPERATING LUMP SUM APPROPRIATION	10,249,000	11,379,100	11,327,420
<b>LAW ENFORCEMENT MERIT SYSTEM COUNCIL</b>			
ADMINISTRATIVE ADJUSTMENTS	-	190	190
OPERATING LUMP SUM APPROPRIATION	70,200	69,400	69,338
<b>LEGISLATIVE COUNCIL</b>			
OMBUDSMAN-CITIZENS AID OFFICE FY09-10	6,655	6,655	6,638
OMBUDSMAN-CITIZENS AID OFFICE FY10-11	95,109	95,109	88,868
OMBUDSMAN-CITIZENS AID OFFICE FY11-12	67,773	67,773	6,285
OMBUDSMAN-CITIZENS AID OFFICE FY12-13	527,000	539,309	498,047
OPERATING LUMP SUM APPROPRIATION	7,327,100	7,426,691	5,068,047
OPERATING LUMP SUM APPROPRIATION FY09-10	1	1	-
OPERATING LUMP SUM APPROPRIATION FY10-11	650,001	650,001	650,001
OPERATING LUMP SUM APPROPRIATION FY11-12	399,627	399,627	399,599
STATE ARCHIVES AND HISTORY BUILDING	406,856	406,856	-
STATE ARCHIVES AND HISTORY BUILDING FY07-08	206,471	206,471	-
<b>LIBRARY, ARCHIVES, AND PUBLIC RECORDS, ARIZONA STATE</b>			
GRANTS-IN-AID FY09-10	31,309	31,309	-
<b>LIQUOR, LICENSES, AND CONTROL, DEPARTMENT OF</b>			
IMPROVEMENT OF DATA PROCESSING SYSTEM FY06-07	101,703	101,703	3,438
OPERATING LUMP SUM APPROPRIATION	2,815,600	2,911,300	2,907,000
<b>MEDICAL STUDENT LOANS, BOARD OF</b>			
MEDICAL STUDENT FINANCIAL ASSISTANCE FY06-07	346,555	346,555	-
MEDICAL STUDENT FINANCIAL ASSISTANCE FY08-09	309,800	309,800	-
<b>MINE INSPECTOR, STATE</b>			
ABANDONED MINES SAFETY FUND DEPOSIT	188,300	190,669	185,711
ADMINISTRATIVE ADJUSTMENTS	-	3,657	3,657
OPERATING LUMP SUM APPROPRIATION	997,500	1,006,531	1,001,901
<b>NAVIGABLE STREAM ADJUDICATION COMMISSION, ARIZONA</b>			
ADMINISTRATIVE ADJUSTMENTS	-	3,295	3,295
OPERATING LUMP SUM APPROPRIATION	126,900	127,800	116,387
<b>NORTHERN ARIZONA UNIVERSITY</b>			
NAU - YUMA	2,970,800	2,970,800	2,970,800
OPERATING LUMP SUM APPROPRIATION	59,661,600	90,714,400	90,714,400
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT	-	5,900,000	5,900,000
TEACHER TRAINING	2,000,000	2,000,000	2,000,000
<b>OCCUPATIONAL SAFETY AND HEALTH REVIEW BOARD</b>			
OPERATING LUMP SUM APPROPRIATION	15,000	15,000	1,011
<b>PARKS BOARD, ARIZONA STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	11,844	11,844
KARTCHNER CAVERNS STATE PARK	1,952,600	2,138,427	1,667,945
OPERATING LUMP SUM APPROPRIATION	9,754,400	10,553,853	9,828,733
<b>PERSONNEL BOARD</b>			
ADMINISTRATIVE ADJUSTMENTS	-	187	187
OPERATING LUMP SUM APPROPRIATION	365,200	369,000	316,311

The Notes to Required Supplementary Information are an integral part of this schedule.

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STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>PIONEERS' HOME, ARIZONA</b>			
ADMINISTRATIVE ADJUSTMENTS	-	7,884	7,884
OPERATING LUMP SUM APPROPRIATION	1,603,600	1,527,600	1,158,743
<b>POSTSECONDARY EDUCATION, COMMISSION FOR</b>			
LEVERAGING EDUCATIONAL ASSISTANCE PARTNERSHIP	1,220,800	1,220,800	1,220,800
MATH AND SCIENCE TEACHER INITIATIVE	176,000	176,000	176,000
<b>PUBLIC SAFETY, DEPARTMENT OF</b>			
GIITEM	17,526,342	17,376,442	16,556,128
GIITEM IMPACT APPROPRIATION	2,793,833	2,793,833	2,427,202
GIITEM SUBACCOUNT	2,390,000	2,392,500	1,230,152
GITTEM-GANG INTELLIGENCE TEAM ENFORCEMENT FY09-10	15	15	-
GITTEM-GANG INTELLIGENCE TEAM ENFORCEMENT FY10-11	210,079	210,079	210,079
MICROWAVE COMMUNICATION SYSTEM FY06-07	629,426	629,426	363,666
MOTOR VEHICLE FUEL	681,727	681,727	322,702
OPERATING LUMP SUM APPROPRIATION	1,604,600	1,452,400	1,441,355
TEMPORARY TRANSACTION PRIVILEGE & USE TAX	27,159,831	27,159,831	27,159,831
<b>RACING, ARIZONA DEPARTMENT OF</b>			
ARIZONA BREEDERS AWARD	250,000	250,000	250,000
COUNTY FAIR LIVESTOCK AND AGRICULTURAL	1,779,500	1,779,500	1,779,500
<b>RADIATION REGULATORY AGENCY</b>			
ADMINISTRATIVE ADJUSTMENTS	-	2,614	2,614
NUCLEAR EMERGENCY MANAGEMENT FUND	-	675,952	675,952
OPERATING LUMP SUM APPROPRIATION	1,304,000	1,333,800	1,333,466
<b>REAL ESTATE DEPARTMENT, STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	3,372	3,372
OPERATING LUMP SUM APPROPRIATION	2,917,300	2,926,200	2,661,032
<b>REGENTS, ARIZONA BOARD OF</b>			
ARIZONA TEACHERS INCENTIVE PROGRAM	90,000	90,000	90,000
ARIZONA TRANSFER ARTICULATION SUPPORT SYSTEM	213,700	213,700	213,700
COURSE REDESIGN TECHNOLOGY AND CAPITAL	15,273,700	15,273,700	15,273,700
OPERATING LUMP SUM APPROPRIATION	2,350,300	2,350,600	2,350,600
PERFORMANCE FUNDING	5,000,000	5,000,000	5,000,000
STUDENT FINANCIAL ASSISTANCE	10,041,200	10,041,200	10,041,200
WESTERN INTERSTATE COMMISSION OFFICE	125,000	125,000	125,000
WICHE STUDENT SUBSIDIES	4,106,000	4,106,000	4,095,533
<b>REVENUE, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	34,052	34,052
BRITS OPERATIONAL SUPPORT	7,433,200	7,433,200	6,970,178
GOVERNMENT LAND STUDY	-	132,213	35,371
OPERATING LUMP SUM APPROPRIATION	57,460,800	59,869,500	59,247,734
TEMPORARY COLLECTORS	2,873,200	2,873,200	2,665,297
UNCLAIMED PROPERTY ADMINISTRATION/AUDIT	1,770,000	1,770,000	1,218,526
<b>SCHOOL FACILITIES BOARD</b>			
ADMINISTRATIVE ADJUSTMENTS	-	4,577	4,577
BUILDING RENEWAL GRANT	2,667,900	2,667,900	2,667,900
NEW SCHOOL FACILITIES DEBT SERVICE	169,429,700	169,429,700	169,429,700
OPERATING LUMP SUM APPROPRIATION	1,613,600	1,641,000	1,626,564
<b>SECRETARY OF STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	27,330	27,330
ELECTION SERVICES	4,437,200	4,437,200	4,132,504
HELP AMERICA VOTE ACT	5,036,287	5,040,487	2,175,071
LIBRARY GRANTS-IN-AID	654,838	654,838	530,000
OPERATING LUMP SUM APPROPRIATION	8,607,600	10,427,100	10,284,473
SPECIAL ELECTION FY09-10	1,731,456	1,731,456	-
SPECIAL ELECTION US CONGRESS AZ DIST 8	1,900,000	1,900,000	1,900,000
STATEWIDE RADIO READING SERVICE FOR BLIND	97,000	97,000	97,000
<b>SENATE</b>			
BORDER SECURITY TRUST FUND	263,667	263,667	-
OPERATING LUMP SUM APPROPRIATION	8,905,608	9,020,708	8,029,899

The Notes to Required Supplementary Information are an integral part of this schedule.

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STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>SUPREME COURT</b>			
ADMINISTRATIVE ADJUSTMENTS	-	4,101	4,101
ADOA BUILDING RENEWAL FUND FY09-10	1,321	1,321	-
ADULT INTENSIVE PROBATION	10,737,700	10,760,000	10,755,915
ADULT STANDARD PROBATION	13,521,500	13,551,500	13,527,203
AUTOMATION	3,332,600	3,368,900	3,118,089
CASE AND CASH MANAGEMENT SYSTEM	139,400	139,400	-
COMMISSION ON JUDICIAL CONDUCT	506,800	512,900	508,613
COUNTY REIMBURSEMENTS	187,900	187,900	187,900
COURT APPOINTED SPECIAL ADVOCATE	102,000	102,000	102,000
DOMESTIC RELATIONS	640,300	647,000	644,579
DRUG COURT	1,013,600	1,013,600	1,013,600
DRUG COURT FY06-07	61,322	61,322	-
FOSTER CARE REVIEW BOARD	3,332,000	3,364,400	3,357,032
INTERSTATE COMPACT	641,800	645,800	645,359
JUDGES COMPENSATION	7,390,200	7,724,200	7,721,088
JUDICIAL NOMINATION AND PERFORMANCE REVIEW	417,200	421,500	417,155
JUVENILE DIVERSION CONSEQUENCES	9,024,900	9,028,100	9,028,100
JUVENILE FAMILY COUNSELING	660,400	660,400	659,754
JUVENILE INTENSIVE PROBATION	9,163,000	8,843,200	8,674,351
JUVENILE STANDARD PROBATION	4,598,700	4,605,900	4,586,829
JUVENILE TREATMENT SERVICES	22,311,400	22,343,900	22,252,163
MODEL COURT	447,600	447,600	443,208
OPERATING LUMP SUM APPROPRIATION	10,930,100	10,805,800	10,643,643
SPECIAL WATER MASTER	20,000	20,000	19,999
<b>TAX APPEALS, STATE BOARD OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	663	663
OPERATING LUMP SUM APPROPRIATION	253,400	260,700	256,515
<b>TOURISM, OFFICE OF</b>			
OPERATING LUMP SUM APPROPRIATION	7,000,000	7,046,900	6,007,129
<b>TRANSPORTATION, DEPARTMENT OF</b>			
OPERATING LUMP SUM APPROPRIATION	50,200	50,500	50,397
<b>TREASURER, STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	112,363	112,363
COMMUNITY COLLEGE REIMBURSEMENT ARS 15-1469.01	-	2,990,205	2,990,205
CORPORATE INCOME TAX TRANSFER	-	7,000,000	7,000,000
JUSTICE OF THE PEACE SALARIES	1,115,100	1,231,900	1,002,963
OPERATING LUMP SUM APPROPRIATION	2,690,900	2,752,700	2,564,527
<b>UNIVERSITY OF ARIZONA</b>			
AGRICULTURE	29,028,000	29,028,000	29,028,000
ARIZONA COOPERATIVE EXTENSION	10,760,400	10,760,400	10,760,400
CLINICAL RURAL ROTATION	357,600	355,000	355,000
CLINICAL TEACHING SUPPORT	8,097,000	8,587,000	8,587,000
LIVER RESEARCH INSTITUTE	458,500	411,300	411,300
OPERATING LUMP SUM APPROPRIATION - MAIN	87,557,700	149,262,100	149,262,100
OPERATING LUMP SUM APPROPRIATION-HSC	17,889,000	34,891,000	34,891,000
PHOENIX MEDICAL CAMPUS	15,907,600	15,273,400	15,273,400
RESEARCH INFRASTRUCTURE FACILITIES	-	14,253,000	14,253,000
SIERRA VISTA CAMPUS	2,907,400	2,907,400	2,907,400
TELEMEDICINE NETWORK	1,847,900	1,833,900	1,833,900
<b>VETERANS' SERVICES, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	3,462	3,462
MILITARY FAMILY RELIEF FUND	15,291	15,291	-
OPERATING LUMP SUM APPROPRIATION	2,095,600	2,264,900	2,236,485
SOUTHERN ARIZONA CEMETERY	274,800	274,800	274,798
TUCSON VETERAN HOME CONSTRUCTION FY09-10	195,543	195,543	157,686
VETERANS BENEFIT COUNSELING	2,826,700	2,772,000	2,705,940
<b>WATER RESOURCES, DEPARTMENT OF</b>			
ADJUDICATION SUPPORT	1,212,900	1,212,900	1,164,648

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STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMINISTRATIVE ADJUSTMENTS	-	1,979	1,979
ASSURED AND ADEQUATE WATER SUPPLY ADMIN	1,505,800	1,505,800	1,389,404
AUTOMATED GROUNDWATER MONITORING	401,100	401,100	343,709
CONSERVATION AND DROUGHT PROGRAM	395,700	395,700	383,483
OPERATING LUMP SUM APPROPRIATION	7,343,200	7,518,800	6,848,578
RURAL WATER STUDIES	1,139,600	1,139,600	996,509
<b>WEIGHTS AND MEASURES, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	13,196	13,196
GENERAL SERVICES	1,470,000	1,491,500	1,489,880
<b>TOTAL GENERAL FUND BUDGETARY EXPENDITURES BEFORE ADJUSTMENTS</b>	<b>14,929,289,536</b>	<b>16,475,923,740</b>	<b>14,887,254,903</b>
<b>Less:</b>			
Department of Health Services' appropriations for Medicaid Behavioral Health, Medicaid Special Exemption, Prop 204 Administration Title XIX Match, and other appropriations that were duplicate expenditure authorizations	(840,654,100)	(840,806,900)	-
<b>TOTAL GENERAL FUND BUDGETARY EXPENDITURES AFTER ADJUSTMENTS</b>	<b>\$ 14,088,635,436</b>	<b>\$ 15,635,116,840</b>	<b>\$ 14,887,254,903</b>

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STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 TRANSPORTATION AND AVIATION PLANNING,  
 HIGHWAY MAINTENANCE AND SAFETY FUND  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>TRANSPORTATION, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	\$ -	\$ 857,240	\$ 857,240
AIRPORT PLANNING AND DEVELOPMENT FY07-08	8,665,445	8,665,445	-
AIRPORT PLANNING AND DEVELOPMENT FY08-09	16,067,335	16,067,335	-
AIRPORT PLANNING AND DEVELOPMENT FY09-10	17,671,756	17,671,756	-
AIRPORT PLANNING AND DEVELOPMENT FY10-11	10,765,318	10,765,318	-
AIRPORT PLANNING AND DEVELOPMENT FY11-12	35,187,535	35,187,535	15,534,196
ALT TRUCK ROUTE-DOUGLAS CHINO RD FY03-04	250,000	250,000	-
ASBESTOS AND LEAD INSPECTIONS FY01-02	94,798	94,798	-
ASBESTOS AND LEAD INSPECTIONS FY02-03	589,466	589,466	-
ASPHALT STORAGE TANKS FY06-07	112,816	112,816	-
ATTORNEY GENERAL LEGAL SERVICES	2,895,600	2,895,600	2,895,600
BUILDING RENEWAL FY10-11	7,866	7,866	7,866
BUILDING RENEWAL FY11-12	707,381	707,381	673,450
BUILDING RENEWAL FY12-13	1,050,000	1,050,000	119,217
CASH TRANSFER TO WMA	317,500	327,600	327,600
DE-ICER BUILDINGS FY06-07	11,434	11,434	-
FRAUD INVESTIGATION	753,900	755,400	755,273
GRAND CANYON AIRPORT MODULAR HOUSING FY06-07	4,726	4,726	-
GRAND CANYON AIRPORT RESTROOM RENOVATION FY07-08	155,559	155,559	-
HIGHWAY MAINTENANCE FY10-11	126,555,600	126,680,600	123,753,937
HIGHWAY MAINTENANCE FY11-12	9,191,672	9,191,672	7,069,053
HIGHWAY TO DPS TRANSFER - DOUBLE LOAD	6,780,000	6,780,000	6,780,000
HURF TO DPS TRANSFER - DOUBLE LOAD	119,961,000	119,965,000	119,965,000
MOTOR CARRIER TOWING REGULATION FY04-05	11,108	11,108	-
MVD SECURITY ENHANCEMENT ISSUES FY02-03	715,687	715,687	-
NEW THIRD PARTY FUNDING	940,100	943,700	942,745
OPERATING LUMP SUM APPROPRIATION	201,379,300	205,745,000	204,764,887
RELIEF BILL CASH TRANSFER FY13	-	10,180	10,180
SEF TO DPS TRANSFER - DOUBLE LOAD	1,509,100	1,510,300	1,510,300
SPRINKLERS/FIRE ALARMS FY05-06	6,610	6,610	6,610
STATEWIDE HIGHWAY CONSTRUCTION FY07-08	1,476	1,476	-
STATEWIDE HIGHWAY CONSTRUCTION FY08-09	20,031,322	20,031,322	-
STATEWIDE HIGHWAY CONSTRUCTION FY09-10	75,207,460	75,207,460	-
STATEWIDE HIGHWAY CONSTRUCTION FY10-11	510,131	510,131	-
STATEWIDE HIGHWAY CONSTRUCTION FY11-12	265,397,578	265,397,578	159,439,069
SURPRISE MOTOR VEHICLE DIVISION FY06-07	892,410	892,410	-
<b>TOTAL TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND BUDGETARY EXPENDITURES</b>	<b>\$ 924,398,989</b>	<b>\$ 929,777,509</b>	<b>\$ 645,412,223</b>

The Notes to Required Supplementary Information are an integral part of this schedule

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES  
 JUNE 30, 2013

**A. RECONCILIATION OF BUDGETARY TO GAAP EXPENDITURES**

The accompanying Budgetary Comparison Schedules for the General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund present comparisons of the legally adopted budget with actual expenditure data on the budgetary basis. The original budget represents any appropriation bills passed by June 30, 2012 that affect available appropriations during fiscal year 2013. The final budget represents any appropriation bills passed during fiscal year 2013 for fiscal year 2013 plus the original budget. Appropriation bills passed after the end of fiscal year 2013 for fiscal year 2013 would also be included in the final budget.

The Budgetary Comparison Schedules present actual amounts on the State’s budgetary basis for expenditures only. The Schedules include appropriations authorized in one fund and transferred, by legislation, to another fund. The State does not have a legally adopted budget for revenues; therefore, only expenditures are presented on the Budgetary Comparison Schedule, Expenditures for the General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund. As the budgetary and GAAP presentations of actual data differ, a reconciliation of the two follows (amounts expressed in thousands):

	<b>General Fund</b>	<b>Transportation &amp; Aviation Planning, Highway Maintenance &amp; Safety Fund</b>
<b>Uses/outflows of resources</b>		
Actual expenditure amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$ 14,887,255	\$ 645,412
Differences – budget to GAAP:		
Increase in unpaid incurred expenditures from fiscal year end 2012 to fiscal year end 2013.	4,205	440,749
(Decrease) in unpaid payroll expenditures from fiscal year end 2012 to fiscal year end 2013. For budgetary reporting, final June 2012 payroll expenditures were charged to fiscal year 2013 budget and final June 2013 payroll expenditures were charged to fiscal year 2014 budget.	(252)	-
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	1,066,208	-
Distribution to counties and cities for Urban Revenue Sharing, derived from the State’s income tax collections, is recognized as an expenditure on the modified accrual basis, but has no effect on budgetary expenditures.	545,084	-
Capital leases and installment purchase contracts initiated during the fiscal year, which are not reported in budgetary expenditures.	-	15,158
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2013.	4,726,728	1,460,129
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(846,349)	(283,088)
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 20,382,879	\$ 2,278,360

There were no expenditures in excess of appropriations or allotments in the individual budget accounts for the year.

STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES**  
JUNE 30, 2013

**B. BUDGETARY BASIS OF ACCOUNTING**

Formulation of the budget begins with the preparation of estimates of expenditure requirements by the head of each budgeted agency and institution. These estimates are submitted no later than September 1 of each year to the Governor's Office of Strategic Planning and Budgeting, unless an extension is granted for up to an additional 30 days. The budget is prepared by line item and/or program elements for each agency.

The budget document, as finally developed by the Governor, must be submitted to the Legislature no later than five days after the regular session convenes. The Legislature must approve the budget by passing a general and a capital outlay appropriation bill and various omnibus reconciliation bills, which are used for statutory adjustments that must be implemented to carry out the budget. The Governor may veto any item in an appropriation bill. Such vetoes are subject to legislative overrides. The budget can be amended throughout the year by special legislative appropriations and/or budget transfers. The State's Constitution prohibits the appropriation of certain state revenues (primarily tax and fee collections) from exceeding 7.41% of Arizona personal income as estimated by the Economic Estimates Commission.

The State prepares its operating budget on the cash basis of accounting. Encumbrances as of June 30 can be liquidated during an administrative period of up to four weeks known as the 13<sup>th</sup> month. At the time of the appropriation bill's passage, estimates prepared by legislative and executive branch professional staff assure the State Legislature that adequate revenues will be available to meet the level of appropriations approved. Anticipated revenue is estimated on the cash basis but is not part of the legally adopted budget. Consequently, the accompanying Budgetary Comparison Schedules only present budget to actual expenditure comparisons.

The Budgetary Comparison Schedules present all appropriation line items as passed by the State Legislature in order to demonstrate compliance with the legal level of budgetary control.

The State budgets on an annual basis. The budget format used by the State Legislature determines how an agency's appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds. Among the choices are the following:

Lump Sum – The appropriation of an agency for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs, and subprograms without further Legislative or Executive Branch review.

Lump Sum with Special Line Items – The appropriation of an agency for each fiscal year consists of a dollar amount for an operating budget and dollar amounts for individual special line items. Special line items are particular programs for which the Legislature has a specific policy interest. These line items may or may not include Full Time Equivalent positions. Agencies are permitted to shift funds among line items, programs, and subprograms without further Legislative or Executive Branch review, though footnotes may place additional restrictions or notifications upon the agency prior to or associated with transfers between special line items or to or from the operating budget.

During the fiscal year, \$1.5 billion in supplemental appropriations, net of mid-year reversions and adjustments, were provided to the General Fund. The Transportation and Aviation Planning, Highway Maintenance and Safety Fund appropriations increased by \$5.4 million. These amounts are included in the Budgetary Comparison Schedules.

State agencies are responsible for exercising budgetary control and ensuring that expenditures do not exceed appropriations. The ADOA's General Accounting Office exercises oversight and does not disburse funds in excess of appropriations.

The Governor shall have in continuous process of preparation and revision a tentative budget report for the next fiscal year for which a budget report is required to be prepared.

Whenever the expenses of any fiscal year shall exceed the income, the Legislature *may* provide for levying a tax for the ensuing fiscal year sufficient, with other sources of income, to pay the deficiency, as well as the estimated expenses of the ensuing fiscal year.

STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES**  
JUNE 30, 2013

During the fiscal year, the General Fund had an original budget of \$(4.0) million for line item Department of Law Pro-Rata Adjustments, which represents a statewide reduction in General Fund expenditure authority due to the elimination of the pro-rata charge to the Attorney General’s office. Also during the fiscal year, the General Fund had an original budget of \$(25.0) million for line item Insurance Premium Holiday Adjustments, which represents a one-time adjustment in General Fund expenditure authority due to the statewide reduction in insurance premiums for the self-insured State employee health insurance program. The statewide reductions in the original budget are shown on **page 133**. However, for the final budget, an agency impacted by the statewide reductions includes its portion of the reductions within its respective budget.

All expenditures of the State’s money must be authorized by law. Authorization can be granted directly by law or contingent upon appropriation from the State Legislature. Periodically, the State Legislature may appropriate monies for program expenditures already authorized by law, resulting in duplicate spending authority. In appropriating monies, the State Legislature has, in some cases, included external funding sources as a portion of an agency’s total program expenditure authorization (budget) and has identified the external funding sources as an offset against the program appropriations total in order to reflect the State funding amount. An example of this is found in the final budget amount of \$750.2 million for the Department of Health Services’ Medicaid Behavioral Health - Traditional on **page 137**, which includes \$550.6 million of duplicate expenditure authorizations. Accordingly, sometimes program expenditures may not exhaust specific legislative appropriations. To properly present the total budget (appropriation) information, in relationship to “actual” expenditure amounts, duplicate expenditure authorizations have been eliminated from the General Fund’s budget (appropriation) totals on **page 141**.

STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
JUNE 30, 2013

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 State of Arizona reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,751 center lane miles (21,213 travel lane miles) of roads and 4,754 bridges that the State is responsible to maintain.

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

- i Maintain an asset management system that includes an up to date inventory of eligible infrastructure assets
- i Perform condition assessments of eligible assets and summarize the results using a measurement scale
- i Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State
- i 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 (Program) contains estimated expenditures for highway system improvements and the preservation of existing roadways and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2013 and beyond was adopted by the Transportation Board on June 15, 2012.

This Program is a dynamic instrument and adjustments are made to the annual plans based on the needs of the State to maintain the condition level of the roads and bridges at a level equal to, or greater than, the goals established by the State. In addition, not only are adjustments made during the life of the Program, circumstances may require that refinements to the individual components of the Program be made during the fiscal year.

In comparing Estimated to Actual Expenditures in the tables that follow, significant variances can occur. These variances are primarily due to the methodology used in the preparation of the Program. In this Program, the Estimated Expenditures for the current year are based on “programmed” projects which may or may not be spent in the current year of the Program. Programmed expenditures consist of those items that are planned for the future, with contracts that have not yet been awarded. Furthermore, the Actual Expenditures will include projects that were programmed for a prior year’s Estimated Expenditures but which did not occur, or were not completed, in the prior year.

The following information pertains to the condition assessment and maintenance of infrastructure assets and reflects the State’s success in achieving condition levels that exceed the established levels.

**Roads**

The mission of the Arizona Department of Transportation’s (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 PMS both work toward the same basic goal, the efficient, effective management of the State’s 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’s 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 traveling public (as documented in 1961 after the American Association of State Highway and Transportation Officials (AASHTO) Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement. Many surveys since the original road test have shown that these measurements closely track the subjective opinion of the traveling public. Most commonly, this number is called the “Present Serviceability Rating” (PSR). PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2013

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

The goal of the State is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the State’s 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 2013, an overall rating of 3.67 was achieved, as shown in the following graph:

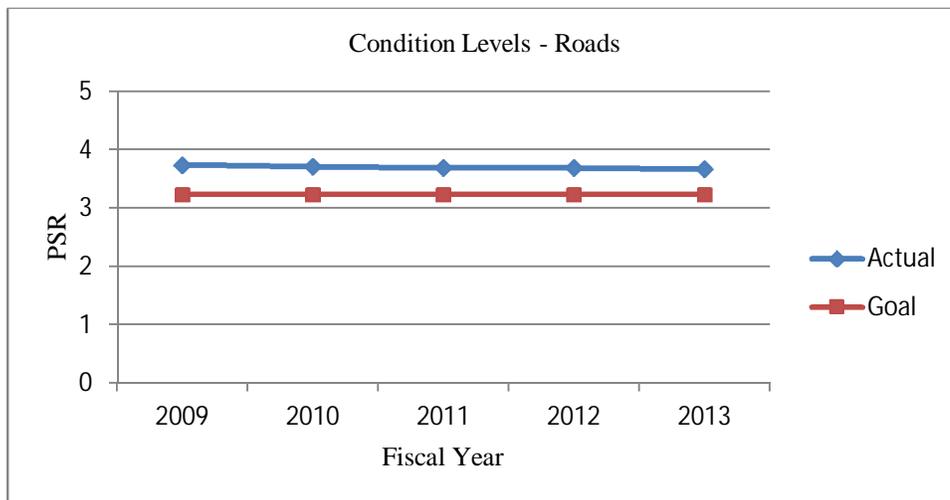


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT’s PMS, as well as other units within the ADOT. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2009 through 2013 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2009	\$264.4	\$236.0
2010	\$227.4	\$220.9
2011	\$265.7	\$373.4
2012	\$261.9	\$373.6
2013	\$276.3	\$291.3

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2013

**Bridges**

The State’s bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2013, the State owned and maintained 4,754 bridges with an approximate total deck area of 48,250,819 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 a 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 condition ratings that are included in the CRI computation are: the bridge joints condition, the deck condition, the super-structure condition, and the sub-structure 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 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 the 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 the State to maintain State highway bridges so that the CRI exceeds 92.5%. In fiscal year 2013, the CRI was computed at 93.2%.

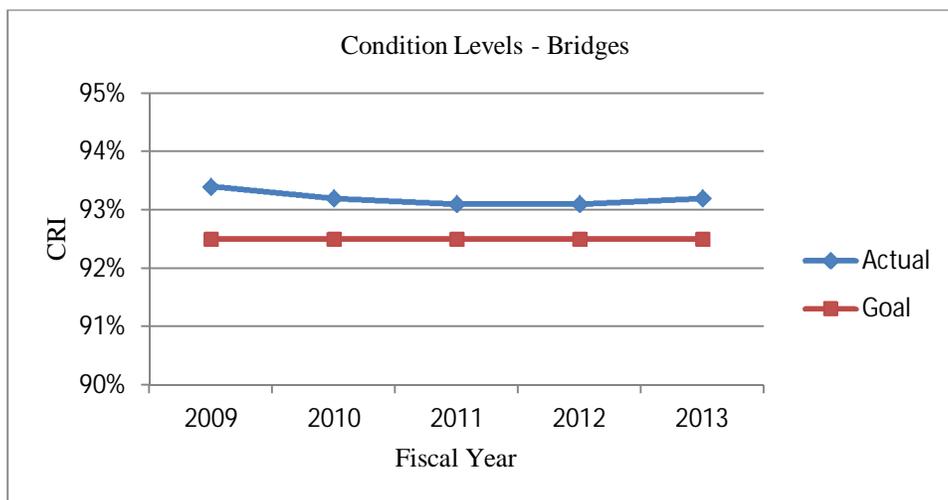


Figure 2

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2013

Bridges represent a major public investment, and their inspection and maintenance is an essential function of the State in its mission of providing products and services for a safe, efficient, and cost effective transportation system. Figure 3 indicates that approximately 57% of the bridges in the State were constructed prior to the 1970s while only 14% have been constructed since 2000.

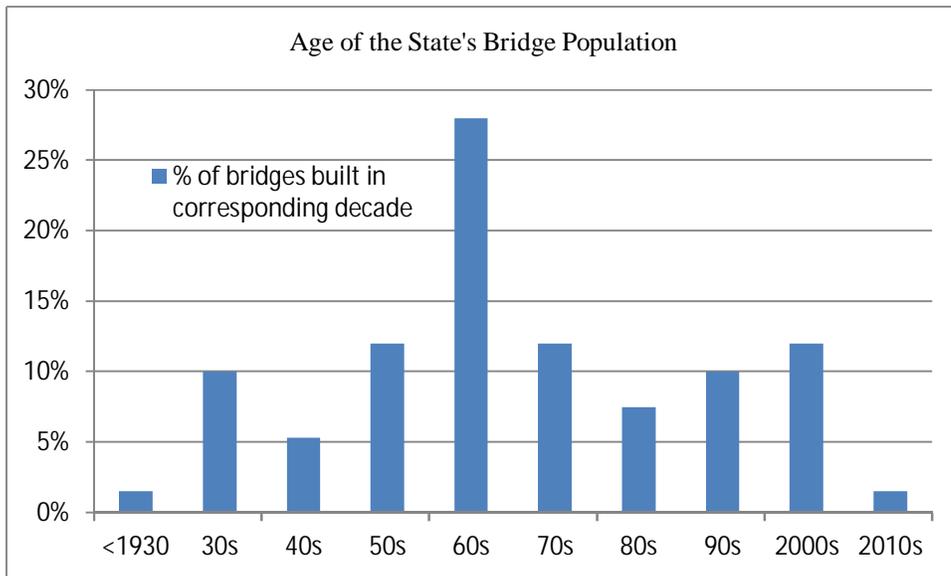


Figure 3

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2009 through 2013 were as follows:

<b>Fiscal Year</b>	<b>Estimated Expenditures (in millions)</b>	<b>Actual Expenditures (in millions)</b>
2009	\$14.3	\$17.3
2010	\$16.1	\$22.4
2011	\$11.8	\$26.0
2012	\$12.5	\$20.6
2013	\$14.7	\$10.7

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**AGENT BENEFIT PLANS' FUNDING PROGRESS**  
 JUNE 30, 2013

Analysis of the funding progress for each of the agent, multiple-employer defined benefit pension plans, as of the most recent actuarial valuations, is as follows (expressed in thousands):

<u>Plan</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>(Unfunded) AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>(Unfunded) AAL as a Percentage of Covered Payroll</u>
PSPRS	6/30/2013	\$ 505,249	\$ 1,067,721	\$ (562,472)	47.3%	\$ 82,363	(682.9)%
	6/30/2012	522,980	1,043,064	(520,084)	50.1%	82,352	(631.5)%
	6/30/2011	545,586	965,288	(419,702)	56.5%	84,347	(497.6)%
CORP	6/30/2013	900,160	1,289,715	(389,555)	69.8%	346,980	(112.3)%
	6/30/2012	888,879	1,244,672	(355,793)	71.4%	370,041	(96.1)%
	6/30/2011	872,133	1,120,722	(248,589)	77.8%	361,900	(68.7)%

Analysis of the funding progress for each of the agent, multiple-employer defined benefit post-employment plans, as of the most recent actuarial valuations, is as follows (expressed in thousands):

<u>Plan</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>(Unfunded) AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>(Unfunded) AAL as a Percentage of Covered Payroll</u>
PSPRS	6/30/2013	-	\$ 29,165	\$ (29,165)	0.0%	\$ 82,363	(35.4)%
	6/30/2012	-	29,183	(29,183)	0.0%	82,352	(35.4)%
	6/30/2011	-	29,200	(29,200)	0.0%	84,347	(34.6)%
CORP	6/30/2013	-	59,723	(59,723)	0.0%	346,980	(17.2)%
	6/30/2012	-	58,596	(58,596)	0.0%	370,041	(15.8)%
	6/30/2011	-	59,971	(59,971)	0.0%	361,900	(16.6)%

**COMBINING FINANCIAL  
STATEMENTS AND  
SCHEDULES**

**COMBINING FINANCIAL STATEMENTS AND SCHEDULES**

## **NON-MAJOR GOVERNMENTAL FUNDS**

### **Special Revenue Funds**

*Special Revenue Funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.*

### **Debt Service Funds**

*The Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.*

### **Capital Projects Funds**

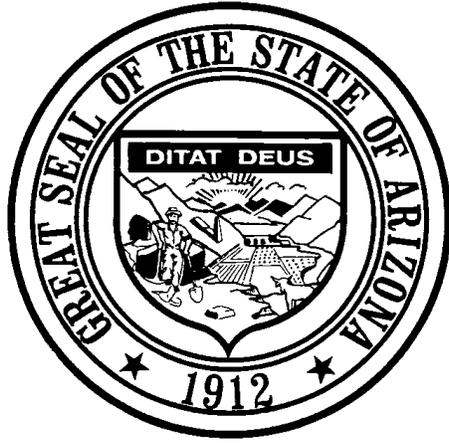
*Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary Funds, Pension Trust Funds or Component Units).*

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2013  
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
<b>ASSETS</b>				
Cash	\$ 1,662	\$ -	\$ -	\$ 1,662
Cash and pooled investments with State Treasurer	806,024	8,784	-	814,808
Collateral investment pool	10,625	-	2,155	12,780
Receivables, net of allowances:				
Taxes	75,151	-	-	75,151
Interest	1	-	-	1
Other	25,203	-	-	25,203
Due from U.S. Government	23,260	-	-	23,260
Due from others	2	-	-	2
Due from other Funds	20,090	3,750	-	23,840
Inventories, at cost	3	-	-	3
Restricted assets:				
Cash and pooled investments with State Treasurer	417,785	40,221	461,463	919,469
Cash held by trustee	-	7,501	-	7,501
<b>Total Assets</b>	<b>\$ 1,379,806</b>	<b>\$ 60,256</b>	<b>\$ 463,618</b>	<b>\$ 1,903,680</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other current liabilities	\$ 55,104	\$ 249	\$ -	\$ 55,353
Accrued liabilities	58,326	13	10	58,349
Obligations under securities loan agreements	10,625	-	2,155	12,780
Tax refunds payable	4	-	-	4
Due to local governments	91,185	-	-	91,185
Due to others	9,359	-	-	9,359
Due to other Funds	18,298	-	3,803	22,101
Unavailable deferred revenue	780	-	-	780
Unearned deferred revenue	670	-	-	670
<b>Total Liabilities</b>	<b>244,351</b>	<b>262</b>	<b>5,968</b>	<b>250,581</b>
Fund Balances:				
Restricted	630,429	59,994	457,650	1,148,073
Committed	505,026	-	-	505,026
<b>Total Fund Balances</b>	<b>1,135,455</b>	<b>59,994</b>	<b>457,650</b>	<b>1,653,099</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,379,806</b>	<b>\$ 60,256</b>	<b>\$ 463,618</b>	<b>\$ 1,903,680</b>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
<b>REVENUES</b>				
Taxes:				
Sales	\$ 441,283	\$ 65,809	\$ -	\$ 507,092
Income	59	-	-	59
Tobacco	251,162	-	-	251,162
Property	2,000	-	-	2,000
Motor vehicle and fuel	164,923	-	-	164,923
Other	111,417	-	-	111,417
Intergovernmental	101,438	-	-	101,438
Licenses, fees, and permits	278,952	-	-	278,952
Earnings on investments	27,104	2,038	225	29,367
Sales and charges for services	20,360	-	-	20,360
Fines, forfeitures, and penalties	143,366	-	-	143,366
Gaming	80,359	-	-	80,359
Other	17,000	11	-	17,011
Total Revenues	<u>1,639,423</u>	<u>67,858</u>	<u>225</u>	<u>1,707,506</u>
<b>EXPENDITURES</b>				
Current:				
General government	121,117	-	-	121,117
Health and welfare	269,802	-	-	269,802
Inspection and regulation	115,263	-	-	115,263
Education	634,862	-	-	634,862
Protection and safety	232,826	-	-	232,826
Transportation	-	-	17,388	17,388
Natural resources	104,150	-	-	104,150
Debt service:				
Principal	9,170	289,405	-	298,575
Interest and other fiscal charges	16,545	245,189	680	262,414
Capital outlay	22,048	-	184,195	206,243
Total Expenditures	<u>1,525,783</u>	<u>534,594</u>	<u>202,263</u>	<u>2,262,640</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>113,640</u>	<u>(466,736)</u>	<u>(202,038)</u>	<u>(555,134)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	77,982	468,344	-	546,326
Transfers out	(85,820)	-	(1,779)	(87,599)
Refunding certificates of participation issued	-	62,630	-	62,630
Bonds issued	-	-	194,295	194,295
Refunding bonds issued	-	837,340	-	837,340
Payment to refunded certificates of participation escrow agent	-	(42,096)	-	(42,096)
Payment to refunded bond escrow agent	-	(954,372)	-	(954,372)
Premium on debt issued	-	99,825	36,385	136,210
Total Other Financing Sources (Uses)	<u>(7,838)</u>	<u>471,671</u>	<u>228,901</u>	<u>692,734</u>
Net Change in Fund Balances	<u>105,802</u>	<u>4,935</u>	<u>26,863</u>	<u>137,600</u>
Fund Balances - Beginning, as restated	<u>1,029,653</u>	<u>55,059</u>	<u>430,787</u>	<u>1,515,499</u>
Fund Balances - Ending	<u>\$ 1,135,455</u>	<u>\$ 59,994</u>	<u>\$ 457,650</u>	<u>\$ 1,653,099</u>



## **NON-MAJOR GOVERNMENTAL FUNDS SPECIAL REVENUE FUNDS**

**The Public Safety and Correctional Programs Fund** accounts for law enforcement, military, custody, and related services provided to the general public.

**The Environmental Protection Fund** accounts for the protection of the State's public health by administering the State's environmental quality laws and delegating federal programs to prevent, control, and abate pollution of our air, water, and land resources.

**The Healthcare and Social Services Fund** accounts for health and welfare services provided to the general public.

**The Tobacco Tax and Healthcare Fund** accounts for the receipt of monies levied on tobacco products. The monies are used for health education programs; research, prevention and treatment of tobacco related diseases; to increase the quality of, and access to, the early childhood development and health system that ensures a child entering school comes healthy and ready to succeed; and for medically needy healthcare programs.

**The Judicial and Legal Services Fund** accounts for the anti-racketeering, consumer protection, consumer fraud, anti-trust, and collections enforcement programs of the Attorney General's Office and statewide court improvement functions supervised by the Arizona Supreme Court.

**The Regulating and Licensing Fund** accounts for inspection and regulatory services provided to the general public.

**The Game and Fish Fund** accounts for the receipt of monies collected by the Department of Game and Fish for various hunting and fishing licenses, for the purpose of conserving, enhancing, and restoring Arizona's diverse wildlife resources and habitats, as well as providing safe watercraft and off-highway vehicle recreation.

**The State Parks Development Fund** accounts for the receipt of monies collected by the State Parks Fund for the purpose of acquiring and developing State park lands, sites and facilities.

**The Business Development Fund** accounts for the promotion of statewide economic and community development, which supports a globally competitive Arizona.

**The Educational Programs Fund** accounts for supplemental building needs and instructional improvement programs specifically identified in a voter initiative that enacted a six-tenth of one percent statewide sales tax dedicated to education functions. The Educational Programs Fund supports programs from the kindergarten through university educational levels.

**The Groundwater Protection and Conservation Fund** accounts for strategic water resources planning, Colorado River water management, drought management planning, dam safety, flood mitigation, administration of the Arizona Groundwater Management Code, and administration of water rights. These programs are the responsibility of the Department of Water Resources.

**The Clean Elections System Fund** accounts for fines and fees collected to pay for campaign expenses of statewide candidates and State legislative candidates who choose not to accept private source campaign funds. The fund was established as a result of a voter initiative.

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2013  
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
<b>ASSETS</b>						
Cash	\$ 1,021	\$ -	\$ -	\$ -	\$ -	\$ 18
Cash and pooled investments with State Treasurer	122,477	90,841	67,464	19,958	190,743	95,698
Collateral investment pool	-	-	-	6,624	4,001	-
Receivables, net of allowances:						
Taxes	5,379	-	5,048	13,839	-	-
Interest	-	-	1	-	-	-
Other	50	-	7,442	-	7	3,129
Due from U.S. Government	-	-	22,979	281	-	-
Due from others	2	-	-	-	-	-
Due from other Funds	3,874	6,481	2,274	648	1,413	257
Inventories, at cost	3	-	-	-	-	-
Restricted assets:						
Cash and pooled investments with State Treasurer	-	-	920	416,865	-	-
<b>Total Assets</b>	<b>\$ 132,806</b>	<b>\$ 97,322</b>	<b>\$ 106,128</b>	<b>\$ 458,215</b>	<b>\$ 196,164</b>	<b>\$ 99,102</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and other current liabilities	\$ 20,137	\$ 3,434	\$ 2,830	\$ 1,625	\$ 3,031	\$ 2,202
Accrued liabilities	3,658	380	50,722	290	458	1,621
Obligations under securities loan agreements	-	-	-	6,624	4,001	-
Tax refunds payable	-	4	-	-	-	-
Due to local governments	-	-	-	-	-	-
Due to others	31	-	-	9,135	-	193
Due to other Funds	535	-	1,914	15,379	152	122
Unavailable deferred revenue	-	-	780	-	-	-
Unearned deferred revenue	-	-	670	-	-	-
<b>Total Liabilities</b>	<b>24,361</b>	<b>3,818</b>	<b>56,916</b>	<b>33,053</b>	<b>7,642</b>	<b>4,138</b>
Fund Balances:						
Restricted	-	-	9,200	425,162	98,038	-
Committed	108,445	93,504	40,012	-	90,484	94,964
<b>Total Fund Balances</b>	<b>108,445</b>	<b>93,504</b>	<b>49,212</b>	<b>425,162</b>	<b>188,522</b>	<b>94,964</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 132,806</b>	<b>\$ 97,322</b>	<b>\$ 106,128</b>	<b>\$ 458,215</b>	<b>\$ 196,164</b>	<b>\$ 99,102</b>

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ 623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,662
37,269	10,486	23,472	110,053	16,159	21,404	806,024
-	-	-	-	-	-	10,625
-	-	-	50,885	-	-	75,151
-	-	-	-	-	-	1
2,076	-	7	12,492	-	-	25,203
-	-	-	-	-	-	23,260
-	-	-	-	-	-	2
446	403	-	4,294	-	-	20,090
-	-	-	-	-	-	3
-	-	-	-	-	-	417,785
<u>\$ 40,414</u>	<u>\$ 10,889</u>	<u>\$ 23,479</u>	<u>\$ 177,724</u>	<u>\$ 16,159</u>	<u>\$ 21,404</u>	<u>\$ 1,379,806</u>
\$ 1,754	\$ 300	\$ 21	\$ 19,760	\$ 10	\$ -	\$ 55,104
930	66	77	104	14	6	58,326
-	-	-	-	-	-	10,625
-	-	-	-	-	-	4
-	-	-	91,185	-	-	91,185
-	-	-	-	-	-	9,359
188	5	1	2	-	-	18,298
-	-	-	-	-	-	780
-	-	-	-	-	-	670
<u>2,872</u>	<u>371</u>	<u>99</u>	<u>111,051</u>	<u>24</u>	<u>6</u>	<u>244,351</u>
8,437	-	1,521	66,673	-	21,398	630,429
29,105	10,518	21,859	-	16,135	-	505,026
<u>37,542</u>	<u>10,518</u>	<u>23,380</u>	<u>66,673</u>	<u>16,135</u>	<u>21,398</u>	<u>1,135,455</u>
<u>\$ 40,414</u>	<u>\$ 10,889</u>	<u>\$ 23,479</u>	<u>\$ 177,724</u>	<u>\$ 16,159</u>	<u>\$ 21,404</u>	<u>\$ 1,379,806</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	PUBLIC		HEALTHCARE	TOBACCO	JUDICIAL	REGULATING
	SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	& SOCIAL SERVICES	TAX & HEALTHCARE	& LEGAL SERVICES	& LICENSING
<b>REVENUES</b>						
Taxes:						
Sales	\$ 16,518	\$ -	\$ 4,586	\$ -	\$ -	\$ -
Income	-	-	-	-	-	-
Tobacco	4,831	-	8,100	238,231	-	-
Property	-	-	2,000	-	-	-
Motor vehicle and fuel	129,200	28,121	-	-	-	328
Other	53,547	2,427	12,881	-	-	42,562
Intergovernmental	26,070	-	45,047	499	1,517	45
Licenses, fees, and permits	22,647	70,804	14,336	-	26,577	95,088
Earnings on investments	220	545	107	(1,412)	462	112
Sales and charges for services	9,826	-	3,109	-	467	1,895
Fines, forfeitures, and penalties	70,570	75	10,874	1	49,649	3,225
Gaming	-	-	21,500	-	-	9,711
Other	709	301	2,234	-	1,783	1,938
Total Revenues	<u>334,138</u>	<u>102,273</u>	<u>124,774</u>	<u>237,319</u>	<u>80,455</u>	<u>154,904</u>
<b>EXPENDITURES</b>						
Current:						
General government	26,953	1,070	3,037	677	67,670	1,757
Health and welfare	-	69,253	116,435	77,166	-	6,948
Inspection and regulation	-	1,337	-	-	17	113,909
Education	-	-	-	146,867	-	-
Protection and safety	232,826	-	-	-	-	-
Natural resources	26,003	319	-	-	-	-
Debt service:						
Principal	8,630	-	-	-	-	-
Interest and other fiscal charges	15,754	-	-	-	-	-
Capital outlay	13,288	1,642	115	-	142	1,100
Total Expenditures	<u>323,454</u>	<u>73,621</u>	<u>119,587</u>	<u>224,710</u>	<u>67,829</u>	<u>123,714</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>10,684</u>	<u>28,652</u>	<u>5,187</u>	<u>12,609</u>	<u>12,626</u>	<u>31,190</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	30,896	7,022	9,341	1,072	3,157	2,669
Transfers out	(9,469)	(9,168)	(4,278)	(34,668)	(6,939)	(17,500)
Total Other Financing Sources (Uses)	<u>21,427</u>	<u>(2,146)</u>	<u>5,063</u>	<u>(33,596)</u>	<u>(3,782)</u>	<u>(14,831)</u>
Net Change in Fund Balances	32,111	26,506	10,250	(20,987)	8,844	16,359
Fund Balances - Beginning, as restated	76,334	66,998	38,962	446,149	179,678	78,605
Fund Balances - Ending	<u>\$ 108,445</u>	<u>\$ 93,504</u>	<u>\$ 49,212</u>	<u>\$ 425,162</u>	<u>\$ 188,522</u>	<u>\$ 94,964</u>

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ -	\$ -	\$ -	\$ 420,179	\$ -	\$ -	\$ 441,283
-	-	-	59	-	-	59
-	-	-	-	-	-	251,162
-	-	-	-	-	-	2,000
885	6,114	-	275	-	-	164,923
-	-	-	-	-	-	111,417
25,640	-	1,536	1,084	-	-	101,438
34,181	1,565	4,695	2,557	6,502	-	278,952
288	79	213	26,389	101	-	27,104
3,000	-	167	1,889	7	-	20,360
137	-	-	-	2	8,833	143,366
6,148	-	-	43,000	-	-	80,359
1,716	1,927	3,017	256	2,414	705	17,000
<u>71,995</u>	<u>9,685</u>	<u>9,628</u>	<u>495,688</u>	<u>9,026</u>	<u>9,538</u>	<u>1,639,423</u>
-	1,846	10,882	-	-	7,225	121,117
-	-	-	-	-	-	269,802
-	-	-	-	-	-	115,263
-	-	-	487,995	-	-	634,862
-	-	-	-	-	-	232,826
66,181	5,006	-	-	6,641	-	104,150
540	-	-	-	-	-	9,170
791	-	-	-	-	-	16,545
5,536	176	-	48	1	-	22,048
<u>73,048</u>	<u>7,028</u>	<u>10,882</u>	<u>488,043</u>	<u>6,642</u>	<u>7,225</u>	<u>1,525,783</u>
(1,053)	2,657	(1,254)	7,645	2,384	2,313	113,640
10,000	-	11	13,514	300	-	77,982
(2,881)	(1)	(427)	(382)	-	(107)	(85,820)
<u>7,119</u>	<u>(1)</u>	<u>(416)</u>	<u>13,132</u>	<u>300</u>	<u>(107)</u>	<u>(7,838)</u>
6,066	2,656	(1,670)	20,777	2,684	2,206	105,802
31,476	7,862	25,050	45,896	13,451	19,192	1,029,653
<u>\$ 37,542</u>	<u>\$ 10,518</u>	<u>\$ 23,380</u>	<u>\$ 66,673</u>	<u>\$ 16,135</u>	<u>\$ 21,398</u>	<u>\$ 1,135,455</u>

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>ACCOUNTANCY, ARIZONA STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	\$ 7,789	\$ 7,789
OPERATING LUMP SUM APPROPRIATION	1,921,800	1,563,044
<b>ACUPUNCTURE BOARD OF EXAMINERS</b>		
ADMINISTRATIVE ADJUSTMENTS	73	73
OPERATING LUMP SUM APPROPRIATION	129,500	129,049
<b>ADMINISTRATION, ARIZONA DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	62,825	62,825
OPERATING LUMP SUM APPROPRIATION	1,280,800	1,091,209
YUMA PRISON WATER UPGRADE CF FY06-07	13,912	-
<b>AGRICULTURE, ARIZONA DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	3,605	3,605
<b>AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM</b>		
PROPOSITION 204 SERVICES	19,222,900	18,964,645
TRADITIONAL MEDICAID SERVICES	38,295,800	38,295,800
<b>APPRAISAL, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	22,991	22,991
OPERATING LUMP SUM APPROPRIATION	766,700	728,188
<b>ATHLETIC TRAINING, BOARD OF</b>		
OPERATING LUMP SUM APPROPRIATION	104,500	104,057
<b>ATTORNEY GENERAL - DEPARTMENT OF LAW</b>		
ADMINISTRATIVE ADJUSTMENTS	140,658	140,658
OPERATING LUMP SUM APPROPRIATION	9,123,100	8,851,968
PAD NATIONAL MORTGAGE SETTLEMENT	48,366,833	603,895
VICTIMS RIGHTS	3,247,800	3,224,753
<b>AUTOMOBILE THEFT AUTHORITY</b>		
AUTOMOBILE THEFT AUTHORITY GRANTS	3,607,700	3,606,431
OPERATING LUMP SUM APPROPRIATION	629,200	610,684
REIMBURSABLE PROGRAMS	50,000	-
<b>BARBERS, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	607	607
OPERATING LUMP SUM APPROPRIATION	329,300	291,794
<b>BEHAVIORAL HEALTH EXAMINERS, BOARD OF</b>		
OPERATING LUMP SUM APPROPRIATION	1,640,400	1,487,163
<b>CHIROPRACTIC EXAMINERS, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	5,982	5,982
OPERATING LUMP SUM APPROPRIATION	463,800	442,299
<b>CONTRACTORS, REGISTRAR OF</b>		
ADMINISTRATIVE ADJUSTMENTS	2,683	2,683
OFFICE OF ADMINISTRATIVE HEARING	1,017,600	331,064
OPERATING LUMP SUM APPROPRIATION	11,174,000	6,881,251
<b>CORPORATION COMMISSION</b>		
ADMINISTRATIVE ADJUSTMENTS	13,751	13,751
ANNUAL REV PUBLIC ACCESS FUND ARS 10-122	1,333,494	1,333,494
ANNUAL REVERSION PER ARS 44-3298	1,695,363	1,695,363
CORPORATION FILINGS, SAME DAY SERVICE	400,400	-
INVESTIGATE AND PROSECUTE SECURITY FRAUD FY00-01	165,599	-
OPERATING LUMP SUM APPROPRIATION	25,023,500	24,590,206
UTILITIES, AUDITS, STUDIES, INVEST, HEAR	375,446	375,446
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY05-06	1	-
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY07-08	91,647	91,647
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY09-10	380,000	-
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY10-11	760,000	-
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY12-13	380,000	-

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>CORRECTIONS, STATE DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	3,251	3,251
CASH TRANSFER TO BUILDING RENEWAL FUND	2,500,000	2,500,000
OPERATING LUMP SUM APPROPRIATION	12,053,800	8,862,555
PRIVATE PRISON PER DIEM	27,517,600	26,884,002
<b>COSMETOLOGY, BOARD OF</b>		
OPERATING LUMP SUM APPROPRIATION	1,777,000	1,653,987
<b>CRIMINAL JUSTICE COMMISSION, ARIZONA</b>		
ADMINISTRATIVE ADJUSTMENTS	19,448	19,448
OPERATING LUMP SUM APPROPRIATION	882,600	707,021
STATE AID TO COUNTY ATTORNEYS	973,600	973,600
VICTIM COMPENSATION AND ASSISTANCE	3,792,500	3,495,287
<b>DEAF AND HARD OF HEARING, COMMISSION FOR THE</b>		
ADMINISTRATIVE ADJUSTMENTS	18,932	18,932
INTERPRETER FOR CERTIFICATION AND LICENSURE FY04-05	255,313	-
OPERATING LUMP SUM APPROPRIATION	3,780,300	3,466,631
<b>DENTAL EXAMINERS, STATE BOARD OF</b>		
OPERATING LUMP SUM APPROPRIATION	1,209,100	1,029,086
<b>ECONOMIC SECURITY, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	2,566,919	2,566,919
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	1,107,100	380,032
ATTORNEY GENERAL LEGAL SERVICES	91,800	1,310
CHILDREN SUPPORT SERVICES	1,459,100	-
DACS DOMESTIC VIOLENCE PREVENTION	2,220,000	2,220,000
DERS INDEPENDENT LIVING REHAB SERVICES	1,123,400	1,038,329
JOBS	1,110,900	-
REHABILITATION SERVICES	204,700	204,700
<b>EDUCATION, DEPARTMENT OF</b>		
ACCOUNTABILITY-SCHOOL SAFETY-PROP 301 FY11-12	361,397	361,397
ACCOUNTABILITY-SCHOOL SAFETY-PROP 301 FY12-13	7,800,000	7,792,284
ACHIEVEMENT TESTING-PROP 301 FY10-11	3,718,079	3,024,948
ACHIEVEMENT TESTING-PROP 301 FY11-12	6,980,999	3,891,813
ACHIEVEMENT TESTING-PROP 301 FY12-13	7,000,000	129
ADDITIONAL SCHOOL DAYS-PROP 301 FY12-13	86,280,500	86,280,499
CHARACTER EDUCATION-PROP 301 FY10-11	97,288	97,288
CHARACTER EDUCATION-PROP 301 FY11-12	103,613	103,583
CHARACTER EDUCATION-PROP 301 FY12-13	200,000	114,147
FAILING SCHOOL TUTORING-PROP 301 FY11-12	2,391,492	2,180,468
OPERATING LUMP SUM APPROPRIATION-ADMINISTRATION	134,300	119,390
OPERATING LUMP SUM APPROPRIATION-STATE BOARD	370,200	341,734
SCHOOL ACCOUNTABILITY FUND-PROP 301	283,101	283,101
SCHOOL ACCOUNTABILITY-PROP 301 FY08-09	436,077	427,195
SCHOOL ACCOUNTABILITY-PROP 301 FY09-10	388,898	267,095
TEACHER CERTIFICATION	1,832,300	1,640,304
<b>EMERGENCY AND MILITARY AFFAIRS, DEPARTMENT OF</b>		
EMERGENCY MANAGEMENT	132,700	117,051
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	845,085	845,085
AIR QUALITY FEE FUND STATE TRANSFERS	400,000	400,000
AIR QUALITY PROGRAM - CONTINUING FY01-02	186,035	-
AIR QUALITY PROGRAM - CONTINUING FY02-03	182,451	-
CASH TRANSFER TO GENERAL FUND	10,000,000	10,000,000
EMISSIONS CAP AND TRADING PROGRAM FY01-02	70,576	-
EMISSIONS CAP AND TRADING PROGRAM FY02-03	266,582	-
EMISSIONS CONTROL - CONTRACTOR PAYMENTS	22,669,500	21,931,687

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OPERATING LUMP SUM APPROPRIATION	33,078,600	20,402,896
POLITICAL SUBDIVISION ASSISTANCE FY01-02	18,500	-
ROADSIDE DIESEL EMISSIONS TEST FY01-02	200,000	-
UNDERGROUND STORAGE TANK APPEALS FY00-01	7,500	-
VISIBILITY INDEX DEVELOPMENT FY01-02	80,589	-
<b>FINANCIAL INSTITUTIONS, DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	938,000	758,278
<b>FUNERAL DIRECTORS AND EMBALMERS, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	603	603
OPERATING LUMP SUM APPROPRIATION	348,300	327,055
<b>GAME AND FISH DEPARTMENT, ARIZONA</b>		
ADMINISTRATIVE ADJUSTMENTS	5,751	5,751
BECKER LAKE FACILITY IMPROVEMENT FY07-08	22,972	13,878
BECKER LAKE WILDLIFE AREA BRIDGE FY07-08	18,322	18,322
BELLEMONT SHOOTING RANGE FY04-05	191	-
BEN AVERY IMPROVEMENTS FY09-10	1	-
BEN AVERY IMPROVEMENTS FY10-11	94,208	17,182
BLACK CANYON DAM MODIFICATIONS FY05-06	146,642	(432,538)
BLACK CANYON DAM MODIFICATIONS FY06-07	163,262	(20,351)
BOAT REGISTRATION KIOSKS FY08-09	240,000	-
BOAT SHADE CANOPIES FY07-08	8,947	-
BOAT SHADE CANOPIES FY08-09	120,000	61,542
BUILDING RENEWAL FY09-10	49,760	49,760
BUILDING RENEWAL FY10-11	191,862	191,862
BUILDING RENEWAL FY11-12	510,542	194,765
BUILDING RENEWAL FY12-13	523,300	-
DAM MAINTENANCE	934,294	-
FLAGSTAFF OFFICE REMODEL/EXPANSION FY07-08	1	-
FLAGSTAFF SHOOTING RANGE DEVELOPMENT FY00-01	2,334	-
FLAGSTAFF SHOOTING RANGE PLANNING FY02-03	57,747	55,075
FLOOD WARNING SYSTEM FY06-07	12,122	12,121
HEADQUARTERS SECURITY SYSTEM FY03-04	1	-
LAKE HAVASU SHOOTING RANGE FY03-04	197,937	193,215
LOWER COLORADO MULTI-SPECIES CONSERVATION	350,000	350,000
MIGRATORY WATERFOWL DEVELOPMENT FY01-02	151	-
MIGRATORY WATERFOWL DEVELOPMENT FY02-03	14,701	8,275
MIGRATORY WATERFOWL DEVELOPMENT FY03-04	61,715	45,000
MIGRATORY WATERFOWL HABITAT FY06-07	17	-
MIGRATORY WATERFOWL HABITAT FY10-11	77,000	11,495
OPERATING LUMP SUM APPROPRIATION	33,759,200	27,171,415
PERFORMANCE INCENTIVE PAY FY11-12	346,100	-
PITTMAN-ROBERTSON/DINGELL-JOHNSON ACT	3,808,000	2,308,000
PROPERTY MAINTENANCE	631,261	173,588
RADIO TOWER FY09-10	250,000	-
RADIO TOWER FY10-11	250,000	-
REGIONAL KINGMAN OFFICE REMODEL FY09-10	885,736	-
REGIONAL YUMA OFFICE PAVING FY10-11	57,420	57,420
REGIONAL YUMA OFFICE REMODEL FY08-09	906,638	899,161
SHOOTING RANGE ACCESS IMPROVEMENTS FY08-09	139	-
SHOOTING RANGE ACCESS IMPROVEMENTS FY09-10	1	-
SHOOTING RANGE ACCESS IMPROVEMENTS FY10-11	1	-
SILVER CREEK HATCHERY REMODEL FY09-10	1,650,933	-
SILVER CREEK HATCHERY REMODEL FY10-11	1,000,000	-
STATEWIDE PREVENTATIVE MAINTENANCE FY08-09	4	-
STATEWIDE PREVENTATIVE MAINTENANCE FY09-10	1	-

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
STATEWIDE PREVENTATIVE MAINTENANCE FY11-12	1	-
STATEWIDE PREVENTATIVE MAINTENANCE FY12-13	30,000	29,999
TONTO CREEK HATCHERY IMPROVEMENT FY05-06	39	-
TRI-STATE SHOOTING RANGE DEVELOPMENT FY04-05	299,649	187,043
WATERCRAFT GRANT PROGRAM	1,000,000	-
WATERCRAFT SAFETY EDUCATION PROGRAM	250,000	243,908
YUMA OFFICE SECURITY SYSTEM FY06-07	15,350	15,350
<b>GAMING, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	28,886	28,886
CASINO OPERATION CERTIFICATION	2,067,900	2,052,547
OPERATING LUMP SUM APPROPRIATION	8,213,400	7,655,983
PROBLEM GAMBLING	2,051,300	2,036,768
<b>GOVERNOR, OFFICE OF THE</b>		
OPERATING LUMP SUM APPROPRIATION	192,300	-
<b>HEALTH SERVICES, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	183,122	183,122
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	18,235,600	15,348,217
ALZHEIMER DISEASE RESEARCH	1,000,000	1,000,000
FOLIC ACID	400,000	316,000
HIGH RISK PERINATAL SERVICES	450,000	223,334
MEDICAID BEHAVIORAL HEALTH - TRADITIONAL	34,767,000	34,767,000
NEWBORN SCREENING PROGRAM	6,296,100	5,429,488
NON MEDICAID SERIOUSLY MENTAL ILL SVS	2,250,000	2,250,000
NURSING CARE INST QUALITY IMPROVEMENT	255,605	58,190
<b>HOMEOPATHIC AND INTEGRATED MEDICINE EXAMINERS, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	43	43
OPERATING LUMP SUM APPROPRIATION	110,000	86,457
<b>HOUSING, ARIZONA DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	33,236	33,236
OPERATING LUMP SUM APPROPRIATION	311,200	311,200
<b>INDUSTRIAL COMMISSION OF ARIZONA</b>		
ADMINISTRATIVE ADJUSTMENTS	163,397	163,397
OPERATING LUMP SUM APPROPRIATION	19,907,600	18,768,967
<b>JUVENILE CORRECTIONS, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	22,909	22,909
OPERATING LUMP SUM APPROPRIATION	530,600	406,047
<b>LAND DEPARTMENT, STATE</b>		
ADMINISTRATIVE ADJUSTMENTS	652	652
NATURAL RESOURCE CONSERVATION DISTRICTS	260,000	171,848
<b>MEDICAL EXAMINERS BOARD</b>		
ADMINISTRATIVE ADJUSTMENTS	232	232
OPERATING LUMP SUM APPROPRIATION	5,907,500	5,175,518
PERFORMANCE BASED INCENTIVE PROGRAM	150,000	101,131
<b>MINE INSPECTOR, STATE</b>		
AGGREGATE MINED LAND RECLAMATION	112,500	11,344
<b>NATUROPATHIC PHYSICIANS MEDICAL BOARD</b>		
OPERATING LUMP SUM APPROPRIATION	599,300	580,891
<b>NURSING CARE INSTITUTION ADMINISTRATORS AND ASSISTED LIVING FACILITY MANAGERS, BOARD OF EXAMINERS OF</b>		
ADMINISTRATIVE ADJUSTMENTS	192	192
OPERATING LUMP SUM APPROPRIATION	434,700	337,440
<b>NURSING, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	10,601	10,601
OPERATING LUMP SUM APPROPRIATION	4,128,900	4,111,635

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>OCCUPATIONAL THERAPY EXAMINERS, BOARD OF</b>		
OPERATING LUMP SUM APPROPRIATION	166,200	165,156
<b>OPTICIANS, STATE BOARD OF DISPENSING</b>		
ADMINISTRATIVE ADJUSTMENTS	39	39
OPERATING LUMP SUM APPROPRIATION	133,900	129,997
<b>OPTOMETRY, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	190	190
OPERATING LUMP SUM APPROPRIATION	202,600	201,840
<b>OSTEOPATHIC EXAMINERS, ARIZONA BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	2,355	2,355
OPERATING LUMP SUM APPROPRIATION	711,300	700,443
<b>PARKS BOARD, ARIZONA STATE</b>		
ADMINISTRATIVE ADJUSTMENTS	50	50
CASH TRANS TO GENERAL FUND	867	867
KARTCHNER CAVERNS STATE PARK	41,873	41,873
OPERATING LUMP SUM APPROPRIATION	48,147	48,147
<b>PEST MANAGEMENT, OFFICE OF</b>		
OPERATING LUMP SUM APPROPRIATION	2,029,900	1,368,815
<b>PHARMACY, ARIZONA STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	3,408	3,408
AZ POISON AND DRUG INFORMATION CENTER	1,000,000	1,000,000
CONTROLLED SUBSTANCE PRESCRIPTION MONITORING PROGRAM	300,000	300,000
OPERATING LUMP SUM APPROPRIATION	1,969,000	1,893,630
<b>PHYSICAL THERAPY EXAMINERS, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	1,460	1,460
OPERATING LUMP SUM APPROPRIATION	372,100	335,826
<b>PODIATRY EXAMINERS, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	37	37
OPERATING LUMP SUM APPROPRIATION	145,700	124,259
<b>POSTSECONDARY EDUCATION, COMMISSION FOR</b>		
ARIZONA COLLEGE AND CAREER GUIDE	21,330	499
AZ MINORITY ED POLICY ANALYSIS CENTER	100,190	19,923
FAMILY COLLEGE SAVINGS PROGRAM	148,600	-
LEVERAGING EDUCATIONAL ASSISTANCE PARTNERSHIP	1,098,700	1,098,700
OPERATING LUMP SUM APPROPRIATION	248,520	165,209
TWELVE PLUS PARTNERSHIP	130,660	39,968
<b>PRIVATE POSTSECONDARY EDUCATION, STATE BOARD FOR</b>		
ADMINISTRATIVE ADJUSTMENTS	55	55
OPERATING LUMP SUM APPROPRIATION	335,600	335,349
<b>PSYCHOLOGIST EXAMINERS, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	4,423	4,423
OPERATING LUMP SUM APPROPRIATION	352,200	341,112
<b>PUBLIC SAFETY, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	9,536	9,536
DNA TESTING	83,132	44,452
DNA TESTING FY02-03	1,258,331	-
DNA TESTING FY03-04	678,704	-
DNA TESTING FY07-08	938,531	-
DNA TESTING FY08-09	230,451	-
MOTOR VEHICLE FUEL	231,300	231,300
OPERATING LUMP SUM APPROPRIATION	176,260,800	173,452,098
PUBLIC SAFETY EQUIPMENT	1,200,000	922,537
PUBLIC SAFETY EQUIPMENT FY08-09	2,500,000	-
PUBLIC SAFETY EQUIPMENT FY09-10	2,728,719	-
PUBLIC SAFETY EQUIPMENT FY11-12	201,674	(43,181)

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
PUBLIC SAFETY EQUIPMENT SURCHARGE	2,390,000	2,016,727
<b>RACING, ARIZONA DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	2,879,300	2,565,291
<b>RADIATION REGULATORY AGENCY</b>		
OPERATING LUMP SUM APPROPRIATION	271,500	252,002
<b>RESIDENTIAL UTILITY CONSUMER OFFICE</b>		
ADMINISTRATIVE ADJUSTMENTS	663	663
OPERATING LUMP SUM APPROPRIATION	1,179,500	1,037,681
PROFESSIONAL WITNESSES	410,188	91,577
PROFESSIONAL WITNESSES FY08-09	234	-
PROFESSIONAL WITNESSES FY09-10	43,325	40,701
<b>RESPIRATORY CARE EXAMINERS, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	783	783
OPERATING LUMP SUM APPROPRIATION	265,900	265,682
PERSONAL SERVICES COSTS	24,500	22,354
<b>REVENUE, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	40	40
OPERATING LUMP SUM APPROPRIATION	677,500	676,050
<b>SUPREME COURT</b>		
ADMINISTRATIVE ADJUSTMENTS	6,480	6,480
AUTOMATION	7,937,200	7,244,605
CASE AND CASH MANAGEMENT SYSTEM	3,187,100	2,750,922
CASH TRANSFER TO GENERAL FUND	675,000	675,000
COMMUNITY PUNISHMENT	2,310,100	1,504,522
COURT APPOINTED SPECIAL ADVOCATE	2,936,800	2,438,001
JUVENILE CRIME REDUCTION	5,173,400	3,814,666
OPERATING LUMP SUM APPROPRIATION	3,369,200	2,706,258
PROBATION SURCHARGE	5,029,200	4,887,027
STATE AID	5,942,600	4,786,724
<b>TECHNICAL REGISTRATION, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	5,833	5,833
ALARM SYSTEM	180,000	141,525
OPERATING LUMP SUM APPROPRIATION	1,878,800	1,625,631
<b>TREASURER, STATE</b>		
LAW ENFORCEMENT AND BOATING SAFETY DIST	2,183,800	1,846,428
<b>VETERANS' SERVICES, DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	896,900	497,462
<b>VETERINARY MEDICAL EXAMINING BOARD, ARIZONA STATE</b>		
OPERATING LUMP SUM APPROPRIATION	464,900	420,788
<b>WATER RESOURCES, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	3,203	3,203
ASSURED AND ADEQUATE WATER SUPPLY ADMIN	266,800	8,045
OPERATING LUMP SUM APPROPRIATION	140,400	2,160
<b>WEIGHTS AND MEASURES, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	17,582	17,582
GENERAL SERVICES	327,600	325,938
OXYGENATED FUEL	793,379	772,125
RELIEF BILL CASH TRANSFER FY13	471	471
VAPOR RECOVERY	644,421	594,754
<b>TOTAL NON-MAJOR SPECIAL REVENUE FUNDS BUDGETARY EXPENDITURES</b>	<b>\$ 831,146,899</b>	<b>\$ 693,778,120</b>

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 LAND ENDOWMENTS FUND  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>CORRECTIONS, STATE DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	\$ 177	\$ 177
OPERATING LUMP SUM APPROPRIATION	360,000	173,529
PRIVATE PRISON PER DIEM	979,200	979,199
<b>DEAF AND BLIND, ARIZONA SCHOOLS FOR THE</b>		
ADMINISTRATIVE ADJUSTMENTS	81,924	81,924
PHOENIX DAY SCHOOL FOR THE DEAF	5,523,372	5,521,951
PRESCHOOL AND OUTREACH PROGRAMS	3,140,334	3,092,034
TUCSON CAMPUS	4,017,994	4,005,216
VOUCHER FUND ADJUSTMENT	614,400	604,200
<b>EDUCATION, DEPARTMENT OF</b>		
BASIC STATE AID ENTITLEMENT	46,475,500	46,406,913
<b>HEALTH SERVICES, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	1,474	1,474
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	650,000	186,930
<b>JUVENILE CORRECTIONS, DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	1,098,600	1,098,600
<b>LAND DEPARTMENT, STATE</b>		
ADMINISTRATIVE ADJUSTMENTS	1,540	1,540
OPERATING LUMP SUM APPROPRIATION	3,469,200	1,449,770
<b>PIONEERS' HOME, ARIZONA</b>		
ADMINISTRATIVE ADJUSTMENTS	5,125	5,125
OPERATING LUMP SUM APPROPRIATION	4,402,700	4,402,699
PRESCRIPTION DRUGS	240,000	150,506
<b>TOTAL LAND ENDOWMENTS FUNDS BUDGETARY EXPENDITURES</b>	<b>\$ 71,061,540</b>	<b>\$ 68,161,787</b>

## **NON-MAJOR GOVERNMENTAL FUNDS DEBT SERVICE FUNDS**

**The Lottery Fund** administers the payment of principal and interest on the Lottery Revenue Bonds issued by the State of Arizona (acting by and through the Director of the Department of Administration).

**The Department of Transportation Fund** administers the payment of principal and interest on the Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes issued by the Arizona Department of Transportation Board.

**The Certificates of Participation Fund** administers the payment of principal and interest on the certificates of participation issued by the State of Arizona (acting by and through the Director of the Department of Administration) and the retirement of previously issued certificates of participation.

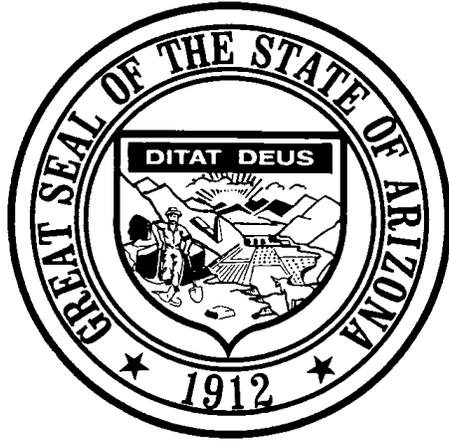
**The School Facilities Debt Instrument Fund** administers the payment of principal and interest on revenue bonds issued by the State of Arizona's School Facilities Board and the retirement of previously issued revenue bonds.

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR DEBT SERVICE FUNDS  
JUNE 30, 2013  
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
<b>ASSETS</b>					
Cash and pooled investments with State Treasurer	\$ -	\$ -	\$ 8,554	\$ 230	\$ 8,784
Due from other Funds	3,750	-	-	-	3,750
Restricted assets:					
Cash and pooled investments with State Treasurer	-	1,701	-	38,520	40,221
Cash held by trustee	-	-	1,793	5,708	7,501
<b>Total Assets</b>	<b>\$ 3,750</b>	<b>\$ 1,701</b>	<b>\$ 10,347</b>	<b>\$ 44,458</b>	<b>\$ 60,256</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and other current liabilities	\$ -	\$ -	\$ 245	\$ 4	\$ 249
Accrued liabilities	-	-	13	-	13
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>258</b>	<b>4</b>	<b>262</b>
Fund Balances:					
Restricted	\$ 3,750	\$ 1,701	\$ 10,089	\$ 44,454	\$ 59,994
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,750</b>	<b>\$ 1,701</b>	<b>\$ 10,347</b>	<b>\$ 44,458</b>	<b>\$ 60,256</b>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR DEBT SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
<b>REVENUES</b>					
Sales taxes	\$ -	\$ -	\$ -	\$ 65,809	\$ 65,809
Earnings on investments	-	977	-	1,061	2,038
Other	-	-	11	-	11
Total Revenues	-	977	11	66,870	67,858
<b>EXPENDITURES</b>					
Debt service:					
Principal	16,790	155,400	55,220	61,995	289,405
Interest and other fiscal charges	20,710	144,025	59,923	20,531	245,189
Total Expenditures	37,500	299,425	115,143	82,526	534,594
(Deficiency) of Revenues Over Expenditures	(37,500)	(298,448)	(115,132)	(15,656)	(466,736)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	37,500	283,066	116,214	31,564	468,344
Refunding certificates of participation issued	-	-	62,630	-	62,630
Refunding bonds issued	-	521,175	-	316,165	837,340
Payment to refunded certificates of participation escrow agent	-	-	(42,096)	-	(42,096)
Payment to refunded bond escrow agent	-	(611,874)	(27,444)	(315,054)	(954,372)
Premium on debt issued	-	92,477	7,348	-	99,825
Total Other Financing Sources (Uses)	37,500	284,844	116,652	32,675	471,671
Net Change in Fund Balances	-	(13,604)	1,520	17,019	4,935
Fund Balances - Beginning	3,750	15,305	8,569	27,435	55,059
Fund Balances - Ending	\$ 3,750	\$ 1,701	\$ 10,089	\$ 44,454	\$ 59,994



## **NON-MAJOR GOVERNMENTAL FUNDS CAPITAL PROJECTS FUNDS**

**The Department of Transportation Financed Fund** administers the proceeds from the Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes issued by the Arizona Department of Transportation Board. These monies are expended for the construction of projects in the Five-Year Transportation Facilities Construction Program.

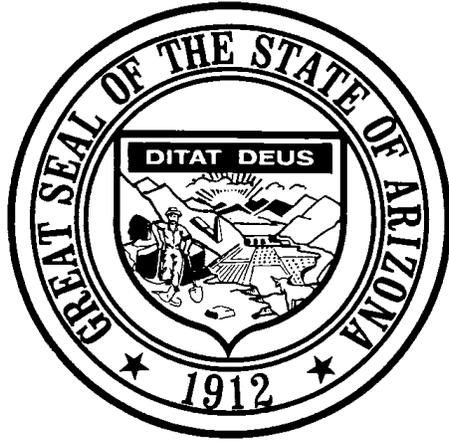
**The Certificates of Participation Financed Fund** administers the proceeds from the certificates of participation issued by the State of Arizona (acting by and through the Director of the Department of Administration). These monies are expended on various projects including new building construction.

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR CAPITAL PROJECTS FUNDS  
JUNE 30, 2013  
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	TOTAL
<b>ASSETS</b>			
Collateral investment pool	\$ 2,155	\$ -	\$ 2,155
Restricted assets:			
Cash and pooled investments with State Treasurer	461,186	277	461,463
Total Assets	<u>\$ 463,341</u>	<u>\$ 277</u>	<u>\$ 463,618</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accrued liabilities	\$ 10	\$ -	\$ 10
Obligations under securities loan agreements	2,155	-	2,155
Due to other Funds	3,803	-	3,803
Total Liabilities	<u>5,968</u>	<u>-</u>	<u>5,968</u>
Fund Balances:			
Restricted	457,373	277	457,650
Total Fund Balances	<u>457,373</u>	<u>277</u>	<u>457,650</u>
Total Liabilities and Fund Balances	<u>\$ 463,341</u>	<u>\$ 277</u>	<u>\$ 463,618</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	TOTAL
<b>REVENUES</b>			
Earnings on investments	\$ 204	\$ 21	\$ 225
Total Revenues	<u>204</u>	<u>21</u>	<u>225</u>
<b>EXPENDITURES</b>			
Current:			
Transportation	17,388	-	17,388
Debt service:			
Interest and other fiscal charges	680	-	680
Capital outlay	182,804	1,391	184,195
Total Expenditures	<u>200,872</u>	<u>1,391</u>	<u>202,263</u>
(Deficiency) of Revenues Over Expenditures	<u>(200,668)</u>	<u>(1,370)</u>	<u>(202,038)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	-	(1,779)	(1,779)
Bonds issued	194,295	-	194,295
Premium on debt issued	36,385	-	36,385
Total Other Financing Sources (Uses)	<u>230,680</u>	<u>(1,779)</u>	<u>228,901</u>
Net Change in Fund Balances	30,012	(3,149)	26,863
Fund Balances - Beginning	<u>427,361</u>	<u>3,426</u>	<u>430,787</u>
Fund Balances - Ending	<u>\$ 457,373</u>	<u>\$ 277</u>	<u>\$ 457,650</u>



## NON-MAJOR ENTERPRISE FUNDS

*Enterprise Funds account for operations (a) financed and operated in a manner similar to private business enterprises, where the State intends that the cost of providing goods or services to the general public be financed or recovered primarily through service charges, or (b) where the State decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.*

**The Arizona Industries for the Blind Fund** accounts for the manufacturing, sale, distribution, and marketing of products manufactured by employees at training centers, workshops, business enterprises and home industries programs for the training and employment of adaptable visually impaired persons.

**The Lottery Fund** accounts for the revenues received from the sale of lottery tickets, the receipt of license fees, prize payments, operational expenses, including consulting, promotional, and advertising expenses, and transfers of monies to other State Funds.

**The Arizona Correctional Industries Fund** employs prison inmates in its manufacturing, service, and agricultural operations for the sale of goods and services primarily to other State agencies (including the Arizona Department of Corrections) and political subdivisions.

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

**The Coliseum & Exposition Center Fund** provides rental space to a variety of entertainment and promotional lessees, and sponsors the annual State Fair.

**The Unemployment Compensation Fund** pays claims for unemployment to eligible recipients from employer contributions and reimbursements.

**The Highway Expansion & Extension Loan Program** provides the State and communities in Arizona a new financing mechanism to stretch limited transportation dollars and bridge the gap between needs and available revenues.

**The Healthcare Group of Arizona** administers prepaid medical coverage primarily to small, uninsured businesses with 50 or fewer employees and employees of political subdivisions. The Healthcare Group of Arizona processes premium billing, collections and fund disbursements, performs data analysis, and is responsible for the regulatory oversight of the health plans.

**The Other Enterprise Funds** consist of the Veterans Administration Reimbursement Fund, the State Home for Veterans Trust Fund and the Tonto Natural Bridge Publications and Souvenirs Revolving Fund.

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
NON-MAJOR ENTERPRISE FUNDS  
JUNE 30, 2013  
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 3,253	\$ -	\$ 126	\$ -	\$ 21
Cash with U.S. Treasury	-	-	-	-	-
Cash and pooled investments with State Treasurer	-	76,001	7,779	2,858	2,884
Restricted cash and pooled investments with State Treasurer	-	-	-	-	-
Receivables, net of allowances:					
Taxes	-	-	-	-	-
Interest	1	-	-	-	-
Other	2,340	6,396	3,654	182	34
Due from U.S. Government	73	-	-	-	-
Due from other Funds	9	-	-	30	-
Inventories, at cost	2,945	3,947	3,877	348	-
Other current assets	12	-	129	344	89
Total Current Assets	<u>8,633</u>	<u>86,344</u>	<u>15,565</u>	<u>3,762</u>	<u>3,028</u>
Noncurrent Assets:					
Other noncurrent assets	-	9,303	-	-	-
Capital assets:					
Land and other non-depreciable	182	938	1,062	8	100
Buildings, equipment, and other depreciable, net of accumulated depreciation	2,134	2,847	2,786	22	9,308
Total Noncurrent Assets	<u>2,316</u>	<u>13,088</u>	<u>3,848</u>	<u>30</u>	<u>9,408</u>
Total Assets	<u>10,949</u>	<u>99,432</u>	<u>19,413</u>	<u>3,792</u>	<u>12,436</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	355	5,535	1,797	77	-
Accrued liabilities	251	-	641	29	57
Due to U.S. Government	-	-	-	-	-
Due to others	-	30,091	-	-	-
Due to component units	-	3,500	-	-	-
Due to other funds	-	49,398	-	-	-
Unearned deferred revenue	-	-	-	2,083	52
Current portion of other long-term liabilities	213	289	473	161	166
Total Current Liabilities	<u>819</u>	<u>88,813</u>	<u>2,911</u>	<u>2,350</u>	<u>275</u>
Noncurrent Liabilities:					
Other long-term liabilities	84	-	-	-	-
Total Noncurrent Liabilities	<u>84</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>903</u>	<u>88,813</u>	<u>2,911</u>	<u>2,350</u>	<u>275</u>
<b>NET POSITION</b>					
Net investment in capital assets	2,316	3,786	3,848	30	9,408
Restricted for:					
Loans and other financial assistance:					
Expendable	-	-	-	-	-
Unrestricted	7,730	6,833	12,654	1,412	2,753
Total Net Position	<u>\$ 10,046</u>	<u>\$ 10,619</u>	<u>\$ 16,502</u>	<u>\$ 1,442</u>	<u>\$ 12,161</u>

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	HEALTHCARE GROUP OF ARIZONA	OTHER	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ 3,400
14,944	-	-	-	14,944
-	-	9,873	1,914	101,309
-	77,215	-	-	77,215
89,662	-	-	-	89,662
-	-	-	-	1
25,427	-	-	2,633	40,666
-	-	-	-	73
-	-	-	145	184
-	-	-	-	11,117
-	-	-	-	574
<u>130,033</u>	<u>77,215</u>	<u>9,873</u>	<u>4,692</u>	<u>339,145</u>
-	-	-	-	9,303
-	-	-	980	3,270
-	-	1	7,067	24,165
-	-	1	8,047	36,738
<u>130,033</u>	<u>77,215</u>	<u>9,874</u>	<u>12,739</u>	<u>375,883</u>
5	-	10	416	8,195
24,475	-	248	348	26,049
116,695	-	-	-	116,695
21,253	-	-	-	51,344
-	-	-	-	3,500
324	-	-	2	49,724
-	-	2,999	-	5,134
-	-	56	-	1,358
<u>162,752</u>	<u>-</u>	<u>3,313</u>	<u>766</u>	<u>261,999</u>
-	-	-	-	84
-	-	-	-	84
<u>162,752</u>	<u>-</u>	<u>3,313</u>	<u>766</u>	<u>262,083</u>
-	-	1	8,047	27,436
-	77,215	-	-	77,215
(32,719)	-	6,560	3,926	9,149
<u>\$ (32,719)</u>	<u>\$ 77,215</u>	<u>\$ 6,561</u>	<u>\$ 11,973</u>	<u>\$ 113,800</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET POSITION**  
NON-MAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

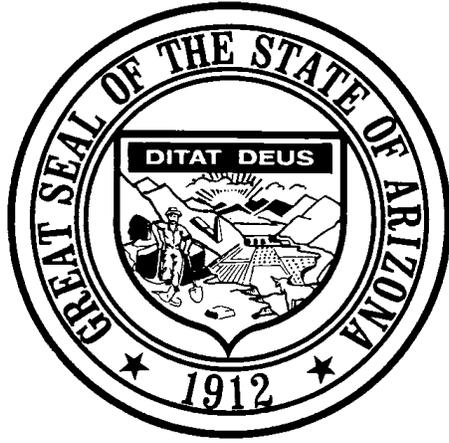
	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER
<b>OPERATING REVENUES</b>					
Sales and charges for services	\$ 20,366	\$ 692,939	\$ 39,358	\$ 4,626	\$ 10,869
Unemployment assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Earnings on investments	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-
Other	118	1,216	-	563	908
Total Operating Revenues	20,484	694,155	39,358	5,189	11,777
<b>OPERATING EXPENSES</b>					
Cost of sales and benefits	10,470	493,411	31,782	2,429	1,825
Personal services	6,159	5,923	4,045	1,480	3,976
Contractual services	2,166	15,130	-	599	3,795
Depreciation and amortization	362	191	544	11	646
Insurance	-	40	-	-	219
Other	882	1,732	-	115	1,241
Total Operating Expenses	20,039	516,427	36,371	4,634	11,702
Operating Income (Loss)	445	177,728	2,987	555	75
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Gain (loss) on sale of capital assets	-	-	15	(2)	-
Investment income	10	79	34	25	10
Other non-operating revenue	-	-	48	-	-
Distributions	-	(14,725)	-	-	-
Interest expense	-	-	-	-	-
Other non-operating expense	-	-	-	(2)	-
Total Non-Operating Revenues (Expenses)	10	(14,646)	97	21	10
Income (Loss) Before Contributions and Transfers	455	163,082	3,084	576	85
Capital grants and contributions	-	-	5	-	-
Transfers out	-	(163,081)	(1,000)	-	-
Change in Net Position	455	1	2,089	576	85
Total Net Position - Beginning	9,591	10,618	14,413	866	12,076
Total Net Position - Ending	\$ 10,046	\$ 10,619	\$ 16,502	\$ 1,442	\$ 12,161

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	HEALTHCARE GROUP OF ARIZONA	OTHER	TOTAL
\$ -	\$ -	\$ 26,872	\$ 22,364	\$ 817,394
444,819	-	-	-	444,819
269,772	-	-	-	269,772
-	6	-	-	6
2,076	-	-	-	2,076
92,721	-	-	65	95,591
<u>809,388</u>	<u>6</u>	<u>26,872</u>	<u>22,429</u>	<u>1,629,658</u>
672,176	-	21,565	108	1,233,766
-	-	866	15,307	37,756
-	-	106	3,896	25,692
-	-	-	332	2,086
-	-	-	291	550
-	-	175	3,885	8,030
<u>672,176</u>	<u>-</u>	<u>22,712</u>	<u>23,819</u>	<u>1,307,880</u>
<u>137,212</u>	<u>6</u>	<u>4,160</u>	<u>(1,390)</u>	<u>321,778</u>
-	-	-	-	13
-	373	59	19	609
-	-	185	-	233
-	-	-	-	(14,725)
(7,163)	-	-	-	(7,163)
-	(46)	-	-	(48)
<u>(7,163)</u>	<u>327</u>	<u>244</u>	<u>19</u>	<u>(21,081)</u>
130,049	333	4,404	(1,371)	300,697
-	-	-	-	5
<u>(6,388)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(170,469)</u>
123,661	333	4,404	(1,371)	130,233
(156,380)	76,882	2,157	13,344	(16,433)
<u>\$ (32,719)</u>	<u>\$ 77,215</u>	<u>\$ 6,561</u>	<u>\$ 11,973</u>	<u>\$ 113,800</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CASH FLOWS**  
NON-MAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 19,983	\$ 529,555	\$ 40,522	\$ 4,530	\$ 10,929
Receipts from assessments	-	-	-	-	-
Receipts from grants and contracts	64	-	-	-	-
Receipts from repayment of loans to local governments	-	-	-	-	-
Payments to suppliers, prize winners, claimants, or insurance companies	(10,450)	(360,294)	(14,986)	(3,053)	(7,178)
Payments to employees	(6,113)	(5,920)	(20,456)	(1,468)	(3,953)
Other receipts	117	12,663	48	563	908
Other payments	(3,048)	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>553</u>	<u>176,004</u>	<u>5,128</u>	<u>572</u>	<u>706</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Receipts from settlement income	-	-	-	-	-
Distributions	-	(14,725)	-	-	-
Interest paid on loan due to U.S. Government	-	-	-	-	-
Transfers to other Funds	-	(141,427)	(1,000)	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	<u>-</u>	<u>(156,152)</u>	<u>(1,000)</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from sale of capital assets	-	-	15	-	-
Acquisition and construction of capital assets	-	(224)	(1,294)	-	(109)
Principal paid on capital debt, installment purchase contracts, and capital leases	-	-	(19)	-	-
Net Cash (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(224)</u>	<u>(1,298)</u>	<u>-</u>	<u>(109)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends from investments	10	70	35	23	10
Change in cash collateral received from securities lending transactions	-	-	-	-	-
Purchase of investments	-	-	-	-	-
Net Cash Provided by Investing Activities	<u>10</u>	<u>70</u>	<u>35</u>	<u>23</u>	<u>10</u>
Net Increase (Decrease) in Cash and Cash Equivalents	563	19,698	2,865	595	607
Cash and Cash Equivalents - Beginning	2,690	56,303	5,040	2,263	2,298
Cash and Cash Equivalents - Ending	<u>\$ 3,253</u>	<u>\$ 76,001</u>	<u>\$ 7,905</u>	<u>\$ 2,858</u>	<u>\$ 2,905</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 445	\$ 177,728	\$ 2,987	\$ 555	\$ 75
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	362	191	544	11	646
Provision for uncollectible accounts	-	-	1,023	-	-
Miscellaneous income	-	-	48	-	-
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	(385)	(1,007)	214	26	8
Decrease in due from U.S. Government	64	-	-	-	-
(Increase) in due from other Funds	-	-	-	-	-
(Increase) decrease in inventories, at cost	(38)	(821)	(776)	32	-
(Increase) decrease in other assets	46	(53)	62	4	(25)
Increase (decrease) in accounts payable	(26)	1,091	753	54	(73)
Increase (decrease) in accrued liabilities	38	(1,125)	266	(2)	5
(Decrease) in due to U.S. Government	-	-	-	-	-
Increase in due to other Funds	-	-	-	-	-
(Decrease) in due to others	-	-	-	-	-
Increase (decrease) in deferred revenue	-	-	-	(122)	52
Increase in other liabilities	47	-	7	14	18
Net Cash Provided (Used) by Operating Activities	<u>\$ 553</u>	<u>\$ 176,004</u>	<u>\$ 5,128</u>	<u>\$ 572</u>	<u>\$ 706</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>					
Contribution of capital assets from other Funds	\$ -	\$ -	\$ 5	\$ -	\$ -
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ -</u>

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	HEALTHCARE GROUP OF ARIZONA	OTHER	TOTAL
\$ -	\$ 8	\$ 26,339	\$ 21,876	\$ 653,742
446,578	-	-	-	446,578
269,772	-	-	-	269,836
-	530	-	-	530
(654,322)	-	(24,714)	(8,040)	(1,083,037)
-	-	(861)	(15,230)	(54,001)
-	-	-	65	14,364
(34,552)	-	-	-	(37,600)
27,476	538	764	(1,329)	210,412
-	-	185	-	185
-	-	-	-	(14,725)
(10,372)	-	-	-	(10,372)
(6,239)	-	-	-	(148,666)
(16,611)	-	185	-	(173,578)
-	-	-	-	15
-	-	-	(12)	(1,639)
-	-	-	-	(19)
-	-	-	(12)	(1,643)
-	676	59	19	902
-	(349)	-	-	(349)
(35)	-	-	-	(35)
(35)	327	59	19	518
10,830	865	1,008	(1,322)	35,709
4,114	76,350	8,865	3,236	161,159
\$ 14,944	\$ 77,215	\$ 9,873	\$ 1,914	\$ 196,868
\$ 137,212	\$ 6	\$ 4,160	\$ (1,390)	\$ 321,778
-	-	-	332	2,086
-	-	-	-	1,023
-	-	-	-	48
22,921	532	-	(478)	21,831
-	-	-	-	64
-	-	-	(10)	(10)
-	-	-	-	(1,603)
-	-	-	-	34
-	-	(19)	139	1,919
2,402	-	(2,850)	77	(1,189)
(129,332)	-	-	-	(129,332)
-	-	-	1	1
(5,727)	-	-	-	(5,727)
-	-	(533)	-	(603)
-	-	6	-	92
\$ 27,476	\$ 538	\$ 764	\$ (1,329)	\$ 210,412
\$ -	\$ -	\$ -	\$ -	\$ 5
\$ -	\$ -	\$ -	\$ -	\$ 5



## **INTERNAL SERVICE FUNDS**

*Internal Service Funds account for the financing of goods and services provided by one State department or agency to other State departments or agencies on a cost-reimbursement basis.*

**The Risk Management Fund** provides insurance coverage to all State agencies using an optimal combination of self-insurance and private excess insurance. It includes the Workers' Compensation section that receives monies from State agencies and uses these monies to pay for insurance and risk management services including loss control services and self-insured liability losses.

**The Transportation Equipment Fund** administers the purchase, storage and distribution of supplies, equipment and furniture for other Department of Transportation Funds.

**The Employee Benefits Fund (HITF)** administers the State's benefits program available to State employees and retirees.

**The Telecommunication Fund** receives monies from State agencies for services related to administering the State's contracts for the installation and maintenance of telecommunications equipment through the Telecommunications Program Office.

**The Automation Operations Fund** receives monies from State agencies for services related to the implementation and operation of automation programs throughout the State.

**The Retiree Sick Leave Fund** accounts for monies paid out to retirees for their accumulated sick leave.

**The Motor Pool Fund** receives monies from State agencies for the use of State vehicles and uses these monies for operation of the State Motor Pool.

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
INTERNAL SERVICE FUNDS  
JUNE 30, 2013  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
<b>ASSETS</b>				
Current Assets:				
Cash and pooled investments with State Treasurer	\$ 70,163	\$ -	\$ 324,604	\$ 1,374
Receivables, net of allowances:				
Other	40	20	8,397	149
Due from U.S. Government	-	-	5,400	-
Due from other Funds	9	-	3	-
Inventories, at cost	-	3,690	-	-
Other current assets	4,093	-	12	-
<b>Total Current Assets</b>	<b>74,305</b>	<b>3,710</b>	<b>338,416</b>	<b>1,523</b>
Noncurrent Assets:				
Restricted assets:				
Cash and pooled investments with State Treasurer	-	413	-	-
Capital assets:				
Land and other non-depreciable	-	-	-	-
Buildings, equipment, and other depreciable, net of accumulated depreciation	134	58,342	18	619
<b>Total Noncurrent Assets</b>	<b>134</b>	<b>58,755</b>	<b>18</b>	<b>619</b>
<b>Total Assets</b>	<b>74,439</b>	<b>62,465</b>	<b>338,434</b>	<b>2,142</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	3,525	-	113,567	121
Accrued liabilities	230	238	53	17
Due to other Funds	15,344	-	3	120
Unearned deferred revenue	-	-	-	-
Current portion of accrued insurance losses	56,276	-	-	-
Current portion of other long-term liabilities	276	559	199	61
<b>Total Current Liabilities</b>	<b>75,651</b>	<b>797</b>	<b>113,822</b>	<b>319</b>
Noncurrent Liabilities:				
Accrued insurance losses	339,339	-	-	-
Other long-term liabilities	-	180	-	-
<b>Total Noncurrent Liabilities</b>	<b>339,339</b>	<b>180</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>414,990</b>	<b>977</b>	<b>113,822</b>	<b>319</b>
<b>NET POSITION</b>				
Net investment in capital assets	134	58,342	18	619
Unrestricted (deficit)	(340,685)	3,146	224,594	1,204
<b>Total Net Position</b>	<b>\$ (340,551)</b>	<b>\$ 61,488</b>	<b>\$ 224,612</b>	<b>\$ 1,823</b>

AUTOMATION OPERATIONS	RETIREE SICK LEAVE	MOTOR POOL	TOTAL
\$ 10,730	\$ 2,040	\$ 468	\$ 409,379
1,619	-	438	10,663
-	-	-	5,400
2,266	-	615	2,893
-	-	33	3,723
1,448	-	18	5,571
<u>16,063</u>	<u>2,040</u>	<u>1,572</u>	<u>437,629</u>
-	-	-	413
1,914	-	-	1,914
2,756	-	10,687	72,556
<u>4,670</u>	<u>-</u>	<u>10,687</u>	<u>74,883</u>
<u>20,733</u>	<u>2,040</u>	<u>12,259</u>	<u>512,512</u>
335	-	375	117,923
157	-	17	712
4	-	19	15,490
13	-	-	13
-	-	-	56,276
488	8,362	52	9,997
<u>997</u>	<u>8,362</u>	<u>463</u>	<u>200,411</u>
-	-	-	339,339
-	145,612	-	145,792
-	145,612	-	485,131
<u>997</u>	<u>153,974</u>	<u>463</u>	<u>685,542</u>
4,670	-	10,687	74,470
<u>15,066</u>	<u>(151,934)</u>	<u>1,109</u>	<u>(247,500)</u>
<u>\$ 19,736</u>	<u>\$ (151,934)</u>	<u>\$ 11,796</u>	<u>\$ (173,030)</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET POSITION**  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

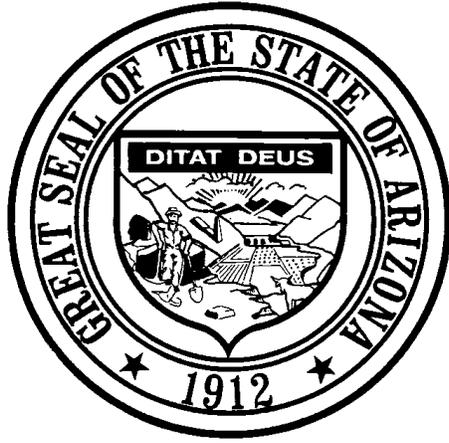
	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
<b>OPERATING REVENUES</b>				
Sales and charges for services	\$ 104,903	\$ 27,009	\$ 736,812	\$ 2,037
Other	2,000	82	147	-
Total Operating Revenues	<u>106,903</u>	<u>27,091</u>	<u>736,959</u>	<u>2,037</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and benefits	-	14,940	718,013	2
Personal services	11,467	12,242	2,719	893
Contractual services	21,613	341	1,203	597
Depreciation and amortization	44	8,538	5	904
Insurance	69,483	-	495	18
Other	8,270	1,078	354	237
Total Operating Expenses	<u>110,877</u>	<u>37,139</u>	<u>722,789</u>	<u>2,651</u>
Operating Income (Loss)	<u>(3,974)</u>	<u>(10,048)</u>	<u>14,170</u>	<u>(614)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Gain (loss) on sale of capital assets	-	121	-	4
Investment income	-	13	-	-
Other non-operating revenue	-	208	-	-
Interest expense	-	(1)	-	-
Other non-operating expense	-	-	(5,104)	-
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>341</u>	<u>(5,104)</u>	<u>4</u>
Income (Loss) Before Contributions and Transfers	<u>(3,974)</u>	<u>(9,707)</u>	<u>9,066</u>	<u>(610)</u>
Capital grants and contributions	-	20,135	-	-
Transfers out	<u>(28,367)</u>	<u>-</u>	<u>(30,260)</u>	<u>(55)</u>
Change in Net Position	(32,341)	10,428	(21,194)	(665)
Total Net Position - Beginning	<u>(308,210)</u>	<u>51,060</u>	<u>245,806</u>	<u>2,488</u>
Total Net Position - Ending	<u>\$ (340,551)</u>	<u>\$ 61,488</u>	<u>\$ 224,612</u>	<u>\$ 1,823</u>

AUTOMATION OPERATIONS	RETIREE SICK LEAVE	MOTOR POOL	TOTAL
\$ 25,310	\$ 12,538	\$ 8,879	\$ 917,488
-	-	-	2,229
<u>25,310</u>	<u>12,538</u>	<u>8,879</u>	<u>919,717</u>
6,122	20,074	5,222	764,373
7,857	68	790	36,036
2,442	3	91	26,290
1,454	-	1,649	12,594
186	-	610	70,792
1,026	-	547	11,512
<u>19,087</u>	<u>20,145</u>	<u>8,909</u>	<u>921,597</u>
<u>6,223</u>	<u>(7,607)</u>	<u>(30)</u>	<u>(1,880)</u>
7	-	(28)	104
-	-	-	13
-	-	5	213
-	-	-	(1)
-	-	-	(5,104)
<u>7</u>	<u>-</u>	<u>(23)</u>	<u>(4,775)</u>
<u>6,230</u>	<u>(7,607)</u>	<u>(53)</u>	<u>(6,655)</u>
-	-	895	21,030
<u>(2,052)</u>	<u>-</u>	<u>-</u>	<u>(60,734)</u>
4,178	(7,607)	842	(46,359)
<u>15,558</u>	<u>(144,327)</u>	<u>10,954</u>	<u>(126,671)</u>
<u>\$ 19,736</u>	<u>\$ (151,934)</u>	<u>\$ 11,796</u>	<u>\$ (173,030)</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CASH FLOWS**  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from interfund services / premiums	\$ 104,897	\$ 26,994	\$ 736,365	\$ 2,050
Payments to suppliers or insurance companies	(52,309)	(16,483)	(702,331)	(616)
Payments to employees	(11,432)	(12,204)	(2,713)	(913)
Payments to retirees	-	-	-	-
Other receipts	2,000	82	147	-
Other payments	-	-	(5,104)	-
Net Cash Provided (Used) by Operating Activities	<u>43,156</u>	<u>(1,611)</u>	<u>26,364</u>	<u>521</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Transfers to other Funds	(28,367)	-	(30,260)	(55)
Net Cash (Used) by Non-capital Financing Activities	<u>(28,367)</u>	<u>-</u>	<u>(30,260)</u>	<u>(55)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sale of capital assets	-	1,435	-	4
Receipts from insurance recoveries	-	208	-	-
Acquisition and construction of capital assets	(33)	(266)	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(33)</u>	<u>1,377</u>	<u>-</u>	<u>4</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends from investments	-	12	-	-
Net Cash Provided by Investing Activities	<u>-</u>	<u>12</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,756	(222)	(3,896)	470
Cash and Cash Equivalents - Beginning	55,407	635	328,500	904
Cash and Cash Equivalents - Ending	<u>\$ 70,163</u>	<u>\$ 413</u>	<u>\$ 324,604</u>	<u>\$ 1,374</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (3,974)	\$ (10,048)	\$ 14,170	\$ (614)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	44	8,538	5	904
Miscellaneous income (expense)	-	-	(5,104)	-
Net changes in assets and liabilities:				
(Increase) decrease in receivables, net of allowances	-	(14)	(2,254)	13
Decrease in due from U.S. Government	-	-	1,757	-
(Increase) decrease in due from other Funds	(6)	-	53	-
(Increase) decrease in inventories, at cost	-	(191)	-	-
(Increase) decrease in other assets	19	-	7	-
Increase (decrease) in accounts payable	1,163	(20)	17,780	118
Increase (decrease) in accrued liabilities	18	19	2	(2)
Increase (decrease) in due to other Funds	15,023	-	(56)	120
(Decrease) in deferred revenues	-	-	-	-
Increase in accrued insurance losses	30,852	-	-	-
Increase (decrease) in other liabilities	17	105	4	(18)
Net Cash Provided (Used) by Operating Activities	<u>\$ 43,156</u>	<u>\$ (1,611)</u>	<u>\$ 26,364</u>	<u>\$ 521</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>				
Contribution of capital assets from other Funds	\$ -	\$ 20,135	\$ -	\$ -
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ -</u>	<u>\$ 20,135</u>	<u>\$ -</u>	<u>\$ -</u>

AUTOMATION OPERATIONS	RETIREE SICK LEAVE	MOTOR POOL	TOTAL
\$ 24,106	\$ 12,538	\$ 9,459	\$ 916,409
(10,378)	(3)	(6,912)	(789,032)
(7,840)	(68)	(775)	(35,945)
-	(13,585)	-	(13,585)
-	-	5	2,234
-	-	-	(5,104)
<u>5,888</u>	<u>(1,118)</u>	<u>1,777</u>	<u>74,977</u>
(2,052)	-	-	(60,734)
<u>(2,052)</u>	<u>-</u>	<u>-</u>	<u>(60,734)</u>
7	-	339	1,785
-	-	-	208
<u>(2,737)</u>	<u>-</u>	<u>(1,919)</u>	<u>(4,955)</u>
(2,730)	-	(1,580)	(2,962)
-	-	-	12
-	-	-	12
1,106	(1,118)	197	11,293
9,624	3,158	271	398,499
<u>\$ 10,730</u>	<u>\$ 2,040</u>	<u>\$ 468</u>	<u>\$ 409,792</u>
\$ 6,223	\$ (7,607)	\$ (30)	\$ (1,880)
1,454	-	1,649	12,594
-	-	5	(5,099)
(610)	-	193	(2,672)
-	-	-	1,757
(575)	-	387	(141)
-	-	17	(174)
225	-	(4)	247
(828)	-	(474)	17,739
7	-	4	48
1	-	19	15,107
(19)	-	-	(19)
-	-	-	30,852
10	6,489	11	6,618
<u>\$ 5,888</u>	<u>\$ (1,118)</u>	<u>\$ 1,777</u>	<u>\$ 74,977</u>
\$ -	\$ -	\$ 895	\$ 21,030
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 895</u>	<u>\$ 21,030</u>



# **PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**

*Pension Trust Funds account for transactions of the four public employee retirement systems for which the State acts as trustee.*

**The Arizona State Retirement System (ASRS)** is a cost-sharing, multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions.

**The Public Safety Personnel Retirement System (PSPRS)** is an agent multiple-employer pension system that benefits fire fighters and police officers employed by the State and its political subdivisions.

**The Elected Officials' Retirement Plan (EORP)** is a cost-sharing, multiple-employer pension plan that benefits all elected State and county officials and judges and certain elected city officials.

**The Corrections Officer Retirement Plan (CORP)** is an agent multiple-employer pension plan that benefits town, city and county detention officers and certain employees of the State's Department of Corrections and Department of Juvenile Corrections.

*Other Employee Benefit Trust Funds account for health insurance premium subsidies and long-term disability benefits paid by the ASRS to State employees and employees of other governmental entities participating in the plans.*

**The Health Benefit Supplement Fund** is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

**The Long-Term Disability Fund** is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for long term disability benefits to eligible participants.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
JUNE 30, 2013  
(Expressed in Thousands)

	PENSION TRUST FUNDS			
	ASRS	PSPRS	EORP	CORP
<b>ASSETS</b>				
Cash	\$ 25,733	\$ 107,493	\$ 6,155	\$ 29,640
Receivables, net of allowances:				
Accrued interest and dividends	65,711	5,541	311	1,418
Securities sold	39,185	6,354	357	1,626
Forward contracts receivable	863,985	-	-	-
Contributions	67,161	25,515	645	2,062
Court fees	-	-	687	-
Due from other Funds	36	-	-	-
Other	500	2,418	989	11
Total receivables	<u>1,036,578</u>	<u>39,828</u>	<u>2,989</u>	<u>5,117</u>
Investments, at fair value:				
Temporary investments	1,864,001	-	-	-
Fixed income securities	5,096,855	610,452	34,272	156,186
Corporate stocks	17,777,630	1,777,811	99,810	454,858
Global tactical asset allocation	-	471,432	26,467	120,617
Real estate	1,632,251	709,692	39,844	181,577
Private equity	1,631,641	625,598	35,123	160,061
Opportunistic investments	1,208,384	497,361	27,923	127,251
Collateral investment pool	14,812	171,007	9,601	43,753
Other investments	-	699,916	39,295	179,075
Total investments	<u>29,225,574</u>	<u>5,563,269</u>	<u>312,335</u>	<u>1,423,378</u>
Property and equipment, net of accumulated depreciation	-	3,644	263	645
Total Assets	<u>30,287,885</u>	<u>5,714,234</u>	<u>321,742</u>	<u>1,458,780</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	66,626	353	432	1,912
Payable for securities purchased	320,449	13,817	776	3,535
Obligation under securities loan agreements	14,812	171,007	9,601	43,753
Forward contracts payable	851,760	-	-	-
Due to other Funds	8,808	-	-	-
Total Liabilities	<u>1,262,455</u>	<u>185,177</u>	<u>10,809</u>	<u>49,200</u>
<b>NET POSITION</b>				
Held in Trust for:				
Pension benefits	29,025,430	5,529,057	310,933	1,409,580
Other post-employment benefits	-	-	-	-
Total Net Position	<u>\$ 29,025,430</u>	<u>\$ 5,529,057</u>	<u>\$ 310,933</u>	<u>\$ 1,409,580</u>

OTHER EMPLOYEE  
BENEFIT TRUST FUNDS

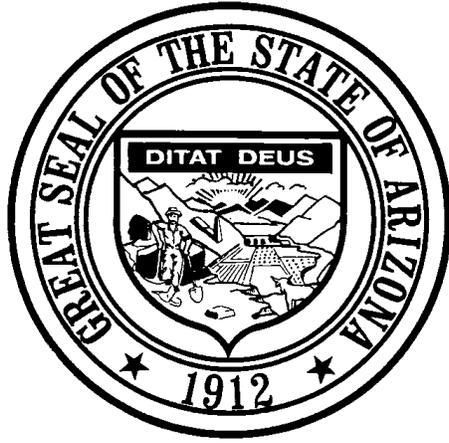
HEALTH BENEFIT SUPPLEMENT FUND	LONG-TERM DISABILITY FUND	TOTAL
\$ 690	\$ -	\$ 169,711
2,868	-	75,849
1,700	-	49,222
37,847	-	901,832
1,196	883	97,462
-	-	687
5,823	2,949	8,808
25,827	3,422	33,167
<u>75,261</u>	<u>7,254</u>	<u>1,167,027</u>
123,125	2,070	1,989,196
221,801	55,474	6,175,040
769,633	178,909	21,058,651
-	-	618,516
71,780	19,183	2,654,327
73,453	-	2,525,876
53,809	-	1,914,728
648	-	239,821
-	-	918,286
<u>1,314,249</u>	<u>255,636</u>	<u>38,094,441</u>
-	-	4,552
<u>1,390,200</u>	<u>262,890</u>	<u>39,435,731</u>
2,930	270	72,523
13,964	-	352,541
648	-	239,821
37,324	-	889,084
-	-	8,808
<u>54,866</u>	<u>270</u>	<u>1,562,777</u>
-	-	36,275,000
<u>1,335,334</u>	<u>262,620</u>	<u>1,597,954</u>
<u>\$ 1,335,334</u>	<u>\$ 262,620</u>	<u>\$ 37,872,954</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	PENSION TRUST FUNDS			
	ASRS	PSPRS	EORP	CORP
<b>ADDITIONS:</b>				
Member contributions	\$ 948,004	\$ 127,363	\$ 7,701	\$ 50,649
Employer contributions	911,300	367,470	13,874	65,611
Retrospective rate adjustment reimbursement	-	-	-	-
Member purchase of service credit	70,790	6,831	228	815
Court fees	-	-	8,412	-
Investment income:				
Net increase in fair value of investments	2,444,729	488,714	27,694	124,825
Interest income	188,095	5,114	301	1,247
Dividends	342,972	39,898	2,258	10,169
Real estate	222,493	-	-	-
Private equity	228,223	-	-	-
Other investment income	136,190	59,726	3,385	15,177
Securities lending income	11,952	1,007	57	257
Total investment income	3,574,654	594,459	33,695	151,675
Less investment expenses:				
Investment activity expenses	180,624	52,330	2,949	13,369
Securities lending expenses	431	150	8	38
Net investment income	3,393,599	541,979	30,738	138,268
Other additions	1,233	745	17	183
Total Additions	5,324,926	1,044,388	60,970	255,526
<b>DEDUCTIONS:</b>				
Retirement, disability, and survivor benefits	2,445,341	552,720	45,472	94,813
Refunds to withdrawing members, including interest	218,607	12,820	124	31,179
Administrative expense	32,851	5,104	300	1,267
Other deductions	4,791	515	37	841
Total Deductions	2,701,590	571,159	45,933	128,100
Change in net position held in trust for:				
Pension benefits	2,623,336	473,229	15,037	127,426
Other post-employment benefits	-	-	-	-
Net Position - Beginning, as restated	26,402,094	5,055,828	295,896	1,282,154
Net Position - Ending	\$ 29,025,430	\$ 5,529,057	\$ 310,933	\$ 1,409,580

OTHER EMPLOYEE  
BENEFIT TRUST FUNDS

HEALTH BENEFIT SUPPLEMENT FUND	LONG-TERM DISABILITY FUND	TOTAL
\$ -	\$ 20,881	\$ 1,154,598
57,154	21,336	1,436,745
25,826	-	25,826
-	-	78,664
-	-	8,412
104,837	29,784	3,220,583
8,343	1	203,101
15,328	2	410,627
9,592	-	232,085
10,136	-	238,359
5,888	-	220,366
532	-	13,805
<u>154,656</u>	<u>29,787</u>	<u>4,538,926</u>
7,899	247	257,418
20	-	647
<u>146,737</u>	<u>29,540</u>	<u>4,280,861</u>
-	-	2,178
<u>229,717</u>	<u>71,757</u>	<u>6,987,284</u>
95,763	63,613	3,297,722
-	-	262,730
1,439	2,739	43,700
-	108	6,292
<u>97,202</u>	<u>66,460</u>	<u>3,610,444</u>
-	-	3,239,028
132,515	5,297	137,812
<u>1,202,819</u>	<u>257,323</u>	<u>34,496,114</u>
<u>\$ 1,335,334</u>	<u>\$ 262,620</u>	<u>\$ 37,872,954</u>



## INVESTMENT TRUST FUNDS

*Investment Trust Funds account for assets held by the State Treasurer in a trustee capacity for local governments and political subdivisions of the State of Arizona which have elected to invest cash with the State Treasurer's Office.*

**Central Arizona Water Conservation District** is an Investment Trust Account composed of corporate debt, money market mutual funds, and United States Government securities. The Central Arizona Water Conservation District is the only participant in the account.

**Local Government Investment Pool** is an Investment Trust Account composed of corporate debt, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

**Local Government Investment Pool – Medium-Term** is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

**Local Government Investment Pool – FF&C** is an Investment Trust Account composed of corporate notes, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

**Local Government Investment Pool – Medium-Term FF&C** is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

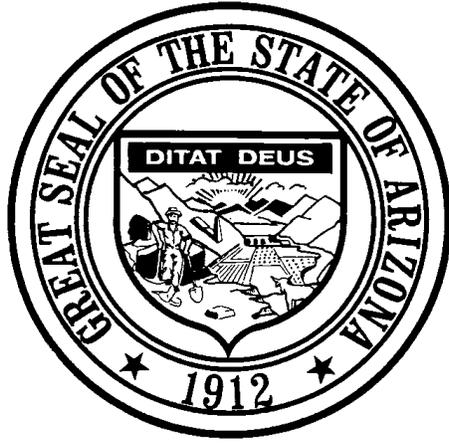
**Lehman Brothers Pool** is an Investment Trust Account composed of the Local Government Investment Pool's share of the Lehman Brothers bond value that was transferred to this pool due to Lehman Brothers filing for Chapter 11 bankruptcy. The transfer was made to provide for the decline in fair value of the Lehman Brothers securities held by the Local Government Investment Pool.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
INVESTMENT TRUST FUNDS  
JUNE 30, 2013  
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM	LOCAL GOVERNMENT INVESTMENT POOL - FF&C	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM FF&C	LEHMAN BROTHERS POOL	TOTAL
<b>ASSETS</b>							
Receivables, net of allowances:							
Accrued interest and dividends	\$ 1,242	\$ 617	\$ 842	\$ 23,659	\$ 398	\$ -	\$ 26,758
Total receivables	1,242	617	842	23,659	398	-	26,758
Investments, at fair value:							
Fixed income securities	285,737	1,162,205	243,012	1,065,352	177,118	6,686	2,940,110
Collateral investment pool	15,413	2,223	8,896	576	35	-	27,143
Total investments	301,150	1,164,428	251,908	1,065,928	177,153	6,686	2,967,253
Total Assets	302,392	1,165,045	252,750	1,089,587	177,551	6,686	2,994,011
<b>LIABILITIES</b>							
Management fee payable	14	67	12	62	9	-	164
Obligations under securities loan agreements	15,413	2,223	8,896	576	35	-	27,143
Total Liabilities	15,427	2,290	8,908	638	44	-	27,307
<b>NET POSITION</b>							
Held in trust for pool participants	\$ 286,965	\$ 1,162,755	\$ 243,842	\$ 1,088,949	\$ 177,507	\$ 6,686	\$ 2,966,704
Net position consist of:							
Participant shares outstanding	283,810	1,162,755	237,213	1,088,949	177,312	27,698	2,977,737
Participants' net position value (net position/shares outstanding)	\$ 1.01	\$ 1.00	\$ 1.03	\$ 1.00	\$ 1.00	\$ 0.24	

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
INVESTMENT TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM	LOCAL GOVERNMENT INVESTMENT POOL - FF&C	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM FF&C	LEHMAN BROTHERS POOL	TOTAL
<b>ADDITIONS:</b>							
Investment income:							
Net increase (decrease) in fair value of investments	\$ (3,187)	\$ (32)	\$ (3,857)	\$ (7)	\$ (2,962)	\$ 2,678	\$ (7,367)
Interest income	5,840	3,051	3,699	2,096	2,263	-	16,949
Securities lending income	32	3	23	139	5	-	202
Total investment income	2,685	3,022	(135)	2,228	(694)	2,678	9,784
Less: Investment activity expenses							
Investment activity expenses	163	731	133	785	92	-	1,904
Securities lending expenses	20	2	14	58	2	-	96
Net investment income	2,502	2,289	(282)	1,385	(788)	2,678	7,784
Capital share and individual account transactions:							
Shares sold	79,679	2,583,625	85,035	1,973,287	60,649	-	4,782,275
Reinvested interest income	5,744	2,350	2,796	1,389	1,538	-	13,817
Shares redeemed	(85,105)	(2,552,539)	(27,544)	(2,389,092)	-	-	(5,054,280)
Transfers in (out)	-	2,875	-	-	-	(2,875)	-
Net capital share and individual account transactions	318	36,311	60,287	(414,416)	62,187	(2,875)	(258,188)
Total Additions	2,820	38,600	60,005	(413,031)	61,399	(197)	(250,404)
<b>DEDUCTIONS:</b>							
Dividends to investors	2,502	2,289	(282)	1,385	(788)	-	5,106
Total Deductions	2,502	2,289	(282)	1,385	(788)	-	5,106
Change in net position held in trust for pool participants	318	36,311	60,287	(414,416)	62,187	(197)	(255,510)
Net Position - Beginning	286,647	1,126,444	183,555	1,503,365	115,320	6,883	3,222,214
Net Position - Ending	\$ 286,965	\$ 1,162,755	\$ 243,842	\$ 1,088,949	\$ 177,507	\$ 6,686	\$ 2,966,704



## AGENCY FUNDS

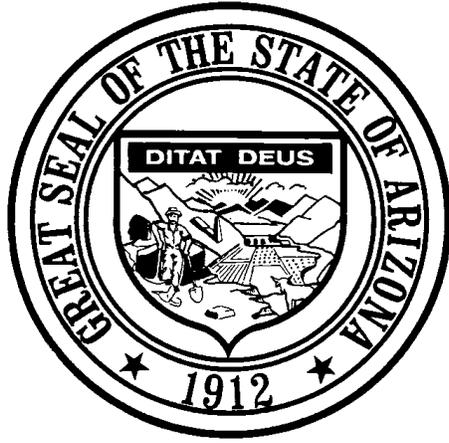
*Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, property collected by the State, and payment of the health insurance subsidy by the PSPRS, the EORP, and the CORP, where the State acts as an agent for distribution to other governmental units or organizations.*

**The Treasurer Custodial Securities Fund** consists of securities held by the State Treasurer for various State agencies as required by statute.

**The Other Treasurer Funds** account for other various deposits that are required to be made by other governmental units or organizations with the State Treasurer.

**The Health Insurance Subsidy Fund** accounts for other post-employment benefit payments of the health insurance subsidy by the PSPRS, the EORP, and the CORP for eligible retired and disabled members.

**The Other Funds** consist of various funds where the State acts as an agent for distribution to other governmental units or organizations.



STATE OF ARIZONA  
**COMBINING STATEMENT OF ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 JUNE 30, 2013  
 (Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES FUND	OTHER TREASURER FUNDS	OTHER FUNDS	TOTAL
<b>ASSETS</b>				
Cash	\$ -	\$ -	\$ 53,684	\$ 53,684
Cash and pooled investments with State Treasurer	-	15,001	213,836	228,837
Short-term investments	-	-	3,392	3,392
Receivables, net of allowances:				
Accrued interest	-	-	1	1
Other	-	-	2	2
Due from others	-	-	82,552	82,552
Custodial securities in safekeeping	3,560,332	-	39,905	3,600,237
Other assets	-	-	1,782	1,782
<b>Total Assets</b>	<b>\$ 3,560,332</b>	<b>\$ 15,001</b>	<b>\$ 395,154</b>	<b>\$ 3,970,487</b>
<b>LIABILITIES</b>				
Due to local governments	\$ -	\$ 48	\$ 153,475	\$ 153,523
Due to others	3,560,332	14,953	241,679	3,816,964
<b>Total Liabilities</b>	<b>\$ 3,560,332</b>	<b>\$ 15,001</b>	<b>\$ 395,154</b>	<b>\$ 3,970,487</b>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Thousands)

	RESTATED BALANCE JULY 1, 2012	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2013
<b>TREASURER CUSTODIAL SECURITIES FUND</b>				
Assets:				
Custodial securities in safekeeping	\$ 3,594,022	\$ 8,262,727	\$ 8,296,417	\$ 3,560,332
Total Assets	<u>\$ 3,594,022</u>	<u>\$ 8,262,727</u>	<u>\$ 8,296,417</u>	<u>\$ 3,560,332</u>
Liabilities:				
Due to others	\$ 3,594,022	\$ 8,262,727	\$ 8,296,417	\$ 3,560,332
Total Liabilities	<u>\$ 3,594,022</u>	<u>\$ 8,262,727</u>	<u>\$ 8,296,417</u>	<u>\$ 3,560,332</u>
 <b>OTHER TREASURER FUNDS</b>				
Assets:				
Cash and pooled investments with State Treasurer	\$ 18,324	\$ 107,354	\$ 110,677	\$ 15,001
Total Assets	<u>\$ 18,324</u>	<u>\$ 107,354</u>	<u>\$ 110,677</u>	<u>\$ 15,001</u>
Liabilities:				
Due to local governments	\$ 47	\$ 94,745	\$ 94,744	\$ 48
Due to others	18,277	20,668	23,992	14,953
Total Liabilities	<u>\$ 18,324</u>	<u>\$ 115,413</u>	<u>\$ 118,736</u>	<u>\$ 15,001</u>
 <b>HEALTH INSURANCE SUBSIDY FUND</b>				
Assets:				
Cash	\$ -	\$ 17,114	\$ 17,114	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 17,114</u>	<u>\$ 17,114</u>	<u>\$ -</u>
Liabilities:				
Benefits payable	\$ -	\$ 17,114	\$ 17,114	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 17,114</u>	<u>\$ 17,114</u>	<u>\$ -</u>

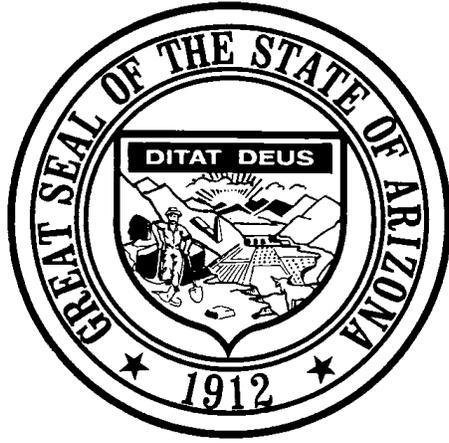
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STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Expressed in Thousands)

	RESTATED BALANCE JULY 1, 2012	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2013
<b>OTHER FUNDS</b>				
Assets:				
Cash	\$ 62,002	\$ 788,966	\$ 797,284	\$ 53,684
Cash and pooled investments with State Treasurer	210,521	4,936,514	4,933,199	213,836
Collateral investment pool	5,458	-	5,458	-
Short-term investments	3,210	3,392	3,210	3,392
Receivables, net of allowances:				
Accrued interest	1	-	-	1
Other	1	1	-	2
Due from others	82,907	82,552	82,907	82,552
Custodial securities in safekeeping	29,658	39,905	29,658	39,905
Other assets	2,228	1,782	2,228	1,782
<b>Total Assets</b>	<b>\$ 395,986</b>	<b>\$ 5,853,112</b>	<b>\$ 5,853,944</b>	<b>\$ 395,154</b>
Liabilities:				
Obligation under securities				
loan agreements	\$ 5,458	\$ -	\$ 5,458	\$ -
Due to U.S. Government	13,809	-	13,809	-
Due to local governments	141,399	7,167,398	7,155,322	153,475
Due to others	235,320	1,089,725	1,083,366	241,679
<b>Total Liabilities</b>	<b>\$ 395,986</b>	<b>\$ 8,257,123</b>	<b>\$ 8,257,955</b>	<b>\$ 395,154</b>

**COMBINED TOTAL ALL AGENCY FUNDS**

Assets:				
Cash	\$ 62,002	\$ 806,080	\$ 814,398	\$ 53,684
Cash and pooled investments with State Treasurer	228,845	5,043,868	5,043,876	228,837
Collateral investment pool	5,458	-	5,458	-
Short-term investments	3,210	3,392	3,210	3,392
Receivables, net of allowances:				
Accrued interest	1	-	-	1
Other	1	1	-	2
Due from others	82,907	82,552	82,907	82,552
Custodial securities in safekeeping	3,623,680	8,302,632	8,326,075	3,600,237
Other assets	2,228	1,782	2,228	1,782
<b>Total Assets, as restated</b>	<b>\$ 4,008,332</b>	<b>\$ 14,240,307</b>	<b>\$ 14,278,152</b>	<b>\$ 3,970,487</b>
Liabilities:				
Benefits payable	\$ -	\$ 17,114	\$ 17,114	\$ -
Obligation under securities				
loan agreements	5,458	-	5,458	-
Due to U.S. Government	13,809	-	13,809	-
Due to local governments	141,446	7,262,143	7,250,066	153,523
Due to others	3,847,619	9,373,120	9,403,775	3,816,964
<b>Total Liabilities, as restated</b>	<b>\$ 4,008,332</b>	<b>\$ 16,652,377</b>	<b>\$ 16,690,222</b>	<b>\$ 3,970,487</b>



## **NON-MAJOR COMPONENT UNITS**

*Component units are legally separate entities for which the State is considered to be financially accountable. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.*

**The Arizona Power Authority** purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws.

**The Rio Nuevo Multipurpose Facilities District (Rio Nuevo)** utilizes tax incremental financing to help develop multipurpose facilities in the downtown Tucson area.

**The Greater Arizona Development Authority** provides cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects.

**The Arizona Commerce Authority** is charged with the following responsibilities: job creation and expansion of capital investment through business attraction, expansion and retention, including business incubation and entrepreneurship; creation, monitoring, and execution of a comprehensive economic and workforce strategy; management and administration of economic development and workforce programs; providing statewide marketing leadership; utilization of all means necessary, prudent and practical to integrate private sector-based innovation, flexibility, focus and responsiveness; and advancement of public policy to meet the State's economic development objectives.

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
NON-MAJOR COMPONENT UNITS  
JUNE 30, 2013  
(Expressed in Thousands)

	ARIZONA POWER AUTHORITY	RIO NUEVO	GREATER AZ DEVELOPMENT AUTHORITY	ARIZONA COMMERCE AUTHORITY	TOTAL
<b>ASSETS</b>					
Current Assets:					
Cash	\$ -	\$ 12,358	\$ -	\$ 5,925	\$ 18,283
Cash and pooled investments with State Treasurer	6,497	-	2,677	91,170	100,344
Collateral investment pool	-	-	-	2,758	2,758
Restricted investments held by trustee	4,544	-	-	-	4,544
Receivables, net of allowances:					
Taxes	-	3,078	-	-	3,078
Interest	-	-	20	-	20
Loans and notes	-	-	-	1,888	1,888
Other	2,754	-	-	142	2,896
Due from primary government	-	-	-	3,500	3,500
Other current assets	493	125	-	492	1,110
Total Current Assets	14,288	15,561	2,697	105,875	138,421
Noncurrent Assets:					
Restricted assets:					
Cash and pooled investments with State Treasurer	-	-	10,465	-	10,465
Cash held by trustee	-	21,888	-	-	21,888
Investments held by trustee	6,557	-	-	-	6,557
Loans and notes receivable, net of allowances	-	16,564	-	2,686	19,250
Other noncurrent assets	15,629	1,418	-	204	17,251
Capital assets:					
Land and other non-depreciable	-	9,234	-	-	9,234
Buildings, equipment, and other depreciable	1,321	34,669	-	1,170	37,160
Less: accumulated depreciation	(1,219)	(8,630)	-	(312)	(10,161)
Total Noncurrent Assets	22,288	75,143	10,465	3,748	111,644
Total Assets	36,576	90,704	13,162	109,623	250,065
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	2,643	8,973	-	1,021	12,637
Accrued liabilities	369	40	3	-	412
Obligations under securities loan agreements	-	-	-	2,758	2,758
Current portion of long-term debt	5,065	4,655	-	-	9,720
Total Current Liabilities	8,077	13,668	3	3,779	25,527
Noncurrent Liabilities:					
Long-term debt	23,216	77,350	-	-	100,566
Total Noncurrent Liabilities	23,216	77,350	-	-	100,566
Total Liabilities	31,293	91,018	3	3,779	126,093
<b>NET POSITION</b>					
Net investment in capital assets	102	31,293	-	858	32,253
Restricted for:					
Debt service	-	13,001	10,465	-	23,466
Loans and other financial assistance	-	-	-	40,163	40,163
Other	-	-	-	19,471	19,471
Unrestricted	5,181	(44,608)	2,694	45,352	8,619
Total Net Position	\$ 5,283	\$ (314)	\$ 13,159	\$ 105,844	\$ 123,972

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STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
NON-MAJOR COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

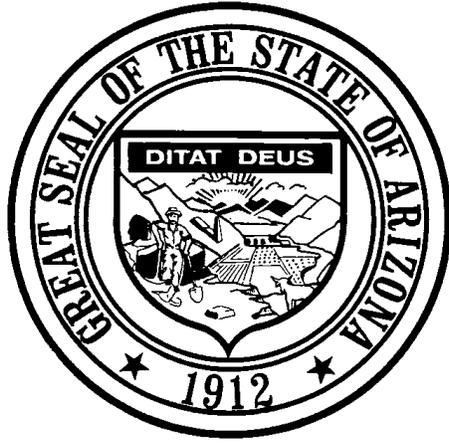
	PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<b><u>FUNCTIONS/PROGRAMS</u></b>			
Arizona Power Authority	\$ 29,121	\$ 28,595	\$ -
Rio Nuevo	7,672	1,377	-
Greater Arizona Development Authority	42	-	-
Arizona Commerce Authority	27,321	337	1,627
Total	<b>\$ 64,156</b>	<b>\$ 30,309</b>	<b>\$ 1,627</b>

General Revenues:

- Taxes:
  - Sales
  - Other
- Unrestricted investment earnings
- Unrestricted grants and contributions
- Payments from State of Arizona
- Miscellaneous
- Change in Net Position
- Net Position - Beginning, as restated
- Net Position - Ending

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

ARIZONA POWER AUTHORITY	RIO NUEVO	GREATER AZ DEVELOPMENT AUTHORITY	ARIZONA COMMERCE AUTHORITY	TOTAL
\$ (526)	\$ -	\$ -	\$ -	\$ (526)
-	(6,295)	-	-	(6,295)
-	-	(42)	-	(42)
-	-	-	(25,357)	(25,357)
-	9,853	-	-	9,853
-	-	-	13,600	13,600
15	1	364	156	536
-	984	-	50	1,034
-	-	-	36,708	36,708
51	1,717	4	-	1,772
(460)	6,260	326	25,157	31,283
5,743	(6,574)	12,833	80,687	92,689
<u>\$ 5,283</u>	<u>\$ (314)</u>	<u>\$ 13,159</u>	<u>\$ 105,844</u>	<u>\$ 123,972</u>



## **NON-MAJOR UNIVERSITIES – AFFILIATED COMPONENT UNITS**

*Component units affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate Boards of Directors that meet the criteria established by GASB, with the exception of the University Public Schools, Inc. (UPSI) and University of Arizona Campus Research Corporation (CRC). The UPSI is included because it is a legally separate, tax-exempt organization that the State believes would be misleading to exclude due to its close affiliation with the State. The CRC is included because the U of A approves the budget and can access its resources.*

**The Northern Arizona University Foundation** receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of the NAU for advancement of its mission.

**Sun Angel Foundation** receives funds primarily through donations, and contributes funds to the ASU for support of various athletic programs.

**Sun Angel Endowment** receives funds primarily through donations, with the annual earnings being used for support of various athletic programs at the ASU.

**The Collegiate Golf Foundation** transferred all remaining assets and liabilities to the ASU as of July 1, 2012.

**Arizona State University Research Park, Inc.** manages a research park to promote and support research activities in coordination with the ASU.

**The Arizona State University Alumni Association** receives funds primarily through donations, dues, and affinity partners and contributes funds to the ASU for support of various programs.

**Downtown Phoenix Student Housing, LLC** provides facilities for use by students of the ASU.

**University Public Schools, Inc.** participates with the ASU faculty and staff in implementing various educational innovations in the form of teaching methods, teacher preparation, curriculum, and educational research.

**The University of Arizona Law College Association (Law Association)** was established to provide support and financial assistance to the College of Law at the U of A. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships.

**The University of Arizona Campus Research Corporation** was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park and related properties.

**The University of Arizona Alumni Association** was established to serve the U of A and its graduates, former students, and friends by attracting, organizing and encouraging them to advance the U of A's missions - teaching, research, and public service.

**University of Arizona Eller Executive Education** was established to advance the missions of the Eller College of Management and the U of A through noncredit, non-degree programs for business, government, and nonprofit leaders.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS  
JUNE 30, 2013  
(Expressed in Thousands)

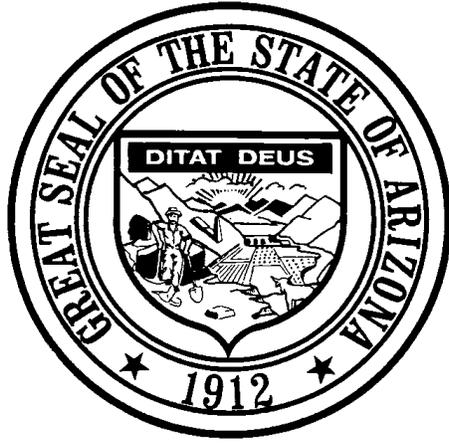
	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT	COLLEGIATE GOLF FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION
<b>ASSETS</b>						
Cash and cash equivalent investments	\$ 1,005	\$ 2,006	\$ 367	\$ -	\$ 1,782	\$ 438
Receivables:						
Pledges receivable	5,989	3,765	-	-	-	96
Other receivables	2,879	170	-	-	13,220	202
Total receivables	8,868	3,935	-	-	13,220	298
Investments:						
Investments in securities	104,270	-	8,095	-	1,009	14,455
Other investments	9,573	-	775	-	-	-
Total investments	113,843	-	8,870	-	1,009	14,455
Net direct financing leases	7,954	-	-	-	-	-
Property and equipment, net of accumulated depreciation	-	7	-	-	5,324	-
Licenses	2,130	-	-	-	-	-
Other assets	-	184	30	-	2,273	90
Total Assets	133,800	6,132	9,267	-	23,608	15,281
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	1,641	234	5	-	252	236
Liability under endowment trust agreements	23,063	-	-	-	-	-
Long term debt	-	-	-	-	7,845	-
Deferred revenue	5,403	64	-	-	12,667	34
Other liabilities	1,324	32	4,000	-	1,564	4
Total Liabilities	31,431	330	4,005	-	22,328	274
<b>NET ASSETS</b>						
Permanently restricted	46,576	-	1,842	-	-	-
Temporarily restricted	23,511	5,468	544	-	-	309
Unrestricted (deficit)	32,282	334	2,876	-	1,280	14,698
Total Net Assets	\$ 102,369	\$ 5,802	\$ 5,262	\$ -	\$ 1,280	\$ 15,007

DOWNTOWN PHOENIX STUDENT HOUSING	UNIVERSITY PUBLIC SCHOOLS	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ 1,137	\$ 2,501	\$ 801	\$ 6,158	\$ 1,543	\$ 11	\$ 17,749
-	100	572	-	57	-	10,579
169	230	-	1,057	691	274	18,892
169	330	572	1,057	748	274	29,471
13,542	-	8,212	-	5,944	-	155,527
-	-	174	-	-	-	10,522
13,542	-	8,386	-	5,944	-	166,049
-	-	-	-	-	-	7,954
102,692	335	-	17,919	27	-	126,304
-	-	-	-	-	-	2,130
5,958	21	7	6,499	66	-	15,128
123,498	3,187	9,766	31,633	8,328	285	364,785
13,918	835	139	1,430	106	15	18,811
-	-	-	-	-	-	23,063
140,171	173	-	8,098	7	-	156,294
21	1,474	-	2,984	2,305	220	25,172
1,597	943	376	920	-	-	10,760
155,707	3,425	515	13,432	2,418	235	234,100
-	-	4,540	-	-	-	52,958
-	89	4,110	-	-	-	34,031
(32,209)	(327)	601	18,201	5,910	50	43,696
\$ (32,209)	\$ (238)	\$ 9,251	\$ 18,201	\$ 5,910	\$ 50	\$ 130,685

STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT	COLLEGIATE GOLF FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION
<b>REVENUES</b>						
Contributions	\$ 9,849	\$ 11,126	\$ -	\$ -	\$ -	\$ 2,668
Rental revenue	-	-	-	-	5,731	-
Sales and services	-	304	-	-	-	1,928
Net investment income	11,465	20	156	-	5	1,648
Licensing revenue	1,390	-	-	-	-	-
Other revenues	1,978	1,279	-	-	356	114
<b>Total Revenues</b>	<b>24,682</b>	<b>12,729</b>	<b>156</b>	<b>-</b>	<b>6,092</b>	<b>6,358</b>
<b>EXPENSES</b>						
Program services:						
Payments to Universities	-	10,808	-	-	2,064	-
Leasing related expenses	-	-	-	-	-	-
Payments on behalf of Universities	-	-	-	-	-	-
Other program services	6,017	-	-	-	-	-
Management and general expenses	527	1,401	116	-	1,034	5,138
Fundraising expenses	2,848	-	-	-	-	-
Interest	-	-	199	-	358	-
Depreciation and amortization	1,430	-	-	-	430	-
Other expenses	-	968	-	-	152	79
<b>Total Expenses</b>	<b>10,822</b>	<b>13,177</b>	<b>315</b>	<b>-</b>	<b>4,038</b>	<b>5,217</b>
Increase (decrease) in Net Assets, before extraordinary items	13,860	(448)	(159)	-	2,054	1,141
Extraordinary items (Primarily equity transfers)	(385)	-	-	228	-	-
Increase (decrease) in Net Assets, after extraordinary items	13,475	(448)	(159)	228	2,054	1,141
Net Assets - Beginning, as restated	88,894	6,250	5,421	(228)	(774)	13,866
Net Assets - Ending	\$ 102,369	\$ 5,802	\$ 5,262	\$ -	\$ 1,280	\$ 15,007

DOWNTOWN PHOENIX STUDENT HOUSING	UNIVERSITY PUBLIC SCHOOLS	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ -	\$ 2,407	\$ 907	\$ -	\$ 180	\$ 9	\$ 27,146
8,947	-	-	12,035	-	-	26,713
-	834	-	-	1,092	367	4,525
1	2	837	14	376	-	14,524
-	-	-	-	-	-	1,390
339	10,694	87	275	2,523	-	17,645
9,287	13,937	1,831	12,324	4,171	376	91,943
-	-	-	-	-	-	12,872
-	-	-	8,585	-	-	8,585
-	-	1,703	-	3,038	223	4,964
-	-	-	-	-	-	6,017
2,775	14,253	98	1,317	715	103	27,477
-	-	23	-	169	-	3,040
7,209	-	-	-	-	-	7,766
5,173	-	-	-	-	-	7,033
663	-	-	-	-	-	1,862
15,820	14,253	1,824	9,902	3,922	326	79,616
(6,533)	(316)	7	2,422	249	50	12,327
-	-	-	-	-	-	(157)
(6,533)	(316)	7	2,422	249	50	12,170
(25,676)	78	9,244	15,779	5,661	-	118,515
\$ (32,209)	\$ (238)	\$ 9,251	\$ 18,201	\$ 5,910	\$ 50	\$ 130,685



# STATISTICAL SECTION

(Not Covered by the Independent Auditors' Report)



## STATISTICAL SECTION

This part of the State of Arizona's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

**Financial Trends** – *Schedules 1 thru 4* contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.

**Revenue Capacity** – *Schedules 5 thru 9* contain information to help the reader assess the State's most significant own-source revenues, the sales tax, and personal income tax.

**Debt Capacity** – *Schedules 10 thru 22* present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.

**Demographic and Economic Information** – *Schedules 23 and 24* offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place and to help make comparisons over time and among other governments.

**Operating Information** – *Schedules 25 thru 27* contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.

STATE OF ARIZONA  
SCHEDULE 1  
**NET POSITION BY COMPONENT (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	Fiscal Year				
	2013	2012, as restated	2011	2010	2009
<b>GOVERNMENTAL ACTIVITIES:</b>					
Net investment in capital assets	\$ 17,410,055	\$ 16,940,512	\$ 16,326,569	\$ 15,738,121	\$ 15,094,719
Restricted (3)	6,116,083	5,447,576	5,125,527	4,648,280	3,990,594
Unrestricted	(2,527,441)	(3,351,315)	(4,243,824)	(4,155,346)	(2,984,628)
Total Governmental Activities Net Position	<u>\$ 20,998,697</u>	<u>\$ 19,036,773</u>	<u>\$ 17,208,272</u>	<u>\$ 16,231,055</u>	<u>\$ 16,100,685</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Net investment in capital assets	\$ 1,532,572	\$ 1,483,416	\$ 1,397,683	\$ 1,352,658	\$ 1,328,658
Restricted	531,972	496,444	501,437	550,102	1,085,399
Unrestricted (2)	1,064,875	810,810	695,862	576,426	376,908
Total Business-type Activities Net Position	<u>\$ 3,129,419</u>	<u>\$ 2,790,670</u>	<u>\$ 2,594,982</u>	<u>\$ 2,479,186</u>	<u>\$ 2,790,965</u>
<b>PRIMARY GOVERNMENT:</b>					
Net investment in capital assets	\$ 18,942,627	\$ 18,423,928	\$ 17,724,252	\$ 17,090,779	\$ 16,423,377
Restricted (3)	6,648,055	5,944,020	5,626,964	5,198,382	5,075,993
Unrestricted (2)	(1,462,566)	(2,540,505)	(3,547,962)	(3,578,920)	(2,607,720)
Total Primary Government Net Position	<u>\$ 24,128,116</u>	<u>\$ 21,827,443</u>	<u>\$ 19,803,254</u>	<u>\$ 18,710,241</u>	<u>\$ 18,891,650</u>

(1) This schedule reports using the accrual basis of accounting.

(2) Fiscal year 2012 unrestricted net position was restated as a result of GASB 61 in which Northern Arizona Capital Facilities Corporation was reclassified from a discrete non-major university component unit to a blended university component unit.

(3) Fiscal year 2012 restricted net position was restated as a result of an agency fund being reclassified to a special revenue fund.

		Fiscal Year			
2008	2007, as restated	2006, as restated	2005, as restated	2004, as restated	
\$ 14,530,867	\$ 13,500,218	\$ 12,878,151	\$ 11,825,961	\$ 11,226,325	
4,987,365	4,734,039	3,560,868	2,938,288	2,100,575	
(1,105,246)	614,606	733,455	(463,515)	(684,492)	
<u>\$ 18,412,986</u>	<u>\$ 18,848,863</u>	<u>\$ 17,172,474</u>	<u>\$ 14,300,734</u>	<u>\$ 12,642,408</u>	
\$ 1,387,655	\$ 1,186,177	\$ 1,146,618	\$ 1,172,613	\$ 1,169,198	
1,581,212	1,575,991	1,400,455	1,232,016	1,190,250	
188,354	295,377	179,524	84,248	115,986	
<u>\$ 3,157,221</u>	<u>\$ 3,057,545</u>	<u>\$ 2,726,597</u>	<u>\$ 2,488,877</u>	<u>\$ 2,475,434</u>	
\$ 15,918,522	\$ 14,686,395	\$ 14,024,769	\$ 12,998,574	\$ 12,395,523	
6,568,577	6,310,030	4,961,323	4,170,304	3,290,825	
(916,892)	909,983	912,979	(379,267)	(568,506)	
<u>\$ 21,570,207</u>	<u>\$ 21,906,408</u>	<u>\$ 19,899,071</u>	<u>\$ 16,789,611</u>	<u>\$ 15,117,842</u>	

STATE OF ARIZONA  
SCHEDULE 2  
**CHANGES IN NET POSITION (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	Fiscal Year				
	2013	2012, as restated	2011	2010	2009
<b>EXPENSES</b>					
<b>Governmental Activities:</b>					
General government	\$ 836,431	\$ 840,189	\$ 929,107	\$ 941,813	\$ 928,485
Health and welfare	12,168,426	11,992,408	12,558,119	13,090,357	12,055,439
Inspection and regulation	161,480	151,937	149,649	157,786	176,354
Education	5,372,267	5,331,848	5,467,543	5,706,667	6,084,342
Protection and safety	1,400,413	1,380,999	1,299,205	1,451,571	1,514,282
Transportation (2)	754,510	808,967	857,194	511,397	695,070
Natural resources	204,179	213,339	196,210	183,535	228,430
Intergovernmental revenue sharing	2,685,378	2,473,881	2,462,178	2,585,683	2,755,710
Interest on long-term debt	355,975	350,483	341,801	261,518	222,851
Total Governmental Activities Expenses	<u>23,939,059</u>	<u>23,544,051</u>	<u>24,261,006</u>	<u>24,890,327</u>	<u>24,660,963</u>
<b>Business-type Activities:</b>					
Universities	3,866,866	3,629,568	3,533,977	3,343,377	3,290,033
Unemployment Compensation (7)	-	1,069,531	1,655,364	2,103,028	1,086,330
Industrial Commission Special Fund (3)	38,614	83,290	27,196	67,750	30,055
Lottery (7)	-	496,830	439,069	432,150	395,950
Other	1,329,816	113,347	115,442	126,029	142,229
Total Business-type Activities Expenses	<u>5,235,296</u>	<u>5,392,566</u>	<u>5,771,048</u>	<u>6,072,334</u>	<u>4,944,597</u>
Total Primary Government Expenses	<u>\$ 29,174,355</u>	<u>\$ 28,936,617</u>	<u>\$ 30,032,054</u>	<u>\$ 30,962,661</u>	<u>\$ 29,605,560</u>
<b>PROGRAM REVENUES</b>					
<b>Governmental Activities:</b>					
Charges for services:					
General government	\$ 188,462	\$ 189,175	\$ 191,738	\$ 208,316	\$ 199,011
Inspection and regulation	156,164	150,557	149,890	143,329	153,642
Transportation (4)	119,862	108,877	114,453	123,372	138,520
Other activities	386,381	398,893	381,633	402,496	315,660
Operating grants and contributions	11,588,834	11,357,470	12,580,013	13,735,263	10,620,642
Capital grants and contributions	651,999	778,572	745,559	576,027	553,198
Total Governmental Activities					
Program Revenues	<u>13,091,702</u>	<u>12,983,544</u>	<u>14,163,286</u>	<u>15,188,803</u>	<u>11,980,673</u>
<b>Business-type Activities:</b>					
Charges for services:					
Universities	1,892,356	1,752,509	1,601,077	1,432,055	1,272,694
Lottery (7)	-	646,675	583,537	551,492	484,486
Other activities (5)	1,289,456	584,240	560,502	509,254	439,010
Operating grants and contributions	1,570,854	1,705,773	2,212,673	2,260,071	1,243,697
Capital grants and contributions	15,210	53,571	14,799	12,563	14,710
Total Business-type Activities					
Program Revenues	<u>4,767,876</u>	<u>4,742,768</u>	<u>4,972,588</u>	<u>4,765,435</u>	<u>3,454,597</u>
Total Primary Government					
Program Revenues	<u>\$ 17,859,578</u>	<u>\$ 17,726,312</u>	<u>\$ 19,135,874</u>	<u>\$ 19,954,238</u>	<u>\$ 15,435,270</u>
<b>NET (EXPENSE) REVENUE</b>					
Governmental activities	\$ (10,847,357)	\$ (10,560,507)	\$ (10,097,720)	\$ (9,701,524)	\$ (12,680,290)
Business-type activities	(467,420)	(649,798)	(798,460)	(1,306,899)	(1,490,000)
Total Primary Government Net (Expense)	<u>\$ (11,314,777)</u>	<u>\$ (11,210,305)</u>	<u>\$ (10,896,180)</u>	<u>\$ (11,008,423)</u>	<u>\$ (14,170,290)</u>

Fiscal Year

2008	2007, as restated	2006, as restated	2005	2004, as restated
\$ 982,382	\$ 802,659	\$ 781,542	\$ 646,452	\$ 726,525
10,884,297	9,789,699	9,057,733	8,494,206	7,717,148
185,996	175,609	159,766	149,238	138,281
6,242,173	5,984,196	5,304,555	4,853,458	4,703,685
1,510,615	1,401,513	1,279,129	1,171,340	1,059,047
670,173	583,304	386,777	589,966	731,522
250,258	193,862	187,947	184,538	162,366
3,023,836	2,864,543	2,658,636	2,335,828	2,144,438
179,795	191,674	172,439	182,852	176,035
<u>23,929,525</u>	<u>21,987,059</u>	<u>19,988,524</u>	<u>18,607,878</u>	<u>17,559,047</u>
3,227,481	2,960,790	2,762,557	2,540,193	2,355,418
356,333	248,111	226,171	292,127	397,657
14,824	23,669	(18,300)	106,295	167,331
372,740	363,508	377,104	317,226	303,996
162,300	176,486	136,894	120,629	109,944
<u>4,133,678</u>	<u>3,772,564</u>	<u>3,484,426</u>	<u>3,376,470</u>	<u>3,334,346</u>
<u>\$ 28,063,203</u>	<u>\$ 25,759,623</u>	<u>\$ 23,472,950</u>	<u>\$ 21,984,348</u>	<u>\$ 20,893,393</u>
\$ 190,374	\$ 200,495	\$ 161,664	\$ 139,486	\$ 140,791
159,857	158,022	146,191	133,073	133,510
149,560	158,019	134,068	88,296	114,097
318,776	281,796	279,836	256,804	248,446
9,190,910	8,536,030	7,941,223	7,544,370	6,981,748
523,898	354,255	388,646	497,140	421,251
<u>10,533,375</u>	<u>9,688,617</u>	<u>9,051,628</u>	<u>8,659,169</u>	<u>8,039,843</u>
1,167,696	1,069,339	962,967	863,042	778,047
472,937	462,200	468,697	397,561	366,582
485,242	518,922	474,801	440,646	305,221
898,441	883,373	852,788	834,421	836,076
38,029	27,981	30,056	19,774	18,513
<u>3,062,345</u>	<u>2,961,815</u>	<u>2,789,309</u>	<u>2,555,444</u>	<u>2,304,439</u>
<u>\$ 13,595,720</u>	<u>\$ 12,650,432</u>	<u>\$ 11,840,937</u>	<u>\$ 11,214,613</u>	<u>\$ 10,344,282</u>
\$ (13,396,150)	\$ (12,298,442)	\$ (10,936,896)	\$ (9,948,709)	\$ (9,519,204)
(1,071,333)	(810,749)	(695,117)	(821,026)	(1,029,907)
<u>\$ (14,467,483)</u>	<u>\$ (13,109,191)</u>	<u>\$ (11,632,013)</u>	<u>\$ (10,769,735)</u>	<u>\$ (10,549,111)</u>

(Continued)

STATE OF ARIZONA  
SCHEDULE 2  
**CHANGES IN NET POSITION (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	Fiscal Year				
	2013	2012, as restated	2011	2010	2009
<b>GENERAL REVENUES AND OTHER</b>					
<b>CHANGES IN NET POSITION</b>					
<b>Governmental Activities:</b>					
Taxes:					
Sales	\$ 6,518,480	\$ 6,296,151	\$ 5,942,250	\$ 5,029,050	\$ 5,442,563
Income	3,974,998	3,706,698	3,366,783	2,809,995	3,126,076
Tobacco	316,050	317,369	320,657	332,893	370,073
Property	27,429	30,656	32,038	31,417	32,564
Motor vehicle and fuel (4)	1,592,911	1,581,909	1,565,525	1,583,790	1,643,276
Other	531,186	522,510	550,430	535,435	574,030
Unrestricted investment earnings (6)	18,705	79,190	29,183	37,665	92,957
Unrestricted grants and contributions	45,746	40,678	16,468	13,213	12,440
Miscellaneous general revenues (8)	144,403	265,214	140,854	204,295	222,712
Gain (loss) on sale of trust land	174,095	125,479	(154,359)	64,005	(165,696)
Transfers	(534,722)	(576,846)	(734,892)	(809,864)	(983,006)
<b>Total Governmental Activities</b>	<b>12,809,281</b>	<b>12,389,008</b>	<b>11,074,937</b>	<b>9,831,894</b>	<b>10,367,989</b>
<b>Business-type Activities:</b>					
Sales taxes	57,490	55,309	52,913	52,318	58,528
Unrestricted investment earnings	62,017	49,501	68,401	70,766	22,450
Unrestricted grants and contributions	5	3,468	-	-	-
Miscellaneous general revenues (5)	148,743	155,757	50,510	52,072	45,786
Contributions to permanent endowments	3,192	3,270	3,656	3,020	4,014
Special items	-	-	-	-	7,240
Extraordinary items	-	-	3,884	7,080	2,720
Transfers	534,722	576,846	734,892	809,864	983,006
<b>Total Business-type Activities</b>	<b>806,169</b>	<b>844,151</b>	<b>914,256</b>	<b>995,120</b>	<b>1,123,744</b>
<b>Total Primary Government</b>	<b>\$ 13,615,450</b>	<b>\$ 13,233,159</b>	<b>\$ 11,989,193</b>	<b>\$ 10,827,014</b>	<b>\$ 11,491,733</b>
<b>CHANGE IN NET POSITION</b>					
Governmental activities	\$ 1,961,924	\$ 1,828,501	\$ 977,217	\$ 130,370	\$ (2,312,301)
Business-type activities	338,749	194,353	115,796	(311,779)	(366,256)
<b>Total Primary Government</b>	<b>\$ 2,300,673</b>	<b>\$ 2,022,854</b>	<b>\$ 1,093,013</b>	<b>\$ (181,409)</b>	<b>\$ (2,678,557)</b>

- (1) This schedule reports using the accrual basis of accounting.
- (2) For fiscal year 2006, net position for governmental activities were increased by the capitalization of \$302,375 of capital assets that were previously recorded as transportation expenses.
- (3) The Industrial Commission Special Fund's cost of sales and benefits expense decreased \$125,828 during fiscal year 2006, primarily due to a decrease in insolvent carrier liabilities. During fiscal years 2005 and 2004, insolvent carrier liability increased, primarily as the result of \$67,423 and \$107,600, respectively, in Arizona workers' compensation claims from the defunct California domiciled Fremont Companies.
- (4) \$31,804 of transportation's charges for services for fiscal year 2005 were classified as motor vehicle and fuel tax revenues.
- (5) Beginning in fiscal year 2005, settlement income for the Industrial Commission Special Fund is classified as a program revenue, charges for services. Prior to this, it was classified as a miscellaneous general revenue. In fiscal year 2005, settlement income was \$41,554.
- (6) Fiscal year 2007 unrestricted investment earnings were reduced by \$17,771 due to reclassifying the Greater Arizona Development Authority from the primary government to a component unit.
- (7) For fiscal year 2013, Unemployment Compensation and Lottery changed from major to non-major funds.
- (8) Fiscal year 2012 miscellaneous general revenues was restated as a result of an agency fund being reclassified to a special revenue fund.

Fiscal Year				
2008	2007, as restated	2006, as restated	2005	2004, as restated
\$ 6,270,419	\$ 6,537,584	\$ 6,322,311	\$ 5,421,949	\$ 5,016,585
4,205,426	4,636,447	4,548,843	3,562,916	2,800,461
413,333	358,205	248,122	237,430	223,804
36,732	43,736	43,035	46,148	50,455
1,800,920	1,826,893	1,857,293	1,758,950	1,613,952
559,440	529,629	575,946	493,501	539,218
243,160	243,328	172,311	106,362	24,227
13,574	11,711	12,293	11,624	8,502
214,751	212,253	235,610	387,269	281,109
196,953	451,501	567,364	288,483	319,517
(994,435)	(876,456)	(774,492)	(707,597)	(678,726)
<u>12,960,273</u>	<u>13,974,831</u>	<u>13,808,636</u>	<u>11,607,035</u>	<u>10,199,104</u>
72,945	79,223	54,550	57,584	50,050
39,763	103,362	49,050	40,311	38,753
-	-	-	5	-
64,564	77,841	58,816	26,017	46,615
3,927	4,815	3,803	2,955	2,231
(20,100)	-	(7,874)	-	(6,880)
15,475	-	-	-	-
994,435	876,456	774,492	707,597	678,726
<u>1,171,009</u>	<u>1,141,697</u>	<u>932,837</u>	<u>834,469</u>	<u>809,495</u>
<u>\$ 14,131,282</u>	<u>\$ 15,116,528</u>	<u>\$ 14,741,473</u>	<u>\$ 12,441,504</u>	<u>\$ 11,008,599</u>
\$ (435,877)	\$ 1,676,389	\$ 2,871,740	\$ 1,658,326	\$ 679,900
99,676	330,948	237,720	13,443	(220,412)
<u>\$ (336,201)</u>	<u>\$ 2,007,337</u>	<u>\$ 3,109,460</u>	<u>\$ 1,671,769</u>	<u>\$ 459,488</u>

STATE OF ARIZONA  
SCHEDULE 3  
**FUND BALANCES, GOVERNMENTAL FUNDS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	Fiscal Year				
	2013	2012, as restated	2011	2010, as restated (2)	2009
<b>GENERAL FUND:</b>					
Reserved for:					
Budget stabilization fund	\$ -	\$ -	\$ -	\$ -	\$ 2,767
School facilities improvements	-	-	-	14,764	376,993
Continuing appropriations	-	-	-	55,354	43,091
Other fund balance reservations	-	-	-	232	252
Unreserved	-	-	-	(817,348)	(1,401,381)
Nonspendable (2)	844	891	716	-	-
Restricted (2)	192,187	246,977	317,471	-	-
Committed (2)	73,237	109,469	141,183	-	-
Unassigned (2)	156,935	(437,035)	(1,162,531)	-	-
<b>Total General Fund</b>	<b>\$ 423,203</b>	<b>\$ (79,698)</b>	<b>\$ (703,161)</b>	<b>\$ (746,998)</b>	<b>\$ (978,278)</b>
<b>ALL OTHER GOVERNMENTAL FUNDS:</b>					
Reserved for:					
Highway construction	\$ -	\$ -	\$ -	\$ 809,497	\$ 1,304,781
Other construction	-	-	-	45,403	108,129
School facilities improvements	-	-	-	-	-
Permanent funds	-	-	-	2,674,953	2,196,040
Continuing appropriations	-	-	-	116,350	212,553
Debt service	-	-	-	26,389	27,115
Other fund balance reservations	-	-	-	40,327	7,447
Unreserved, reported in:					
Special revenue funds	-	-	-	821,491	767,258
Nonspendable (2)	4,160,485	3,472,005	3,244,080	-	-
Restricted (2,3)	1,860,872	1,762,356	1,531,992	-	-
Committed (2)	661,110	514,085	452,447	-	-
Unassigned (2)	(26,266)	(33,861)	(39,009)	-	-
<b>Total All Other Governmental Funds</b>	<b>\$ 6,656,201</b>	<b>\$ 5,714,585</b>	<b>\$ 5,189,510</b>	<b>\$ 4,534,410</b>	<b>\$ 4,623,323</b>

- (1) This schedule reports using the modified accrual basis of accounting.
- (2) Beginning in fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement 54. Additionally, as a result of the reclassification, fund balance for fiscal year 2010 was restated.
- (3) Fiscal year 2012 restricted fund balance was restated as a result of an agency fund being reclassified to a special revenue fund.

Fiscal Year

2008	2007, as restated	2006	2005	2004
\$ 147,212	\$ 673,531	\$ 651,020	\$ 160,873	\$ 13,545
1,914	4,931	110,149	107,260	96,714
103,320	162,657	69,861	55,727	74,973
262	272	302	374	377
108,914	1,081,708	1,434,806	986,168	561,029
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 361,622</u>	<u>\$ 1,923,099</u>	<u>\$ 2,266,138</u>	<u>\$ 1,310,402</u>	<u>\$ 746,638</u>

\$ 1,253,202	\$ 976,488	\$ 426,015	\$ 419,072	\$ 321,401
238,985	5,288	6,256	7,307	41,165
-	-	-	5,386	17,808
2,544,365	2,454,564	2,043,591	1,716,404	1,361,366
143,785	94,602	118,671	120,752	114,948
35,236	34,421	37,792	21,992	27,693
27,132	17,702	5,145	25,375	25,138
919,679	793,890	657,371	574,938	463,738
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 5,162,384</u>	<u>\$ 4,376,955</u>	<u>\$ 3,294,841</u>	<u>\$ 2,891,226</u>	<u>\$ 2,373,257</u>

STATE OF ARIZONA  
SCHEDULE 4  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	Fiscal Year				
	2013	2012, as restated	2011	2010, as restated	2009
<b>REVENUES</b>					
Taxes:					
Sales	\$ 6,530,609	\$ 6,312,870	\$ 5,971,141	\$ 5,017,977	\$ 5,429,453
Income	4,034,631	3,715,082	3,398,972	2,805,426	3,137,794
Tobacco (2)	316,050	317,369	320,657	332,893	370,073
Property	27,429	30,656	32,038	31,417	32,564
Motor vehicle and fuel	1,592,911	1,581,909	1,565,525	1,585,919	1,672,151
Other	531,186	522,510	550,430	535,435	574,030
Intergovernmental	11,592,676	11,843,908	13,019,744	13,562,547	11,316,023
Licenses, fees, and permits	476,972	477,344	452,629	425,526	410,002
Earnings (loss) on investments (3,5)	499,919	190,055	438,068	422,564	(318,321)
Sales and charges for services (7)	182,075	188,806	186,325	203,725	154,671
Fines, forfeitures, and penalties	181,216	168,240	184,950	224,000	203,337
Gaming	86,507	85,535	80,455	77,554	84,140
Tobacco settlement	149,125	101,067	99,130	105,394	125,571
Proceeds from sale of trust land (6)	225,659	137,405	95,500	78,564	143,674
Other (8)	169,119	297,065	164,658	230,223	253,868
Total Revenues	<u>26,596,084</u>	<u>25,969,821</u>	<u>26,560,222</u>	<u>25,639,164</u>	<u>23,589,030</u>
<b>EXPENDITURES</b>					
Current:					
General government (7)	812,770	838,776	933,313	923,977	913,266
Health and welfare	12,216,622	12,029,530	12,818,468	13,054,472	11,959,640
Inspection and regulation	160,636	153,947	153,718	157,461	174,633
Education	5,369,538	5,332,141	5,467,695	5,702,963	6,031,605
Protection and safety	1,349,146	1,351,251	1,288,577	1,417,428	1,460,692
Transportation (4)	683,607	745,306	820,417	584,363	608,631
Natural resources	194,714	202,677	191,429	175,568	220,030
Intergovernmental revenue sharing	2,685,168	2,473,535	2,459,934	2,574,539	2,764,776
Debt service:					
Principal	412,617	386,027	383,591	288,172	235,971
Interest and other fiscal charges	329,773	344,903	357,754	286,027	238,430
Capital outlay (4)	765,339	769,716	824,417	1,291,341	1,295,530
Total Expenditures	<u>24,979,930</u>	<u>24,627,809</u>	<u>25,699,313</u>	<u>26,456,311</u>	<u>25,903,204</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,616,154</u>	<u>1,342,012</u>	<u>860,909</u>	<u>(817,147)</u>	<u>(2,314,174)</u>

Fiscal Year

	2007, as				
2008	restated	2006	2005	2004	
\$ 6,278,181	\$ 6,527,968	\$ 6,313,090	\$ 5,410,383	\$ 4,985,424	
4,174,966	4,629,220	4,535,492	3,528,565	2,818,778	
413,333	358,205	248,122	237,430	223,804	
36,732	43,736	43,035	46,148	50,455	
1,802,572	1,828,701	1,857,293	1,758,950	1,613,952	
559,440	529,629	575,946	493,501	539,218	
9,499,419	8,313,720	8,019,509	7,714,012	7,159,976	
447,090	442,236	410,069	335,760	349,938	
135,879	510,253	247,250	190,499	131,715	
167,329	158,318	162,048	154,251	161,170	
167,309	183,923	138,354	121,123	120,032	
94,004	94,771	84,794	67,658	57,517	
115,587	90,258	86,231	93,933	92,550	
-	-	-	-	-	
263,443	264,440	269,411	430,097	313,220	
<u>24,155,284</u>	<u>23,975,378</u>	<u>22,990,644</u>	<u>20,582,310</u>	<u>18,617,749</u>	
966,512	879,519	861,373	758,149	718,229	
10,874,581	9,679,226	8,995,430	8,419,913	7,733,516	
184,451	173,897	157,401	146,523	136,189	
6,240,862	5,983,513	5,302,942	4,852,099	4,702,609	
1,447,372	1,358,439	1,247,508	1,132,473	1,028,134	
630,283	524,318	373,603	564,574	717,463	
242,893	185,592	178,832	175,593	153,533	
3,026,563	2,863,218	2,661,894	2,335,828	2,144,438	
261,228	220,473	261,277	381,512	327,595	
210,856	195,317	176,933	200,731	188,247	
1,106,951	992,000	1,066,815	710,688	695,289	
<u>25,192,552</u>	<u>23,055,512</u>	<u>21,284,008</u>	<u>19,678,083</u>	<u>18,545,242</u>	
<u>(1,037,268)</u>	<u>919,866</u>	<u>1,706,636</u>	<u>904,227</u>	<u>72,507</u>	

(Continued)

STATE OF ARIZONA  
SCHEDULE 4  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

	Fiscal Year				
	2013	2012, as restated	2011	2010, as restated	2009
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	782,420	821,072	862,040	1,106,250	1,248,267
Transfers out	(1,256,408)	(1,323,778)	(1,574,406)	(1,872,212)	(2,168,964)
Proceeds from sale of trust land (6)	-	-	-	-	-
Proceeds from sale of capital assets	1,636	1,815	3,712	3,088	2,127
Capital lease and installment purchase contracts	15,158	8,166	4,583	187,836	4,056
Proceeds from notes and loans	51,550	9,541	11,113	32,628	23,139
Refunding bonds issued	837,340	455,900	-	-	-
Payment to refunded bond escrow agent	(954,372)	(560,228)	-	-	-
Bonds issued	194,295	259,460	180,000	425,420	621,050
Refunding grant anticipation notes issued	-	43,825	-	-	-
Grant anticipation notes issued	-	-	158,585	-	55,420
Refunding certificates of participation issued	62,630	-	-	-	-
Payment to refunded certificates of participation escrow agent	(42,096)	-	-	-	-
Certificates of participation issued	-	-	150,110	998,795	580,035
Premium on debt issued	136,210	90,753	42,291	77,709	70,083
Total Other Financing Sources (Uses)	<u>(171,637)</u>	<u>(193,474)</u>	<u>(161,972)</u>	<u>959,514</u>	<u>435,213</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ 1,444,517</u>	<u>\$ 1,148,538</u>	<u>\$ 698,937</u>	<u>\$ 142,367</u>	<u>\$ (1,878,961)</u>
<b>DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES</b>	3.1%	3.1%	3.0%	2.3%	1.9%

- (1) This schedule reports using the modified accrual basis of accounting.
- (2) Increase in tobacco tax revenue from fiscal year 2006 to fiscal year 2007 primarily due to Proposition 203, implemented December 2006.
- (3) Increase from fiscal year 2006 to fiscal year 2007 primarily due to increase in Land Endowment fair market value of investments, larger cash balances available to invest, and market interest rates.
- (4) For fiscal year 2006, transportation expenditures were reduced and capital outlay was increased by \$302,375 for addition of capital assets that were previously recorded as transportation expenditures.
- (5) In fiscal year 2008, the Greater Arizona Development Authority Fund was reclassified from a special revenue fund to a component unit. Fiscal year 2007 earnings on investments has been restated to reflect this change.
- (6) In fiscal year 2009, "Proceeds from sale of trust land" was moved from "Other financing sources (uses)" to "Revenues."
- (7) In fiscal year 2010, amounts were restated as a result of implementing GASB Statement 54.
- (8) Fiscal year 2012 other revenues was restated as a result of an agency fund being reclassified to a special revenue fund.

Fiscal Year

2008	2007, as restated	2006	2005	2004
897,771	910,605	812,083	1,011,456	940,050
(1,874,084)	(1,784,833)	(1,585,754)	(1,714,562)	(1,616,105)
249,970	199,089	284,293	274,127	149,001
28,233	10,162	11,118	-	-
23,556	132,985	3,543	5,350	24,349
19,529	-	-	-	-
82,880	-	596,160	224,283	107,940
(86,547)	-	(646,689)	(247,417)	(145,965)
563,950	325,000	118,250	210,577	389,746
-	-	-	-	22,633
68,000	-	-	104,385	177,322
-	-	-	334,225	16,725
-	-	-	(363,052)	(17,273)
238,990	-	-	237,625	273,735
48,972	26,201	59,711	100,509	48,834
<u>261,220</u>	<u>(180,791)</u>	<u>(347,285)</u>	<u>177,506</u>	<u>370,992</u>
<u>\$ (776,048)</u>	<u>\$ 739,075</u>	<u>\$ 1,359,351</u>	<u>\$ 1,081,733</u>	<u>\$ 443,499</u>

2.0%

1.9%

2.2%

3.1%

2.9%

STATE OF ARIZONA  
SCHEDULE 5  
**NET TAXABLE SALES BY CLASSIFICATION (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

CLASSIFICATION (6)	Fiscal Year					
	2013	2012	2011	2010	2009	2008
Transporting (2)	\$ 41,324	\$ 52,137	\$ 41,555	\$ 41,990	\$ 37,920	\$ 48,713
Mining, oil and gas	115,775	105,614	96,514	102,900	175,743	216,675
Mining severance	1,193,176	1,623,111	1,609,451	1,164,231	729,482	1,752,522
Utilities	9,900,238	9,474,521	9,394,361	9,354,244	9,236,366	9,237,779
Communications	3,061,730	3,190,962	2,853,538	3,618,208	2,928,433	3,669,683
Private car and pipelines	6,250	1,186	1,908	1,640	7,743	16,021
Publishing	84,673	92,505	98,343	103,681	102,457	122,652
Job printing	235,349	252,603	266,564	236,985	307,581	391,038
Restaurants and bars	10,544,419	9,996,825	9,311,826	9,020,795	9,094,485	9,663,959
Amusements	1,051,581	1,037,059	994,092	1,051,919	1,053,048	1,146,344
Commercial lease (3)	2	1	2	141	1	(443)
Personal property rentals	3,254,822	3,257,588	3,056,386	3,127,828	3,552,696	3,995,697
Contracting	10,092,876	9,543,335	8,983,261	9,311,612	14,882,706	20,156,299
Feed wholesale (4)	-	-	-	-	-	-
Retail	51,276,108	48,178,714	45,898,838	42,913,933	46,174,068	52,626,993
Hotel/motel	2,221,059	2,156,864	2,039,283	1,949,718	2,117,242	2,405,705
Rental occupancy tax (8)	-	(3)	43	(62)	(25)	(2,669)
Use tax	5,186,464	5,302,844	4,610,921	5,464,504	5,882,942	6,837,880
Use tax-utilities (7)	10,283	10,022	10,040	(35,594)	38,653	12,461
Membership camping (8)	-	-	1	10	11	52
Other	-	-	-	-	-	-
<b>Total</b>	<b>\$ 98,276,129</b>	<b>\$ 94,275,888</b>	<b>\$ 89,266,927</b>	<b>\$ 87,428,683</b>	<b>\$ 96,321,552</b>	<b>\$ 112,297,361</b>
Direct sales tax rate (5)	6.60%	6.60%	6.60%	5.60%	5.60%	5.60%

- (1) Net taxable sales are based upon tax receipts.
- (2) The transporting/towing and railroads/aircraft business classifications have been combined into one category and renamed "transporting."
- (3) Commercial lease rate dropped to 0% effective July 1, 1997.
- (4) Feed wholesale dropped to 0% effective July 17, 1994 and was repealed effective October 1, 1994.
- (5) A significant portion of the revenue base was subject to a sales tax rate of 5.6% for fiscal years 2004 through 2010 and 6.6% for fiscal years 2011 thru 2013. For fiscal years 2004 thru 2013, the tax rate for non-metal mining, oil and gas was 3.125%, the mining severance was 2.5%, and the jet fuel and jet fuel use tax was \$.0305 per gallon. The hotel/motel tax rate was 5.5% for fiscal years 2004 through 2010 and 6.5% for fiscal years 2011 thru 2013. Per the Arizona Constitution, Article 9, Section 22, the Legislature can raise tax rates with an affirmative vote of two-thirds of the members of each house. The 1.00% rate increase approved under Proposition 100 on May 18, 2010 increased the state transaction privilege and use tax rate by one percentage point beginning June 1, 2010 and ending May 31, 2013, which is reflected in this table.
- (6) The names of the ten largest revenue payers are not available. Therefore, the categories are intended to provide alternative information regarding the sources of the State's revenue.
- (7) The use tax-utilities classification was reported separately beginning in the fiscal year 2008 annual report for all fiscal years (2004-2008) presented in that report.
- (8) Effective November 1, 2006, membership camping and rental occupancy were repealed.

Source: Arizona Department of Revenue Annual Reports for fiscal years 2013 and prior.

Fiscal Year			
2007	2006	2005	2004
\$ 43,351	\$ 59,801	\$ 53,371	\$ 67,486
255,531	321,538	317,202	287,787
1,743,361	1,219,984	656,631	261,623
8,609,034	7,679,982	6,828,179	6,430,306
3,513,667	3,220,062	2,934,858	2,809,508
19,679	25,751	14,832	15,920
129,681	133,680	134,925	128,911
397,802	403,686	367,010	348,924
9,619,785	8,933,459	7,939,964	7,202,034
1,086,364	998,767	872,520	813,489
(2)	(120)	919	(6,518)
3,927,824	3,633,374	3,242,363	3,174,945
22,415,051	20,487,917	16,044,847	13,156,490
-	-	-	(8)
55,009,403	53,147,971	46,378,344	42,409,055
2,411,634	2,268,776	2,063,973	1,831,153
1,065	3,471	2,414	4,202
6,091,507	6,155,959	5,218,535	4,644,319
12,154	16,582	234	127
12	2,785	2,897	2,998
-	-	-	119
<u>\$ 115,286,903</u>	<u>\$ 108,713,425</u>	<u>\$ 93,074,018</u>	<u>\$ 83,582,870</u>
5.60%	5.60%	5.60%	5.60%

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STATE OF ARIZONA  
SCHEDULE 6  
**SALES TAX REVENUE PAYERS BY CLASSIFICATION**  
CURRENT YEAR AND NINE YEARS AGO  
(Expressed in Thousands)

CLASSIFICATION	Fiscal Year 2013		Fiscal Year 2004	
	Tax	Percentage	Tax	Percentage
	Collections	of Total	Collections	of Total
Transporting (1)	\$ 2,066	0.04 %	\$ 3,374	0.07 %
Non-metal mining, oil and gas	3,618	0.07	8,993	0.19
Mining severance	29,829	0.55	6,541	0.14
Timbering severance - ponderosa (2)	-	-	11	-
Utilities	495,012	9.06	321,515	6.86
Communications	153,087	2.80	140,475	3.00
Private car and pipelines	313	0.01	796	0.02
Publishing	4,234	0.08	6,446	0.14
Job Printing	11,767	0.22	17,446	0.37
Restaurants and bars	527,221	9.65	360,102	7.69
Amusements	52,579	0.96	40,674	0.87
Commercial lease (3)	-	-	(89)	-
Personal property rentals	162,741	2.98	158,747	3.39
Contracting	504,644	9.23	657,824	14.04
Retail	2,563,806	46.89	2,120,453	45.27
Hotel/motel	122,158	2.24	100,713	2.15
Rental occupancy tax (2)	-	-	126	-
Use tax utilities	514	0.01	-	-
Use tax	257,899	4.72	232,216	4.96
License fees	648	0.01	657	0.01
Membership camping (2)	-	-	150	-
Jet fuel tax	3,763	0.07	5,195	0.11
Jet fuel use tax	562	0.01	725	0.02
Non sufficient funds	72	-	66	-
Telecommunications service assistance	-	-	(363)	(0.01)
Mandatory EFT fees	286	0.01	-	-
Other	-	-	6	-
Amnesty	-	-	13,553	0.29
Education tax (4)	567,824	10.39	487,215	10.40
Education Amnesty tax (4)	-	-	714	0.02
<b>Total</b>	<b>\$ 5,464,643</b>	<b>100.00 %</b>	<b>\$ 4,684,281</b>	<b>100.00 %</b>

- (1) Transporting/towing was combined with railroads/aircraft for confidentiality purposes beginning in fiscal year 2004.
- (2) Effective November 1, 2006 these rates were repealed.
- (3) Commercial lease rate dropped to 0% effective July 1, 1997.
- (4) The education tax is .6% of net taxable sales for most classifications. The ones that do not collect the education tax are non-metal mining, oil and gas, mining and timbering severances, hotel/motel, rental occupancy, and jet fuel taxes. The Arizona Department of Revenue's annual report does not include the amount of education tax collected from each classification; rather it reports the total collected from all classifications. The education tax became effective June 1, 2001.

Source: Arizona Department of Revenue Annual Reports for fiscal years 2013 and 2004.

STATE OF ARIZONA  
SCHEDULE 7  
**PERSONAL INCOME BY INDUSTRY (3)**  
FOR THE LAST TEN CALENDAR YEARS  
(Expressed in Thousands)

CLASSIFICATION	Calendar Year Ended December 31					
	2012	2011	2010	2009	2008	2007
Farm earnings	\$ 707,375	\$ 1,130,156	\$ 677,283	\$ 486,248	\$ 645,381	\$ 837,363
Forestry and fishing	449,874	444,705	440,179	416,947	412,223	462,006
Mining	1,377,721	1,227,134	1,005,246	967,693	1,326,937	991,255
Utilities	1,572,179	1,598,886	1,561,457	1,552,655	1,565,556	1,455,726
Construction	9,065,716	8,322,653	8,358,817	9,500,547	13,109,129	15,563,009
Manufacturing	13,618,021	13,030,076	12,374,021	12,341,304	13,697,734	13,674,577
Wholesale trade	8,748,657	8,210,795	7,871,973	7,951,600	8,565,371	8,623,865
Retail trade	12,434,975	12,357,429	11,650,873	11,540,079	12,325,171	13,128,251
Transportation and warehousing	5,197,585	4,952,947	4,572,374	4,567,671	4,836,264	5,055,203
Information	3,257,253	2,932,156	2,806,816	3,046,893	3,120,154	3,067,867
Finance and insurance	11,162,882	10,481,262	9,916,996	9,508,877	9,851,814	10,462,890
Real estate, rental, and leasing	4,502,417	4,190,070	3,232,429	3,095,204	3,917,794	3,854,614
Professional and technical services	13,061,898	12,557,192	11,776,522	12,067,127	13,126,971	12,480,179
Managing companies/enterprises	2,579,439	2,317,517	2,255,132	2,461,998	2,469,973	2,426,427
Administrative and waste services	9,304,701	8,895,684	8,525,126	8,705,553	9,566,374	9,616,782
Educational services	2,872,647	2,710,080	2,585,128	2,332,051	2,073,685	1,843,418
Health care and social assistance	20,219,255	19,554,533	18,860,822	18,134,982	17,580,265	15,998,994
Arts, entertainment, and recreation	1,820,234	1,706,828	1,672,530	1,619,566	1,693,720	1,659,881
Accommodation and food services	6,208,494	5,859,664	5,567,135	5,568,857	5,927,491	6,015,098
Other services, except public administration	5,856,143	5,640,924	5,408,156	5,379,543	5,500,766	5,781,527
Government and government enterprises	29,333,445	29,006,950	28,800,079	28,542,137	28,482,606	26,956,226
Other (1)	74,161,726	72,110,287	67,839,611	65,699,013	64,864,377	61,239,336
<b>Total</b>	<b>\$ 237,512,637</b>	<b>\$ 229,237,928</b>	<b>\$ 217,758,705</b>	<b>\$ 215,486,545</b>	<b>\$ 224,659,756</b>	<b>\$ 221,194,494</b>
Average effective rate (2)	1.43%	1.35%	1.32%	1.12%	1.15%	1.54%

- (1) Includes dividends, interest, rental income, personal current transfer receipts, adjustment for residence, and deductions for government social insurance.
- (2) The total direct rate for personal income is not available. Average effective rate equals tax collections for the fiscal year, ending the following June 30, divided by personal income.
- (3) Personal income estimates for years 2003 through 2011 were revised to reflect revisions made by the U.S. Bureau of Economic Analysis.

Source: U.S. Bureau of Economic Analysis and Arizona Department of Revenue Annual Report.

Calendar Year Ended December 31

	2006	2005	2004	2003
\$	709,433	\$ 994,694	\$ 1,023,936	\$ 727,376
	464,947	401,670	408,740	371,768
	854,748	677,470	602,623	539,949
	1,325,478	1,150,758	1,042,512	1,012,472
	16,395,855	13,912,571	11,757,560	10,470,047
	13,431,685	12,365,272	12,020,970	11,356,029
	7,718,435	6,989,798	6,436,165	5,837,052
	12,816,497	11,678,193	10,564,804	9,835,470
	4,797,643	4,290,821	4,013,654	3,655,297
	3,063,143	2,900,779	2,975,800	2,974,882
	10,329,558	9,518,158	8,302,331	7,844,288
	4,681,006	4,385,683	3,752,572	3,223,524
	11,466,109	9,880,858	8,667,303	7,905,812
	2,019,996	1,650,682	1,863,508	1,588,485
	9,208,432	8,142,008	7,057,954	6,430,602
	1,705,149	1,564,315	1,435,879	1,185,853
	14,665,243	13,064,233	12,036,916	10,912,797
	1,608,224	1,409,453	1,382,347	1,324,627
	5,624,115	5,141,186	4,735,898	4,300,538
	5,596,631	4,899,635	4,391,624	4,109,896
	25,034,517	23,293,334	21,711,046	20,499,961
	56,400,868	50,985,478	44,660,796	40,682,482
\$	<u>209,917,712</u>	<u>\$ 189,297,049</u>	<u>\$ 170,844,938</u>	<u>\$ 156,789,207</u>
	1.75%	1.93%	1.67%	1.48%

STATE OF ARIZONA  
SCHEDULE 8  
**PERSONAL INCOME TAX RATES**  
FOR THE LAST TEN CALENDAR YEARS  
(Expressed in Thousands)

	Calendar Year Ended December 31				
	2012	2011	2010	2009	2008
<b><u>AVERAGE EFFECTIVE RATE (3)</u></b>					
Personal Income Tax Revenue (1)	\$ 3,398,902	\$ 3,099,177	\$ 2,870,765	\$ 2,423,215	\$ 2,575,453
Personal Income (2)	\$ 237,512,637	\$ 229,237,928	\$ 217,758,705	\$ 215,486,545	\$ 224,659,756
Average Effective Rate (3)	1.43%	1.35%	1.32%	1.12%	1.15%
<b><u>TAX RATES ON THE PORTION OF TAXABLE INCOME IN RANGES (4)</u></b>					
\$0 - \$10	2.59%	2.59%	2.59%	2.59%	2.59%
\$10 - \$25	2.88%	2.88%	2.88%	2.88%	2.88%
\$25 - \$50	3.36%	3.36%	3.36%	3.36%	3.36%
\$50 - \$150	4.24%	4.24%	4.24%	4.24%	4.24%
\$150 and over	4.54%	4.54%	4.54%	4.54%	4.54%

- (1) Personal income tax revenue includes income tax collections and refunds, on a cash basis, for the fiscal year ending the following June 30.  
(2) Personal income is reported on a calendar basis. Years 2003 through 2011 have been revised to reflect revisions made by the U.S. Bureau of Economic Analysis.  
(3) The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue for the fiscal year, ending the following June 30, divided by personal income.  
(4) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the amounts for the income tax ranges. Per the Arizona Constitution, Article 9, Section 22, the Legislature can raise tax rates with a vote of two-thirds of the members of each house.

Source: Arizona Department of Revenue Annual Reports/Tax Tables and the U.S. Bureau of Economic Analysis.

STATE OF ARIZONA  
SCHEDULE 9  
**PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL**  
FOR THE TAXABLE YEARS 2010 AND 2003 (1)  
(Expressed in Thousands, Except Number of Filers)

	Taxable Year Ended December 31, 2010			
	Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
<b><u>FEDERAL ADJUSTED GROSS INCOME LEVEL (3)</u></b>				
\$50 and under	1,788,020	68.48%	\$ 415,673	15.02%
\$50 - \$100	533,078	20.42%	666,956	24.09%
\$100 - \$500	278,846	10.68%	1,091,740	39.43%
\$500 and over	10,957	0.42%	594,208	21.46%
Total	2,610,901	100.00%	\$ 2,768,577	100.00%

- (1) The taxable year 2010 is the most recent year for which data is available, and combines the number of filers of the Arizona Forms 140, 140A, 140NR (nonresident), and 140PY (part year resident) Individual Income tax returns.  
(2) Liability, as reported on Arizona Forms 140, 140A, 140NR (nonresident), and 140PY (part year resident) Individual Income tax returns for tax year 2010, filed from January 2011 forward (or 2003, filed from January 2004 forward).  
(3) The names of the ten largest revenue payers are not available. Therefore, the categories are intended to provide alternative information regarding the sources of the State's revenue.

Source: Arizona Department of Revenue Annual Reports.

Calendar Year Ended December 31

2007	2006	2005	2004	2003
\$ 3,414,304	\$ 3,666,923	\$ 3,651,576	\$ 2,854,009	\$ 2,316,040
\$ 221,194,494	\$ 209,917,712	\$ 189,297,049	\$ 170,844,938	\$ 156,789,207
1.54%	1.75%	1.93%	1.67%	1.48%
2.59%	2.73%	2.87%	2.87%	2.87%
2.88%	3.04%	3.20%	3.20%	3.20%
3.36%	3.55%	3.74%	3.74%	3.74%
4.24%	4.48%	4.72%	4.72%	4.72%
4.54%	4.79%	5.04%	5.04%	5.04%

Taxable Year Ended December 31, 2003

Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
1,595,056	71.85%	\$ 440,820	19.08%
446,351	20.11%	628,032	27.18%
170,562	7.68%	771,088	33.38%
8,038	0.36%	470,329	20.36%
<u>2,220,007</u>	<u>100.00%</u>	<u>\$ 2,310,269</u>	<u>100.00%</u>

STATE OF ARIZONA  
SCHEDULE 10  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands, Except Amount of Debt per Capita)

	Fiscal Year					
	2013	2012	2011	2010	2009	2008
<b>GOVERNMENTAL ACTIVITIES:</b>						
Revenue bonds	\$ 3,606,720	\$ 3,593,420	\$ 3,529,115	\$ 3,522,605	\$ 3,251,580	\$ 2,759,070
Grant anticipation notes	296,240	335,230	392,495	304,480	329,650	298,280
Certificates of participation	2,360,595	2,495,825	2,611,255	2,571,125	1,649,870	1,135,640
Capital leases	360,316	391,184	400,540	412,919	236,125	249,876
Installment purchase contracts	-	177	245	901	6,343	8,908
Notes payable	105,817	55,666	59,891	60,712	42,668	22,838
Premiums and discounts on debt	474,747	396,465	342,602	334,721	285,613	242,816
Deferred amount on refundings	(19,945)	(813)	(1,221)	(5,197)	(9,171)	(13,145)
<b>Total Governmental Activities</b>	<b>7,184,490</b>	<b>7,267,154</b>	<b>7,334,922</b>	<b>7,202,266</b>	<b>5,792,678</b>	<b>4,704,283</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>						
Revenue bonds	2,237,710	1,942,755	1,742,125	1,692,825	1,239,675	902,255
Certificates of participation	714,735	756,980	812,706	840,719	872,829	903,843
Capital leases	135,519	163,637	167,841	171,448	175,453	179,052
Installment purchase contracts	5,758	8,397	10,511	13,043	16,418	13,024
Notes payable	-	12,643	292	360	674	1,022
Premiums and discounts on debt	123,051	87,993	41,393	39,705	43,112	38,211
Deferred amount on refundings	(46,096)	(33,391)	(20,875)	(23,100)	(25,294)	(27,711)
<b>Total Business-type Activities</b>	<b>3,170,677</b>	<b>2,939,014</b>	<b>2,753,993</b>	<b>2,735,000</b>	<b>2,322,867</b>	<b>2,009,696</b>
<b>Total Primary Government</b>	<b>\$ 10,355,167</b>	<b>\$ 10,206,168</b>	<b>\$ 10,088,915</b>	<b>\$ 9,937,266</b>	<b>\$ 8,115,545</b>	<b>\$ 6,713,979</b>
Debt as a Percentage of						
Personal Income (1)	4.4%	4.5%	4.6%	4.6%	3.6%	3.0%
Amount of Debt per Capita (1)	\$ 1,580	\$ 1,578	\$ 1,574	\$ 1,567	\$ 1,292	\$ 1,089

Note: Details regarding the State's outstanding debt can be found in the notes to the financial statements.

(1) See Schedule 23 for personal income and population data. These ratios are calculated using personal income and population data for the calendar year that ends during that fiscal year. For example, fiscal year 2013 contains data for the calendar year ending December 31, 2012.

Fiscal Year

	2007	2006	2005	2004
\$	2,328,840	\$ 2,106,700	\$ 2,170,845	\$ 2,278,225
	282,860	325,430	363,970	308,585
	959,865	1,020,810	1,054,677	845,804
	242,209	129,808	126,676	125,974
	10,644	6,815	6,926	4,602
	3,309	-	-	562
	225,071	219,958	197,479	144,759
	(14,266)	(17,832)	-	-
	<u>4,038,532</u>	<u>3,791,689</u>	<u>3,920,573</u>	<u>3,708,511</u>
	868,565	802,600	768,000	756,781
	935,127	946,766	860,759	641,315
	166,780	113,388	120,361	80,338
	9,544	10,279	7,276	5,038
	1,354	-	30	80
	39,582	38,331	36,133	28,184
	(29,211)	(21,606)	(20,821)	(10,970)
	<u>1,991,741</u>	<u>1,889,758</u>	<u>1,771,738</u>	<u>1,500,766</u>
\$	<u><u>6,030,273</u></u>	<u><u>5,681,447</u></u>	<u><u>5,692,311</u></u>	<u><u>5,209,277</u></u>
	2.9%	3.0%	3.3%	3.3%
\$	1,000	\$ 973	\$ 1,007	\$ 945

STATE OF ARIZONA  
SCHEDULE 11  
**LEGAL DEBT MARGIN INFORMATION**  
**ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

Total Principal Outstanding Debt Limit (1)				
Fiscal Year	Debt Limit	Total Principal Applicable to Limit	Legal Debt Margin	Total Principal Applicable to the Limit as a Percentage of Debt Limit
2013	\$ -	\$ -	\$ -	- %
2012	-	-	-	-
2011	-	-	-	-
2010	-	-	-	-
2009	-	-	-	-
2008	-	-	-	-
2007	-	-	-	-
2006	1,300,000	1,223,425	76,575	94.11
2005	1,300,000	1,161,355	138,645	89.34
2004	1,300,000	1,017,360	282,640	78.26

(1) As stated in House Bill 2206 of the Second Regular Session of the Forty-seventh Legislature, the \$1.3 billion debt limit is eliminated from ARS §28-7510. The general effective date of this change was September 21, 2006. Prior to September 21, 2006, Arizona Revised Statutes restricted the total principal amount of Arizona Highway Revenue Bonds that could be outstanding at any time, excluding refunded bonds, from exceeding \$1.3 billion.

STATE OF ARIZONA  
SCHEDULE 12  
**LEGAL DEBT MARGIN INFORMATION**  
**ARIZONA STATE UNIVERSITY**  
FOR THE LAST EIGHT FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2013	\$ 1,710,909	\$ 136,873	\$ 94,100	\$ 42,773	5.50 %
2012	1,612,000	128,960	80,600	48,360	5.00 %
2011	1,606,250	128,500	77,100	51,400	4.80 %
2010	1,894,737	151,579	108,000	43,579	5.70 %
2009	1,865,385	149,231	97,000	52,231	5.20 %
2008	2,017,544	161,404	115,000	46,404	5.70 %
2007	1,880,769	150,462	97,800	52,662	5.20 %
2006	1,724,528	137,962	91,400	46,562	5.30 %

(1) Ten years of data is not available, but will be accumulated over time.  
(2) For fiscal years 2006, 2007, 2008, 2009, 2010, 2011, 2012, and 2013, projections are based upon the University's fiscal years 2008-2010, 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, and 2015-2017 capital improvement plans, respectively.  
(3) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA  
SCHEDULE 13  
**LEGAL DEBT MARGIN INFORMATION**  
**UNIVERSITY OF ARIZONA**  
FOR THE LAST SEVEN FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2013	\$ 1,683,019	\$ 134,642	\$ 89,200	\$ 45,442	5.30 %
2012	1,611,765	128,941	82,200	46,741	5.10
2011	1,556,364	124,509	85,600	38,909	5.50
2010	1,817,647	145,412	92,700	52,712	5.10
2009	1,681,818	134,545	92,500	42,045	5.50
2008	1,681,132	134,491	89,100	45,391	5.30
2007	1,657,971	132,638	114,400	18,238	6.90

- (1) Ten years of data is not available, but will be accumulated over time.  
(2) For fiscal years 2007, 2008, 2009, 2010, 2011, 2012, and 2013, projections are based upon the University's fiscal years 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, and 2015-2017 capital improvement plans, respectively.  
(3) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA  
SCHEDULE 14  
**LEGAL DEBT MARGIN INFORMATION**  
**NORTHERN ARIZONA UNIVERSITY**  
FOR THE LAST SEVEN FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2013	\$ 453,039	\$ 36,243	\$ 24,600	\$ 11,643	5.43 %
2012	427,586	34,207	24,800	9,407	5.80
2011	405,109	32,409	22,200	10,209	5.48
2010	423,601	33,888	28,000	5,888	6.61
2009	419,448	33,556	28,900	4,656	6.89
2008	430,360	34,429	27,500	6,929	6.39
2007	410,811	32,865	30,400	2,465	7.40

- (1) Ten years of data is not available, but will be accumulated over time.  
(2) For fiscal years 2007, 2008, 2009, 2010, 2011, 2012, and 2013, projections are based upon the University's fiscal years 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, and 2015-2017 capital improvement plans, respectively.  
(3) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

## STATE OF ARIZONA

## SCHEDULE 15

**PLEDGED-REVENUE COVERAGE****ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2013

(Expressed in Thousands)

Fiscal Year	(1), (2) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2013	\$ 512,971	\$ 60,540	\$ 78,198	\$ 138,738	3.7
2012	392,648	67,885	71,113	138,998	2.8
2011	504,175	71,770	83,960	155,730	3.2
2010	502,874	68,140	87,661	155,801	3.2
2009	509,183	64,190	89,825	154,015	3.3
2008	658,616	60,645	75,538	136,183	4.8
2007	635,140	57,825	73,785	131,610	4.8
2006	624,408	54,830	62,222	117,052	5.3
2005	461,763	44,265	60,459	104,724	4.4
2004	557,854	51,155	53,149	104,304	5.3

(1) The Highway Revenue Bonds are secured by a prior lien on and pledge of motor vehicle and related fuel fees and taxes.

(2) Includes vehicle license tax revenues distributed directly to the State Highway Fund. Fiscal year 2005 is net of a \$118 million distribution to the State General Fund. Fiscal year 2009 is net of \$66 million, 2010 is net of \$44 million, and 2011 is net of \$45 million distribution to the State General Fund.

## STATE OF ARIZONA

## SCHEDULE 16

**PLEDGED-REVENUE COVERAGE****ARIZONA TRANSPORTATION BOARD TRANSPORTATION EXCISE TAX REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2013

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2013	\$ 227,800	\$ 55,870	\$ 47,721	\$ 103,591	2.2
2012	216,281	55,460	48,129	103,589	2.1
2011	206,545	45,970	42,496	88,466	2.3
2010	199,672	33,315	38,225	71,540	2.8
2009	219,165	13,825	17,193	31,018	7.1
2008	253,742	19,045	10,673	29,718	8.5
2007	262,264	-	-	-	N/A
2006	316,491	80,375	1,566	81,941	3.9
2005	316,806	208,625	14,318	222,943	1.4
2004	288,600	199,400	23,553	222,953	1.3

(1) The Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County.

## STATE OF ARIZONA

## SCHEDULE 17

**PLEDGED-REVENUE COVERAGE****SCHOOL FACILITIES BOARD STATE SCHOOL IMPROVEMENT REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2013

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	(2) Debt Service			Coverage
		Principal	Interest	Total	
2013	\$ 567,824	\$ 43,680	\$ 13,487	\$ 57,167	9.93
2012	542,395	41,405	22,804	64,209	8.45
2011	514,346	39,215	25,088	64,303	8.00
2010	504,391	37,230	27,074	64,304	7.84
2009	558,900	35,420	28,885	64,305	8.69
2008	645,828	33,810	30,498	64,308	10.04
2007	666,184	31,055	31,893	62,948	10.58
2006	628,471	34,480	30,052	64,532	9.74
2005	538,346	28,485	36,060	64,545	8.34
2004	487,215	27,215	37,568	64,783	7.52

- (1) Pledged revenues consist of education transaction privilege tax revenues. These revenues result from a .6% increase in the State transaction privilege and use tax rate that was approved by a statewide vote at the November 2000 election.
- (2) Principal does not include sinking fund deposits of \$1,270 each year, beginning in fiscal year 2003 and ending in fiscal year 2007, that will be sufficient to retire bonds with a par amount of \$6,350 upon maturity, in fiscal year 2016. Additionally, principal does not include sinking fund deposits of \$1,538 each year, beginning in fiscal year 2006 and ending in fiscal year 2018, that will be sufficient to retire bonds with a par amount of \$20,000 upon maturity, in fiscal year 2018.

## STATE OF ARIZONA

## SCHEDULE 18

**PLEDGED-REVENUE COVERAGE****SCHOOL FACILITIES BOARD STATE SCHOOL TRUST REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2013

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	(1) Debt Service			Coverage
		Principal	Interest	Total	
2013	\$ 49,645	\$ 18,315	\$ 5,933	\$ 24,248	2.05
2012	39,155	17,400	6,846	24,246	1.61
2011	42,191	16,535	7,714	24,249	1.74
2010	38,147	15,710	8,539	24,249	1.57
2009	72,263	15,105	9,143	24,248	2.98
2008	72,263	14,470	8,400	22,870	3.16
2007	72,263	13,980	11,524	25,504	2.83
2006	72,263	13,440	12,061	25,501	2.83
2005	72,263	13,740	11,960	25,700	2.81
2004	64,903	-	8,634	8,634	7.52

- (1) Pledged revenues consist of expendable revenue from the State School Trust. This revenue includes the State Treasurer's formula distribution of earnings on permanent fund investments as specified in the Arizona Constitution. Additionally, the State Land Commissioner distributes interest received from financed sales of trust lands and revenue received from land trust leases, except that, under current statutes, the amount of State School Trust Revenues available to pay debt service on all State School Trust Revenue Obligations shall not exceed \$72,263. Expendable trust revenues in excess of \$72,263 must be deposited in the Classroom Site Fund.

STATE OF ARIZONA  
SCHEDULE 19  
**PLEDGED-REVENUE COVERAGE**  
**LOTTERY REVENUE BONDS**  
FOR THE LAST THREE FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

Fiscal Year	(2) Pledged Revenue	Debt Service			Total	Coverage
		Principal	Interest			
2013	\$ 174,373	\$ 16,790	\$ 20,710	\$ 37,500	4.65	
2012	96,200	-	20,709	20,709	4.65	
2011	96,200	-	21,630	21,630	4.45	

- (1) No debt service payments were due prior to fiscal year 2011.  
(2) Pledged revenues consist of lottery revenue deposited to the Lottery Fund net of operating expenses of the lottery.

STATE OF ARIZONA  
SCHEDULE 20  
**PLEDGED-REVENUE COVERAGE**  
**ARIZONA STATE UNIVERSITY REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service				Total	Coverage
		Principal	Interest	Net Payments (Receipts) On Swap Agreements			
2013	\$ 1,047,661	\$ 33,965	\$ 41,477	\$ 3,631	\$ 79,073	13.25	
2012	977,828	31,215	39,560	3,612	74,387	13.15	
2011	876,770	28,595	35,051	3,791	67,437	13.00	
2010	782,727	26,975	33,003	3,716	63,694	12.29	
2009	702,797	21,555	21,896	3,692	47,143	14.91	
2008	638,707	19,135	16,682	2,448	38,265	16.69	
2007	580,102	17,125	21,339	186	38,650	15.01	
2006	505,890	14,625	17,313	-	31,938	15.84	
2005	458,177	11,205	16,307	-	27,512	16.65	
2004	383,756	1,340	16,260	-	17,600	21.80	

- (1) Pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue.

STATE OF ARIZONA  
SCHEDULE 21  
**PLEDGED-REVENUE COVERAGE**  
**UNIVERSITY OF ARIZONA REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

Fiscal Year	(1)		Net Revenue Available for Debt Service	Debt Service			Coverage
	(1), (2)	Direct		Principal	Interest	Total	
	Gross Revenues	Operating Expenses					
2013	\$ 1,356,478	\$ 1,199,559	\$ 156,919	\$ 21,895	\$ 34,556	\$ 56,451	2.78
2012	1,226,227	1,126,649	99,578	17,375	31,480	48,855	2.04
2011	1,215,062	1,056,408	158,654	24,720	28,571	53,291	2.98
2010	1,128,091	962,469	165,622	23,860	24,593	48,453	3.42
2009	1,044,354	911,440	132,914	22,725	15,437	38,162	3.48
2008	1,113,954	1,005,572	108,382	21,235	14,978	36,213	2.99
2007	982,559	899,084	83,475	17,440	14,166	31,606	2.64
2006	897,706	836,657	61,049	12,355	13,433	25,788	2.37
2005	830,077	774,014	56,063	11,815	11,817	23,632	2.37
2004	778,939	727,161	51,778	10,970	11,706	22,676	2.28

- (1) Gross Revenues and Direct Operating Expenses include current operating unrestricted funds only since these are the funds that are pledged for debt service payments under the System Revenue Bond Indentures. Also excluded from expenses is interest, depreciation, and amortization.
- (2) Payment of principal and interest on revenue bonds are secured by a pledge of student tuition and fees, auxiliary enterprise revenue, sales and service revenue, and other operating revenues, such as indirect cost recovery and certain investment income.

STATE OF ARIZONA  
SCHEDULE 22  
**PLEDGED-REVENUE COVERAGE**  
**NORTHERN ARIZONA UNIVERSITY REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013  
(Expressed in Thousands)

Fiscal Year	(1), (2)		Debt Service			Coverage
	Gross Revenues		Principal	Interest	Total	
2013	\$ 263,241	\$ 6,610	\$ 15,474	\$ 22,084	11.92	
2012	246,098	5,835	15,028	20,863	11.80	
2011	220,538	24,310	14,712	39,022	5.65	
2010	198,197	6,545	10,912	17,457	11.35	
2009	164,877	6,570	7,383	13,953	11.82	
2008	143,733	10,455	6,628	17,083	8.41	
2007	136,100	9,610	5,943	15,553	8.75	
2006	129,608	10,310	6,603	16,913	7.66	
2005	110,981	10,065	6,060	16,125	6.88	
2004	103,192	10,294	5,778	16,072	6.42	

- (1) Payment of principal and interest on revenue bonds are secured by a pledge of student tuition and fees and certain auxiliary enterprise revenue, investment income and indirect cost recovery revenue.
- (2) Fiscal year 2011 includes debt defeasance of \$18.7 million.

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STATE OF ARIZONA  
 SCHEDULE 23  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
 FOR THE LAST TEN CALENDAR YEARS

Calendar Year Ended December 31	Population (1,3)	Personal Income (3) (in thousands)	Per Capita Personal (2) Income	Unemployment Rate (4)
2012	6,553,255	\$ 237,512,637	\$ 36,243	7.9
2011	6,467,315	229,237,928	35,446	8.6
2010	6,410,810	217,758,705	33,967	9.7
2009	6,343,154	215,486,545	33,972	10.4
2008	6,280,362	224,659,756	35,772	7.8
2007	6,167,681	221,194,494	35,863	4.1
2006	6,029,141	209,917,712	34,817	3.6
2005	5,839,077	189,297,049	32,419	4.2
2004	5,652,404	170,844,938	30,225	4.2
2003	5,510,364	156,789,207	28,454	5.0

- (1) These are midyear population estimates of the U.S. Bureau of the Census.  
 (2) Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census.  
 (3) Population and personal income estimates were revised to reflect revisions made by the U.S. Bureau of Economic Analysis.  
 (4) Unemployment rates were revised to reflect revisions made by the Office of Employment and Population Statistics.

Sources: U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures).  
 U.S. Bureau of the Census (also for population).  
 Office of Employment and Population Statistics, formerly known as the Research Administration at the Arizona Department of Commerce (for unemployment rate).

STATE OF ARIZONA  
 SCHEDULE 24  
**PRINCIPAL EMPLOYERS**  
 CURRENT YEAR AND NINE YEARS AGO

Employer	Calendar Year Ended December 31, 2012			Calendar Year Ended December 31, 2003		
	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment
State of Arizona	52,076	1	1.72 %	50,363	1	1.88 %
Wal-Mart Stores Inc.	31,837	2	1.05	18,677	2	0.69
Banner Health	25,126	3	0.83	13,576	3	0.51
City of Phoenix	14,983	4	0.50	13,095	5	0.49
Wells Fargo	13,679	5	0.45	-	-	-
Maricopa County	13,308	6	0.44	13,482	4	0.50
Bank of America	12,500	7	0.41	-	-	-
Arizona State University	12,222	8	0.40	10,005	9	0.37
Raytheon Co.	11,500	9	0.38	10,200	8	0.38
JP Morgan Chase & Co.	11,407	10	0.38	-	-	-
Honeywell International	-	-	-	12,000	6	0.45
U.S. Postal Service	-	-	-	11,406	7	0.43
Albertson's - Osco	-	-	-	9,500	10	0.36
Intel Corp.	-	-	-	9,500	10	0.36
<b>Total</b>	<b>198,638</b>		<b>6.56 %</b>	<b>171,804</b>		<b>6.42 %</b>

Source: Arizona State University CAFR 2013.

STATE OF ARIZONA  
SCHEDULE 25  
**STATE EMPLOYEES BY FUNCTION (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2013

	Fiscal Year					
	2013	2012	2011	2010	2009	2008
<b>FULL-TIME EQUIVALENT EMPLOYEES</b>						
General government:						
Lottery	97.8	104.0	104.0	104.0	110.0	110.0
Arizona State Retirement System	233.9	236.0	236.0	236.0	236.0	235.0
Department of Revenue	860.3	935.0	935.0	863.0	1,164.0	1,164.0
All other	2,214.4	2,427.6	2,646.5	2,746.5	2,989.2	2,999.2
Health and welfare:						
Department of Economic Security	5,453.5	3,726.0	3,726.0	4,201.0	4,201.0	4,099.2
Arizona Health Care Cost Containment System	2,217.3	1,407.3	1,423.0	1,484.0	1,635.8	1,629.0
Department of Health Services	1,176.7	1,513.3	1,513.3	1,538.6	1,699.1	1,702.1
All other	946.6	1,098.5	954.5	966.5	981.5	981.5
Inspection and regulation	1,649.8	1,801.2	1,807.7	1,820.7	1,943.1	1,930.1
Education:						
Universities	15,478.7	16,964.2	15,754.2	15,664.5	17,353.5	17,138.8
All other	834.4	886.5	896.0	972.4	1,003.4	1,001.4
Protection and safety:						
Department of Corrections	10,118.2	10,015.2	10,015.2	9,755.9	9,932.5	9,755.9
Department of Juvenile Corrections	738.5	1,001.7	1,001.7	1,050.7	1,163.7	1,163.7
Department of Public Safety	1,903.7	2,139.8	2,081.8	2,099.8	2,114.8	2,108.8
All other	90.1	112.6	117.9	118.4	134.9	133.9
Department of Transportation	4,548.0	4,548.0	4,548.0	4,548.0	4,748.0	4,744.0
Natural resources	716.5	930.2	937.2	956.7	1,009.7	1,007.7
<b>Total</b>	<b>49,278.4</b>	<b>49,847.1</b>	<b>48,698.0</b>	<b>49,126.7</b>	<b>52,420.2</b>	<b>51,904.3</b>

(1) Full-time equivalent employees are categorized by the function of government that their respective agency generally serves. Information is not available to distinguish between governmental, business-type, or fiduciary activities.

Source: The Executive Budget (Detail). Includes only those positions funded by appropriated funds approved in the Executive Budget.

Fiscal Year

2007	2006	2005	2004
110.0	110.0	110.0	110.0
231.0	221.0	199.0	197.0
1,148.0	1,146.0	1,024.0	1,134.0
2,957.5	2,898.6	2,944.3	3,003.0
3,874.4	3,953.7	3,902.7	3,592.9
1,617.3	1,583.5	1,574.5	1,530.1
1,680.4	1,735.5	1,734.5	1,701.5
859.9	858.5	924.2	933.2
1,853.7	1,827.3	1,818.5	1,815.3
16,975.0	16,419.5	16,027.5	15,467.4
969.0	913.8	949.5	948.1
9,726.9	9,726.9	10,322.4	10,295.4
1,195.7	1,160.5	1,151.5	1,214.4
2,065.8	1,901.8	1,872.0	1,853.0
125.4	127.4	120.6	149.6
4,703.5	4,649.0	4,626.0	4,605.0
967.3	926.9	903.2	856.9
<u>51,060.8</u>	<u>50,159.9</u>	<u>50,204.4</u>	<u>49,406.8</u>

STATE OF ARIZONA  
 SCHEDULE 26  
**OPERATING INDICATORS BY FUNCTION**  
 FOR THE LAST TEN FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2013

	Fiscal Year						
	2013	2012	2011	2010	2009	2008	2007
<b><u>FUNCTIONS/PROGRAMS</u></b>							
General government:							
Number of tax returns received (in millions)	5.5	5.4	5.4	5.2	5.7	5.6	5.5
Health and welfare:							
Arizona Health Care Cost Containment System membership (2)	1,318,650	1,314,210	1,392,810	1,392,420	1,282,910	1,136,585	1,075,125
Average monthly number of recipients of temporary assistance for needy families	N/A	39,194	44,842	82,127	83,969	80,221	82,408
Average monthly number of persons receiving food stamp benefits	N/A	1,123,068	1,049,522	986,413	752,772	600,549	537,072
Inspection and regulation:							
Nonfatal occupational injuries and illnesses:							
Total recordable cases (in thousands) (3)	N/A	67.9	66.4	75.2	84.0	101.8	99.4
Incident rate per 100 full-time workers (3)	N/A	3.5	3.5	3.7	3.9	4.6	4.6
Education:							
Public school enrollment, grades K-12 (4)	1,077,703	1,066,740	1,062,200	1,068,987	1,062,618	1,132,963	1,106,207
Protection and safety:							
Number of miles patrolled by the Highway Patrol	18,914,572	19,465,944	19,953,766	21,275,292	21,987,920	21,881,034	20,282,212
State prison adult inmate population (5)	40,273	39,877	40,181	40,477	39,628	38,897	37,088
Transportation:							
Number of registered vehicles (6)	7,180,797	6,823,906	6,839,659	6,740,536	6,692,834	6,733,610	6,608,726
Number of driver licenses issued (7)	1,159,695	1,184,630	1,196,675	1,241,977	1,246,358	1,200,227	1,266,973
Natural resources:							
Game and Fish Department's license and tag sales (8)	N/A	815,488	826,385	874,442	874,363	896,143	940,223
Universities:							
University full-time equivalent students (9)	136,884	134,051	129,653	122,734	118,743	113,092	110,580
Unemployment compensation:							
Number of initial unemployment claims filed	261,418	288,097	311,472	363,189	396,755	226,772	185,397
Industrial Commission special fund:							
No-insurance awards issued	1,618	1,365	882	1,781	2,244	2,748	3,265
Number of vocational rehabilitation awards issued	136	125	132	128	103	118	133
Lottery:							
Total lottery sales (in millions)	\$ 692.9	\$ 646.7	\$ 583.5	\$ 551.5	\$ 484.5	\$ 472.9	\$ 462.2
Other business-type activities:							
Arizona Health Care Cost Containment System's Healthcare Group membership (10)	6,370	7,080	8,260	10,760	14,560	21,646	26,914

N/A = Not available

- (1) Ten years of data may not be available for some statistics, but will be accumulated over time. Also, some figures may represent time periods other than a fiscal year (such as an academic or calendar year), as indicated in the notes below.
- (2) Approximate number of members enrolled as of June 1. Excludes membership in the Healthcare Group, which is listed separately as other business-type activities, beginning in fiscal year 2002.
- (3) Numbers represent total recordable cases and incident rates for the calendar year ended December 31. The fiscal years above contain data for the calendar year that ends during that fiscal year. For example, fiscal year 2013 contains data for the calendar year ending December 31, 2012. One hundred full-time workers represent 200,000 hours worked (100 times 40 hours per week times 50 weeks per year).
- (4) These enrollment counts represent a head count of all active enrollments on October 1st of each school year. The fiscal years above contain data for the academic year that occurs during that fiscal year. For example, fiscal year 2013 contains data from the October 1, 2012 enrollment figures. Starting with the 2008-09 school year, due to federal requirements, new business rules were used to calculate enrollment, so that counts are unduplicated. Prior to this, the counts are not unduplicated counts; concurrently enrolled students are counted as having an active membership in each school. Also, there was a change in data collection in 2003. From 2003 to 2008, concurrent enrollments in technology schools are included, which may additionally overstate aggregated enrollment figures.
- (5) Beginning in 2007, the state prison inmate population on the 2 Year Prison Population Trend Report excludes the inmate count from the county jail. For fiscal years 2006 and prior, the number includes both the county jail and the outside count of inmates. Fiscal year 2013 total is as of April 30.
- (6) Count represents the total number of vehicles registered as of the end of the fiscal year. Starting with fiscal year 2002, a new category for "unassigned vehicles" was added to more fully reflect the total count of all registered vehicles.
- (7) Count represents the number of driver licenses issued during that fiscal year, beginning July 1 and ending June 30.
- (8) Numbers represent sales for licenses, stamps, and tags for the calendar year ended December 31. The fiscal years above contain data for the calendar year that ends during that fiscal year. For example, fiscal year 2013 contains data for the calendar year ending December 31, 2012.
- (9) Enrollment figures represent the number of full-time equivalent students for the fall semester. The fiscal years above contain data for the fall semester that occurs during that fiscal year. For example, fiscal year 2013 contains data for the fall 2012 semester. These figures are generated by calculating one full-time equivalent student for each 15 student credit hours produced in lower-division undergraduate courses, each 12 student credit hours produced in upper-division undergraduate courses, and each 10 student credit hours produced in graduate courses (excludes medical students).
- (10) Approximate number of members enrolled as of June 1.

Sources: The State Departments of Transportation, Public Safety, Corrections, Education, Game and Fish, Economic Security, Revenue, the Industrial Commission of Arizona, Arizona Lottery, Arizona Health Care Cost Containment System, Arizona Board of Regents, and the U.S. Department of Labor.

Fiscal Year		
2006	2005	2004
5.5	6.0	6.0
1,065,444	1,075,873	971,292
93,553	105,517	122,577
546,424	546,369	521,992
97.0	87.1	85.7
4.9	4.7	4.8
1,084,247	1,043,704	1,002,630
19,703,282	19,922,704	19,229,079
34,864	32,710	31,937
6,318,402	5,945,131	5,638,799
1,205,068	1,158,223	1,122,893
897,159	808,055	835,669
107,765	104,685	102,461
161,869	200,282	227,585
2,744	3,281	3,300
124	102	139
\$ 468.7	\$ 397.6	\$ 366.6
21,600	14,626	11,218

STATE OF ARIZONA  
 SCHEDULE 27  
**CAPITAL ASSET STATISTICS BY FUNCTION**  
 FOR THE LAST TEN FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2013

	Fiscal Year						
	2013	2012	2011	2010	2009	2008	2007
<b><u>FUNCTIONS/PROGRAMS</u></b>							
Protection and safety:							
Number of adult prison facilities (3)	10	10	10	10	10	10	10
Transportation:							
Public road mileage (center lane miles) (2)	6,751	6,751	6,722	6,789	6,753	6,785	6,817
Number of bridges (2)	4,754	4,754	4,741	4,700	4,648	4,637	4,648
Natural resources:							
State Trust acres	9,223,873	9,302,256	9,252,495	9,258,071	9,259,296	9,260,253	9,262,781
Universities:							
Number of facilities (4)	1,705	1,711	1,740	1,737	1,670	1,669	1,663
Gross square feet (in thousands) (4)	41,141	39,933	37,967	37,589	37,186	36,000	34,946

N/A = Not available

Note: No capital asset indicators are available for the general government, health and welfare, inspection and regulation, education, unemployment compensation, Industrial Commission special fund, Lottery, and other business-type activity functions.

- (1) Ten years of data may not be available for some statistics, but will be accumulated over time. Also, some figures may represent time periods other than a fiscal year (such as a calendar year), as indicated in the notes below.
- (2) These are the number of center lane miles and bridges that the Arizona Department of Transportation accounts for under the modified approach, which is discussed in the Required Supplementary Information portion of this report.
- (3) The Arizona Department of Corrections also contracts with private prison facilities to provide custody and treatment.
- (4) In addition to academic/support facilities, auxiliary enterprise facilities are also reported. These would include essentially self-supporting entities, such as residence halls and parking structures.

Sources: The State Departments of Transportation, Land, and Corrections and the Universities.

Fiscal Year		
2006	2005	2004
10	10	10
6,922	6,816	6,912
4,676	4,608	4,488
9,267,377	9,269,723	9,271,580
1,002	N/A	N/A
20,154	N/A	N/A

## ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by the Department of Administration, General Accounting Office, Financial Reporting Section:

Ron Santa Cruz  
Michael J. Kallaur, CPA  
Chris Freitag, CPA  
Cody Johnson, MBA, CPA

Neil Broadstock, MBA, CPA, CMA, CGFM  
Marjorie Wakefield, MBA  
Christopher Lesure

Special acknowledgment goes to:

All fiscal and accounting personnel throughout the Arizona State government, whose dedicated efforts and cooperation contributed to the compilation of financial information that appears in the report.