BASIC FINANCIAL STATEMENTS

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STATE OF ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2003
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash	$ 2,132	$ 93,200	$ 95,332	$ 13,341
Cash with U.S. Treasury	-	860,872	860,872	-
Cash and pooled investments with State Treasurer	1,537,024	169,818	1,706,842	53,497
Cash held by trustee	-	-	-	24,489
Collateral investment pool	-	69,525	69,525	-
Short-term investments	-	50,385	50,385	22,318
Receivables, net of allowances:				
Taxes	363,384	39,659	403,043	-
Interest	21,188	2,946	24,134	1,309
Loans and notes	6,945	8,677	15,622	12,165
Other	80,994	63,178	144,172	44,976
Internal balances	70,672	(70,672)	-	-
Due from U.S. Government	371,860	53,292	425,152	-
Due from local governments	1,618	381	1,999	-
Due from others	9	-	9	-
Inventory of food stamps	86	-	86	-
Inventories, at cost	20,983	26,513	47,496	8,259
Other current assets	5,320	5,009	10,329	1,345
Total Current Assets	2,482,215	1,372,783	3,854,998	181,699
Noncurrent Assets:				
Restricted assets:				
Cash	-	92,446	92,446	-
Cash and pooled investments with State Treasurer	523,845	102,398	626,243	-
Cash held by trustee	120,454	25,809	146,263	-
Investments held by trustee	-	106,561	106,561	22,082
Loans and notes receivable, net of allowances	253,284	52,094	305,378	320,439
Investments	-	342,725	342,725	81,276
Endowment investments	1,119,469	208,783	1,328,252	-
Other noncurrent assets	-	17,429	17,429	56,069
Capital assets:				
Infrastructure, land and other non-depreciable	11,687,740	302,225	11,989,965	10,125
Depreciable buildings, property and equipment	1,918,539	3,555,879	5,474,418	289,567
Less: accumulated depreciation	(834,350)	(1,674,570)	(2,508,920)	(195,040)
Total Noncurrent Assets	14,788,981	3,131,779	17,920,760	584,518
Total Assets	$ 17,271,196	$ 4,504,562	$ 21,775,758	$ 766,217

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

STATE OF ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2003
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	$ 582,910	$ 74,430	$ 657,340	$ 26,178
Accrued liabilities	297,465	38,269	335,734	10,560
Obligation under securities loan agreements	-	69,525	69,525	-
Tax refunds payable	155	-	155	-
Due to U.S. Government	12,172	164	12,336	-
Due to local governments	365,473	5,152	370,625	-
Due to others	104,031	50,833	154,864	-
Unearned deferred revenue	51,344	91,224	142,568	491
Current portion of accrued insurance losses	-	16,320	16,320	2,671
Current portion of long-term debt	346,354	43,763	390,117	15,695
Current portion of other long-term liabilities	139,135	8,355	147,490	3,482
Total Current Liabilities	1,899,039	398,035	2,297,074	59,077
Noncurrent Liabilities:				
Unearned deferred revenue	6,878	49,470	56,348	1,202
Accrued insurance losses	233,080	223,418	456,498	9,738
Funds held for others	-	31,758	31,758	-
Long-term debt	2,808,222	1,028,875	3,837,097	353,444
Other long-term liabilities	356,216	39,233	395,449	9,359
Total Noncurrent Liabilities	3,404,396	1,372,754	4,777,150	373,743
Total Liabilities	5,303,435	1,770,789	7,074,224	432,820
NET ASSETS				
Invested in capital assets, net of related debt	10,690,782	1,169,864	11,860,646	34,930
Restricted for:				
Federal grants	62,456	-	62,456	-
Capital projects	495,663	21,842	517,505	-
Unemployment compensation	-	893,470	893,470	-
Debt service	30,470	24,715	55,185	8,610
Permanent funds / University funds:				
Expendable	20,082	143,683	163,765	-
Nonexpendable	1,395,750	141,281	1,537,031	-
Loans and other financial assistance	-	63,249	63,249	199,180
Other purposes	21,080	2,763	23,843	-
Unrestricted	(748,522)	272,906	(475,616)	90,677
Total Net Assets	$ 11,967,761	$ 2,733,773	$ 14,701,534	$ 333,397

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

STATE OF ARIZONA

STATEMENT OF ADMITTED ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS

COMPONENT UNITS

STATE COMPENSATION FUND

FOR THE YEAR ENDED DECEMBER 31, 2002

(Reported on Statutory Basis of Accounting)

(Expressed in Thousands)

		STATUTORY BASIS
ADMITTED ASSETS		
Investments:		
Bonds and certificates	$	1,935,272
Equity securities		156,885
Mortgages		156,293
Properties occupied by the Fund		26,436
Cash and short-term investments		274,320
Total Cash and Invested Assets		2,549,206
Other Assets:		
Premiums receivable		39,825
Electronic data processing equipment		916
Accrued interest and dividends receivable		22,163
Other assets		4,365
Total Admitted Assets	$	2,616,475
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Liabilities:	$	
Liability for incurred but unpaid losses and loss adjustment expenses		1,797,913
Policyholders' advance premiums		55,210
Obligation for return of collateral		212,718
Taxes, licenses, fees and other accrued expenses		10,111
NCCI assigned risk pool liability		21,386
Policyholders' dividends		7,296
Total Liabilities		2,104,634
Policyholders' Surplus:		
Special surplus		30,000
Unassigned surplus		481,841
Total Policyholders' Surplus		511,841
Total Liabilities and Policyholders' Surplus	$	2,616,475

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, 2003

(Expressed in Thousands)

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	$ 694,173	$ 106,876	$ 135,113	$ -
Health and welfare	6,848,087	66,117	4,889,842	-
Inspection and regulation	141,673	120,045	5,486	-
Education	4,795,566	12,897	724,493	-
Protection and safety	982,839	77,877	74,398	450
Transportation	598,375	112,466	32,998	459,459
Natural resources	175,312	35,441	31,865	455
Intergovernmental revenue sharing	2,159,691	-	-	-
Interest on long-term debt	135,775	-	-	-
Total Governmental Activities	16,531,491	531,719	5,894,195	460,364
Business-type Activities:				
Universities	2,159,216	675,089	673,261	23,090
Unemployment compensation	455,685	162,561	136,218	-
Industrial Commission	73,586	-	-	-
Lottery	263,321	322,267	-	-
Other	107,740	97,115	1,070	-
Total Business-type Activities	3,059,548	1,257,032	810,549	23,090
Total Primary Government	$ 19,591,039	$ 1,788,751	$ 6,704,744	$ 483,454
COMPONENT UNITS:				
Water Infrastructure Finance Authority	$ 14,533	$ 12,513	$ 7,557	$ -
University Medical Center	280,471	281,048	-	-
Arizona Power Authority	25,833	25,013	-	-
Total Component Units	$ 320,837	$ 318,574	$ 7,557	$ -

General Revenues:
- Taxes:
  - Sales
  - Income
  - Property
  - Motor vehicle and fuel
  - Other
- Unrestricted investment earnings
- Unrestricted grants and contributions
- Miscellaneous

Contributions to permanent endowments

Gain on sale of trust land

Transfers

Total General Revenues, Contributions, Gains and Transfers

Change in Net Assets

Net Assets - Beginning, as restated

Net Assets - Ending

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
$ (452,184)		$ (452,184)	
(1,892,128)		(1,892,128)	
(16,142)		(16,142)	
(4,058,176)		(4,058,176)	
(830,114)		(830,114)	
6,548		6,548	
(107,551)		(107,551)	
(2,159,691)		(2,159,691)	
(135,775)		(135,775)	
(9,645,213)		(9,645,213)	
	$ (787,776)	(787,776)	
	(156,906)	(156,906)	
	(73,586)	(73,586)	
	58,946	58,946	
	(9,555)	(9,555)	
	(968,877)	(968,877)	
(9,645,213)	(968,877)	(10,614,090)	
			$ 5,537
			577
			(820)
			5,294
4,551,804	43,450	4,595,254	-
2,371,005	-	2,371,005	-
37,470	-	37,470	-
1,563,876	-	1,563,876	-
632,896	-	632,896	-
77,914	32,527	110,441	8,006
7,222	3	7,225	-
319,873	26,985	346,858	-
-	3,037	3,037	-
137,563	-	137,563	-
(665,004)	665,004	-	-
9,034,619	771,006	9,805,625	8,006
(610,594)	(197,871)	(808,465)	13,300
12,578,355	2,931,644	15,509,999	320,097
$ 11,967,761	$ 2,733,773	$ 14,701,534	$ 333,397

STATE OF ARIZONA
STATEMENTS OF OPERATIONS AND
CHANGES IN POLICYHOLDERS' SURPLUS
COMPONENT UNITS
STATE COMPENSATION FUND
FOR THE YEAR ENDED DECEMBER 31, 2002
(Reported on Statutory Basis of Accounting)
(Expressed in Thousands)

	STATUTORY BASIS
Net premiums earned	$ 276,167
Compensation and medical benefits incurred	244,636
Loss expenses incurred	22,330
Underwriting and administrative expenses	18,972
Taxes and fees	5,061
Total Operating Expenses	290,999
Net Underwriting Loss	(14,832)
Net investment income, net of expenses of $6,588	134,914
Net realized capital loss	(14,471)
Net Investment Gain	120,443
Other income	1,415
NCCI assigned risk pool loss	(1,381)
Net Income before Policyholders' Dividends	105,645
Provision for policyholders' dividends	(50,000)
Net Income	$ 55,645

STATEMENT OF CHANGES IN
POLICYHOLDERS' SURPLUS

Balance, Beginning of Year	$ 470,190
Net income	55,645
Change in non-admitted assets	(2,530)
Adjustment to policyholders' dividend liability	9,084
Net unrealized capital losses	(20,548)
Balance, End of Year	$ 511,841

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

STATE OF ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	GENERAL FUND	TRANSPORTATION & AVIATION PLANNING, HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS					
Cash	$ 719	$ -	$ 28	$ 1,385	$ 2,132
Cash and pooled investments with State Treasurer	564,659	151,425	60,203	691,158	1,467,445
Receivables, net of allowances:					
Taxes	286,869	68,683	-	7,832	363,384
Interest	15,697	861	2,143	2,476	21,177
Loans and notes	-	-	260,229	-	260,229
Other	26,718	18,366	548	22,801	68,433
Due from U.S. Government	148,021	69,929	-	153	218,103
Due from local governments	1,577	41	-	-	1,618
Due from others	-	-	-	9	9
Due from other Funds	276,216	20,264	291	57,607	354,378
Inventory of food stamps	86	-	-	-	86
Inventories, at cost	11,300	4,693	-	2,607	18,600
Restricted assets:					
Cash and pooled investments with State Treasurer	18,259	312,889	-	192,697	523,845
Cash held by trustee	86,843	-	-	33,611	120,454
Endowment investments	-	-	1,119,469	-	1,119,469
Other	344	-	-	27	371
Total Assets	$ 1,437,308	$ 647,151	$ 1,442,911	$ 1,012,363	$ 4,539,733
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	$ 249,550	$ 78,110	$ 7,371	$ 211,183	$ 546,214
Accrued liabilities	92,790	7,025	16	9,374	109,205
Tax refunds payable	155	-	-	-	155
Due to U.S. Government	12,172	-	-	-	12,172
Due to local governments	267,808	96,473	-	1,192	365,473
Due to others	103,805	-	-	226	104,031
Due to other Funds	36,992	178,250	24,853	50,101	290,196
Unavailable deferred revenue	95,039	9,854	262,807	1,938	369,638
Unearned deferred revenue	32,575	-	23,681	1,966	58,222
Notes payable	-	8,031	-	-	8,031
Total Liabilities	890,886	377,743	318,728	275,980	1,863,337
Fund Balances:					
Reserved for:					
Budget stabilization fund	13,737	-	-	-	13,737
Highway construction	-	182,637	-	159,687	342,324
Other construction	-	-	-	33,477	33,477
School facilities improvements	101,944	-	-	33,893	135,837
Permanent funds	-	-	1,123,523	-	1,123,523
Continuing appropriations	87,131	62,792	660	26,786	177,369
Debt service	-	2,241	-	21,032	23,273
Other fund balance reservations	598	24,693	-	14,252	39,543
Unreserved	343,012	(2,955)	-	-	340,057
Unreserved reported in:					
Nonmajor special revenue funds	-	-	-	447,256	447,256
Total Fund Balances	546,422	269,408	1,124,183	736,383	2,676,396
Total Liabilities and Fund Balances	$ 1,437,308	$ 647,151	$ 1,442,911	$ 1,012,363	$ 4,539,733

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 ASSETS

JUNE 30, 2003

(Expressed in Thousands)

Total fund balances - governmental funds		$ 2,676,396
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		12,710,537
Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.		369,638
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 Assets.		(131,296)
The allocation of internal service fund net loss results in an amount due from business-type activities, which is not reported in the funds.		42
Deferred issue costs are reported as current expenditures in the 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 Assets.		3,049
Long-term debt is not due and payable from current financial resources and, therefore, is not reported in the funds. These amounts consist of:		
Revenue bonds	(2,173,055)	
Premium on revenue bonds	(70,222)	
Grant anticipation notes	(169,145)	
Certificates of participation	(582,511)	
Premium on certificates of participation	(38,510)	
Capital leases	(104,644)	
Installment purchase contracts	(5,707)	(3,143,794)
Accrued liabilities for AHCCCS programmatic costs are not due and payable from current financial resources and, therefore, are not reported in the funds.		(189,648)
Other long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds. Those liabilities consist of:		
Compensated absences	(134,136)	
Claims and judgements	(350,814)	(484,950)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds. Those assets consist of:		
AHCCCS programmatic cost reimbursements	151,723	
Other long-term assets	6,064	157,787
Net assets of governmental activities		$ 11,967,761

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, 2003
(Expressed in Thousands)

	GENERAL	TRANSPORTATION & AVIATION PLANNING, HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
REVENUES					
Taxes:					
Sales	$ 3,831,421	$ 268,721	$ -	$ 455,247	$ 4,555,389
Income	2,387,340	-	-	29	2,387,369
Property	29,407	6,026	-	2,037	37,470
Motor vehicle and fuel	7,723	1,523,361	-	32,792	1,563,876
Other	423,939	-	-	208,957	632,896
Intergovernmental	5,551,059	492,457	25	97,677	6,141,218
Licenses, fees and permits	81,041	107,530	-	131,993	320,564
Earnings on investments	21,641	2,281	33,959	53,890	111,771
Sales and charges for services	68,064	717	9,333	33,324	111,438
Fines, forfeitures and penalties	10,700	-	-	85,492	96,192
Other	247,293	17,166	8,917	64,554	337,930
Total Revenues	12,659,628	2,418,259	52,234	1,165,992	16,296,113
EXPENDITURES					
Current:					
General government	595,951	-	454	93,198	689,603
Health and welfare	6,312,800	-	5,300	334,561	6,652,661
Inspection and regulation	49,390	-	-	90,473	139,863
Education	3,811,254	-	70,267	1,000,995	4,882,516
Protection and safety	829,850	-	2,571	93,246	925,667
Transportation	62	455,301	-	8,393	463,756
Natural resources	45,182	-	1,387	117,377	163,946
Intergovernmental revenue sharing	1,202,634	957,057	-	-	2,159,691
Debt service:					
Principal	8,079	-	166	289,263	297,508
Interest and other fiscal charges	3,958	2,780	-	133,875	140,613
Capital outlay	172,440	602,435	-	266,163	1,041,038
Total Expenditures	13,031,600	2,017,573	80,145	2,427,544	17,556,862
Excess (Deficiency) of Revenues Over Expenditures	(371,972)	400,686	(27,911)	(1,261,552)	(1,260,749)
OTHER FINANCING SOURCES (USES)					
Transfers in	464,338	22,785	400	566,339	1,053,862
Transfers out	(796,436)	(511,110)	(19,123)	(363,774)	(1,690,443)
Proceeds from sale of trust land	-	-	88,066	-	88,066
Capital lease and installment purchase contracts	100,721	-	-	752	101,473
Refunding bonds issued	-	-	-	90,530	90,530
Payment to refunded bond escrow agent	-	-	-	(107,735)	(107,735)
Bonds issued	-	-	-	662,975	662,975
Premium on bonds issued	-	-	-	46,377	46,377
Refunding certificates of participation issued	-	-	-	75,295	75,295
Payment to refunded certificates of participation escrow agent	-	-	-	(80,713)	(80,713)
Certificates of participation issued	372,730	-	-	-	372,730
Premium on certificates of participation issued	28,768	-	-	5,418	34,186
Total Other Financing Sources (Uses)	170,121	(488,325)	69,343	895,464	646,603
Net Change in Fund Balances	(201,851)	(87,639)	41,432	(366,088)	(614,146)
Fund Balances - Beginning, as restated	748,273	357,047	1,082,751	1,102,471	3,290,542
Fund Balances - Ending	$ 546,422	$ 269,408	$ 1,124,183	$ 736,383	$ 2,676,396

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2003

(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (614,146)
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. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay	1,041,038	
Depreciation expense	(85,087)	955,951
The net loss of internal service funds that is included with governmental activities in the Statement of Activities.		(28,628)
Some revenues reported in the Statement of Activities are not currently available at year-end and are not reported as revenue in the governmental funds.		
Operating grants	163,355	
Gain on sale of trust land	49,497	
Gain on sale of capital assets	3,723	
Fees and licenses	4,219	
Other revenue	877	221,671
Tax revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities.		
Sales and use taxes	(3,585)	
Income taxes	(16,364)	(19,949)
Some 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	(189,648)	
Litigation	(814)	
Accrued infrastructure asset preservation	(122,215)	
Compensated absences	(4,847)	
Other noncurrent expenses	(295)	(317,819)
The Roosevelt School District settlement, which was accrued at the government-wide level in fiscal year 2002, has been reversed, in the State's favor, by the Arizona State Court of Appeals. This accrual was not financed from current financial resources in fiscal year 2002 and, therefore, was not reported in the fund statements in fiscal year 2002.		88,000

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

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STATE OF ARIZONA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2003

(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 Assets. In the current period, proceeds were received from:		
New bonds issued	(662,975)	
Refunding bonds issued	(90,530)	
Premium on bonds issued	(46,377)	
Bond premium amortization	3,852	
New certificates of participation issued	(372,730)	
Premium on COPs issued	(34,186)	
COP premium amortization	350	
Refunding certificates of participation issued	(75,295)	(1,277,891)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces noncurrent liabilities in the Statement of Net Assets. In the current year, these amounts consist of:		
Debt service principal	297,508	
Payment to refunded bond escrow agent	103,045	
Payment to refunded certificates of participation escrow agent	80,713	
Bond issuance costs	2,424	483,690
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 Assets.		(101,473)
Change in net assets of governmental activities		$ (610,594)

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

STATE OF ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION	LOTTERY	OTHER
ASSETS					
Current Assets:					
Cash	$ 86,749	$ 29	$ 6,087	$ 3	$ 332
Cash with U.S. Treasury	-	860,872	-	-	-
Cash and pooled investments with State Treasurer	115,978	-	308	34,936	18,596
Collateral investment pool	34,251	-	35,274	-	-
Short-term investments	50,325	-	-	-	60
Receivables, net of allowances:					
Taxes	-	39,659	-	-	-
Interest	582	-	2,054	-	310
Loans and notes	4,320	-	-	-	4,357
Other	40,274	11,692	17	6,429	4,766
Due from U.S. Government	53,234	-	-	-	58
Due from local governments	-	-	-	-	381
Due from other Funds	-	-	-	-	109,632
Inventories, at cost	17,326	-	-	1,248	7,939
Other current assets	4,442	-	-	-	567
Total Current Assets	407,481	912,252	43,740	42,616	146,998
Noncurrent Assets:					
Restricted assets:					
Cash	92,446	-	-	-	-
Cash and pooled investments with State Treasurer	-	-	-	-	102,398
Cash held by trustee	25,809	-	-	-	-
Investments held by trustee	103,174	-	3,387	-	-
Loans and notes receivable, net of allowances	27,838	-	-	-	24,256
Investments	157,321	-	185,404	-	-
Endowment investments	208,783	-	-	-	-
Other long-term assets	10,227	-	-	7,023	179
Capital assets:					
Infrastructure, land and other non-depreciable	296,227	-	2,997	938	2,063
Depreciable buildings, property and equipment	3,465,743	-	27,303	7,246	55,587
Less: accumulated depreciation	(1,628,342)	-	(5,584)	(4,747)	(35,897)
Total Noncurrent Assets	2,759,226	-	213,507	10,460	148,586
Total Assets	3,166,707	912,252	257,247	53,076	295,584
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	67,773	-	1,272	3,591	1,794
Accrued liabilities	23,697	11,319	-	-	3,253
Obligation under securities loan agreements	34,251	-	35,274	-	-
Due to U.S. Government	-	164	-	-	-
Due to local governments	-	-	-	5,152	-
Due to others	16,973	6,998	-	26,776	86
Due to other Funds	-	301	-	7,130	172,831
Unearned deferred revenue	83,103	-	-	-	8,121
Current portion of accrued insurance losses	-	-	16,320	-	-
Current portion of long-term debt	42,314	-	1,400	-	49
Current portion of other long-term liabilities	7,201	-	-	397	757
Total Current Liabilities	275,312	18,782	54,266	43,046	186,891
Noncurrent Liabilities:					
Unearned deferred revenue	49,470	-	-	-	-
Accrued insurance losses	-	-	223,418	-	-
Funds held for others	31,758	-	-	-	-
Long-term debt	1,024,195	-	4,600	-	80
Other long-term liabilities	39,165	-	-	-	68
Total Noncurrent Liabilities	1,144,588	-	228,018	-	148
Total Liabilities	1,419,900	18,782	282,284	43,046	187,039

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE
$ 93,200	$ -
860,872	-
169,818	69,579
69,525	-
50,385	-
39,659	-
2,946	11
8,677	-
63,178	10,527
53,292	-
381	-
109,632	6,465
26,513	2,383
5,009	1,900
1,553,087	90,865
92,446	-
102,398	-
25,809	-
106,561	-
52,094	-
342,725	-
208,783	-
17,429	-
302,225	21
3,555,879	193,880
(1,674,570)	(132,509)
3,131,779	61,392
4,684,866	152,257
74,430	36,697
38,269	607
69,525	-
164	-
5,152	-
50,833	-
180,262	17
91,224	-
16,320	-
43,763	182
8,355	7,047
578,297	44,550
49,470	-
223,418	233,080
31,758	-
1,028,875	2,569
39,233	3,354
1,372,754	239,003
1,951,051	283,553

(Continued)

STATE OF ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION	LOTTERY	OTHER
NET ASSETS					
Invested in capital assets, net of related debt	1,137,137	-	18,715	3,437	10,575
Restricted for:					
Capital projects	21,842	-	-	-	-
Unemployment compensation	-	893,470	-	-	-
Debt service	21,328	-	3,387	-	-
Loans and other financial assistance	-	-	-	-	63,249
University funds:					
Expendable	143,683	-	-	-	-
Nonexpendable	141,281	-	-	-	-
Other purposes	-	-	21	-	2,742
Unrestricted	281,536	-	(47,160)	6,593	31,979
Total Net Assets	$ 1,746,807	$ 893,470	$ (25,037)	$ 10,030	$ 108,545

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Net assets of business-type activities

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE
1,169,864	58,641
21,842	-
893,470	-
24,715	-
63,249	-
143,683	-
141,281	-
2,763	-
272,948	(189,937)
$ 2,733,815	$ (131,296)
(42)	
$ 2,733,773	

STATE OF ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION	LOTTERY	OTHER
OPERATING REVENUES					
Sales and charges for services:					
Pledged student tuition and fees, net of scholarship allowances of $98,081	$ 409,048	$ -	$ -	$ -	$ -
Pledged auxiliary enterprises, net of scholarship allowances of $5,938	226,102	-	-	-	-
Pledged educational department	39,939	-	-	-	-
Lottery	-	-	-	322,267	-
Other	-	-	-	-	92,454
Unemployment assessments	-	160,963	-	-	-
Intergovernmental (revenues for Universities are pledged)	509,925	78,823	-	-	1,070
Pledged nongovernmental grants and contracts	88,420	-	-	-	-
Licenses, fees and permits	-	-	-	-	780
Earnings on investments	-	-	-	-	3,881
Fines, forfeitures and penalties	-	1,598	-	-	-
Other (revenues for Universities are pledged)	15,553	22	950	305	1,974
Total Operating Revenues	1,288,987	241,406	950	322,572	100,159
OPERATING EXPENSES					
Cost of sales and benefits	506,100	455,685	69,355	209,657	67,594
Interest on notes payable	-	-	-	-	6,009
Scholarships and fellowships	84,157	-	-	-	-
Personal services	1,365,638	-	-	5,259	21,783
Contractual services	-	-	-	9,225	4,954
Depreciation and amortization	144,274	-	1,082	269	2,807
Insurance	-	-	-	35	566
Other	-	-	4	2,232	4,026
Total Operating Expenses	2,100,169	455,685	70,441	226,677	107,739
Operating Income (Loss)	(811,182)	(214,279)	(69,491)	95,895	(7,580)
NON-OPERATING REVENUES (EXPENSES)					
Share of State sales tax revenues	43,450	-	-	-	-
Gain (loss) on sale of capital assets	(519)	-	-	-	(8)
Investment income (revenues for Universities are pledged)	13,277	57,395	16,486	-	2,764
Endowment earnings on investments	7,704	-	-	-	-
Other non-operating revenue	6,450	-	1,874	384	-
Distributions to local governments	-	-	-	(36,644)	-
Interest expense	(46,306)	-	(150)	-	(1)
Other non-operating expense	(10,219)	-	(2,995)	-	-
Total Non-Operating Revenues (Expenses)	13,837	57,395	15,215	(36,260)	2,755
Income (Loss) Before Contributions and Transfers	(797,345)	(156,884)	(54,276)	59,635	(4,825)
CONTRIBUTIONS AND TRANSFERS					
Gifts and donations	67,212	-	-	-	3
Capital grants and contributions	23,090	-	-	-	-
Contributions to permanent endowments	3,037	-	-	-	-
Transfers in	746,908	-	-	-	7,281
Transfers out	-	(5,189)	-	(59,066)	(24,930)
Total Contributions and Transfers	840,247	(5,189)	-	(59,066)	(17,646)
Change in Net Assets	42,902	(162,073)	(54,276)	569	(22,471)
Total Net Assets - Beginning, as restated	1,703,905	1,055,543	29,239	9,461	131,016
Total Net Assets - Ending	$ 1,746,807	$ 893,470	$ (25,037)	$ 10,030	$ 108,545

Change in net assets of enterprise funds
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Change in net assets of business-type activities

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE
$ 409,048	$ -
226,102	-
39,939	-
322,267	-
92,454	572,009
160,963	-
589,818	-
88,420	-
780	-
3,881	-
1,598	-
18,804	687
1,954,074	572,696
1,308,391	454,239
6,009	-
84,157	-
1,392,680	25,321
14,179	27,902
148,432	14,959
601	45,796
6,262	7,414
2,960,711	575,631
(1,006,637)	(2,935)
43,450	-
(527)	238
89,922	101
7,704	-
8,708	-
(36,644)	-
(46,457)	(253)
(13,214)	-
52,942	86
(953,695)	(2,849)
67,215	122
23,090	-
3,037	-
754,189	41
(89,185)	(28,464)
758,346	(28,301)
(195,349)	(31,150)
2,929,164	(100,146)
$ 2,733,815	$ (131,296)
$ (195,349)	
(2,522)	
$ (197,871)	

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION	LOTTERY	OTHER
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$ -	$ -	$ -	$ 318,772	$ 97,997
Receipts from assessments	-	160,749	-	-	-
Receipts from student loans collected	9,481	-	-	-	-
Receipts from sales and services of auxiliary enterprises	226,231	-	-	-	-
Receipts from sales and services of educational departments	38,743	-	-	-	-
Receipts from interfund services / premiums	-	-	-	-	-
Receipts from student tuition and fees	412,583	-	-	-	-
Receipts from federal and local governments	591,074	78,823	-	-	-
Receipts from uninsured claims	-	-	949	-	-
Transfers from other Funds	-	-	-	-	85,455
Payments to suppliers, prize winners, claimants, insurance companies or beneficiaries	(503,871)	(465,884)	(17,020)	(219,416)	(74,160)
Payments to employees	(1,361,163)	-	-	(5,253)	(21,611)
Payments to retirees	-	-	-	-	-
Payments for scholarships and fellowships	(80,699)	-	-	-	-
Payments for student loans issued	(9,704)	-	-	-	-
Transfers to other Funds	-	-	-	-	(116,306)
Other receipts	20,771	1,620	-	305	1,973
Net Cash Provided (Used) by Operating Activities	(656,554)	(224,692)	(16,071)	94,408	(26,652)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Custodial funds received	115,213	-	-	-	-
Office rental receipts	-	-	1,872	-	-
Share of State sales tax receipts	38,029	-	-	-	-
Grants and contributions received	367,623	-	-	-	-
Transfers from other Funds	746,853	-	-	-	9,110
Interest paid	-	-	-	-	-
Custodial funds disbursed	(99,138)	-	-	-	-
Grants and contributions disbursed	(299,509)	-	-	-	-
Distributions to local governments	-	-	-	(26,831)	-
Transfers to other Funds	-	(5,114)	-	(61,413)	(26,753)
Other receipts (payments)	-	-	(1,594)	384	-
Net Cash Provided (Used) by Non-capital Financing Activities	869,071	(5,114)	278	(87,860)	(17,643)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	3,577	-	-	-	-
Proceeds from capital debt	53,128	-	-	-	-
Capital grants and contributions received	15,288	-	-	-	3
Acquisition and construction of capital assets	(265,823)	-	(2,236)	(1)	(723)
Interest paid on capital debt, installment purchase contracts and capital leases	(47,101)	-	(166)	-	-
Principal paid on capital debt, installment purchase contracts and capital leases	(50,883)	-	(1,400)	-	-
Other (payments)	-	-	(23)	-	-
Net Cash (Used) by Capital and Related Financing Activities	(291,814)	-	(3,825)	(1)	(720)

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE
$ 416,769	$ -
160,749	-
9,481	-
226,231	-
38,743	-
-	569,775
412,583	-
669,897	-
949	-
85,455	-
(1,280,351)	(526,890)
(1,388,027)	(25,350)
-	(10,195)
(80,699)	-
(9,704)	-
(116,306)	-
24,669	718
(829,561)	8,058
115,213	-
1,872	-
38,029	-
367,623	-
755,963	41
-	(253)
(99,138)	-
(299,509)	-
(26,831)	-
(93,280)	(28,464)
(1,210)	-
758,732	(28,676)
3,577	-
53,128	-
15,291	-
(268,783)	(3,492)
(47,267)	-
(52,283)	(4,430)
(23)	-
(296,360)	(7,922)

(Continued)

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION	LOTTERY	OTHER
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	684,606	-	146,172	-	-
Interest and dividends from investments	19,291	57,395	2,505	-	3,216
Change in cash collateral received from securities lending transactions	-	-	2,057	-	-
Purchase of investments	(664,452)	-	(130,422)	-	(60)
Other (payments)	-	-	(1,295)	-	-
Net Cash Provided by Investing Activities	39,445	57,395	19,017	-	3,156
Net Increase (Decrease) in Cash and Cash Equivalents	(39,852)	(172,411)	(601)	6,547	(41,859)
Cash and Cash Equivalents - Beginning, as restated	360,834	1,033,312	42,270	28,392	163,185
Cash and Cash Equivalents - Ending	$ 320,982	$ 860,901	$ 41,669	$ 34,939	$ 121,326
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	$ (811,182)	$ (214,279)	$ (69,491)	$ 95,895	$ (7,580)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	144,274	-	1,082	269	2,807
Miscellaneous nonoperating revenues	-	-	-	-	-
Net changes in assets and liabilities:					
(Increase) in receivables, net of allowances	(10,667)	(6,257)	-	(3,495)	(30,893)
(Increase) in due from U.S. Government	-	-	-	-	(8)
(Increase) decrease in due from local governments	-	-	-	-	(203)
(Increase) in due from other Funds	-	-	-	-	(717)
(Increase) decrease in inventories, at cost	(1,129)	-	-	604	1,249
(Increase) decrease in other assets	1,121	-	-	(313)	112
Increase (decrease) in accounts payable	18,980	-	265	1,442	(560)
Increase in accrued liabilities	4,300	1,376	-	-	2,048
Increase (decrease) in due to U.S. Government	-	158	-	-	-
Increase (decrease) in due to others	47	(5,690)	-	-	(79)
Increase (decrease) in due to other Funds	-	-	-	-	6,109
Increase (decrease) in deferred revenue	(2,298)	-	-	-	869
Increase (decrease) in accrued insurance losses	-	-	52,073	-	-
Increase (decrease) in other liabilities	-	-	-	6	194
Net Cash Provided (Used) by Operating Activities	$ (656,554)	$ (224,692)	$ (16,071)	$ 94,408	$ (26,652)
SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Donated equipment	$ -	$ -	$ -	$ -	$ 3
Gifts and conveyances of capital assets	4,362	-	-	-	-
Assets acquired under capital leases	597	-	-	-	-
Change in fair value of investments	5,131	-	7,000	-	-
Amortization of bond discount and issuance costs	(960)	-	-	-	-
Amortization of loss on refunding and bond premium	829	-	-	-	-
(Loss) on disposal of capital assets, net	(1,686)	-	-	-	(3)
Amortization of deferred rent	4,900	-	-	-	-
Refinancing of long-term debt	60,845	-	-	-	-
Total Noncash Investing, Capital and Financing Activities	$ 74,018	$ -	$ 7,000	$ -	$ -

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE
830,778	-
82,407	113
2,057	-
(794,934)	-
(1,295)	-
119,013	113
(248,176)	(28,427)
1,627,993	98,006
$ 1,379,817	$ 69,579
$ (1,006,637)	$ (2,935)
148,432	14,959
-	2,983
(51,312)	(4)
(8)	-
(203)	38
(717)	(4,413)
724	(54)
920	1,040
20,127	(503)
7,724	96
158	(838)
(5,722)	-
6,109	(242)
(1,429)	-
52,073	(1,251)
200	(818)
$ (829,561)	$ 8,058
$ 3	$ -
4,362	-
597	556
12,131	-
(960)	-
829	-
(1,689)	-
4,900	-
60,845	-
$ 81,018	$ 556

STATE OF ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	PENSION TRUSTS	INVESTMENT TRUSTS	AGENCY FUNDS	TOTAL
ASSETS				
Cash	$ 15,099	$ -	$ 28,948	$ 44,047
Cash and pooled investments with State Treasurer	-	-	160,742	160,742
Short-term investments	-	-	2,978	2,978
Receivables, net of allowances:				
Accrued interest and dividends	95,942	5,636	140	101,718
Securities sold	336,946	-	-	336,946
Forward contract receivable	6,818	-	-	6,818
Contributions	15,687	-	-	15,687
Court fees	310	-	-	310
Miscellaneous receivables	1,805	-	764	2,569
Total receivables	457,508	5,636	904	464,048
Due from others	-	-	89,170	89,170
Investments, at fair value:				
Temporary investments	1,081,982	-	-	1,081,982
Temporary investments from securities lending	2,248,014	-	-	2,248,014
United States Government securities	3,724,917	2,187,195	-	5,912,112
Corporate bonds	2,341,338	1,006,405	-	3,347,743
Corporate notes	296,229	-	-	296,229
Corporate stocks	16,265,708	-	-	16,265,708
Real estate mortgages and contracts	30,212	-	-	30,212
Collateral investment pool	1,305,921	-	-	1,305,921
Other investments	266,236	-	-	266,236
Money market fund	2,955	-	-	2,955
Total investments	27,563,512	3,193,600	-	30,757,112
Custodial securities in safekeeping	-	-	2,966,075	2,966,075
Other assets	-	-	2,295	2,295
Property and equipment, net of accumulated depreciation	445	-	-	445
Total Assets	28,036,564	3,199,236	3,251,112	34,486,912
LIABILITIES				
Accounts payable and other current liabilities	10,399	-	111,715	122,114
Payable for securities purchased	1,017,264	-	-	1,017,264
Accrued liabilities	-	-	6,123	6,123
Obligation under securities loan agreements	3,553,925	-	-	3,553,925
Due to local governments	-	6,692	3,273	9,965
Due to others	-	-	3,130,001	3,130,001
Total Liabilities	4,581,588	6,692	3,251,112	7,839,392
NET ASSETS				
Held in trust for:				
Pension benefits	23,454,976	-	-	23,454,976
Pool participants	-	3,192,544	-	3,192,544
Total Net Assets	$ 23,454,976	$ 3,192,544	$ -	$ 26,647,520

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

STATE OF ARIZONA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2003

(Expressed in Thousands)

	PENSION TRUSTS	INVESTMENT TRUSTS	TOTAL
ADDITIONS:			
Member contributions	$ 279,781	$ -	$ 279,781
Employer contributions	235,543	-	235,543
Member purchase of service credit	91,568	-	91,568
Court fees	3,568	-	3,568
Investment income:			
Net increase in fair value of investments	93,400	1,789	95,189
Interest income	385,796	64,011	449,807
Dividends	180,004	-	180,004
Real estate	7,774	-	7,774
Other investment income	2,840	-	2,840
Securities lending income	32,445	-	32,445
Total investment income	702,259	65,800	768,059
Less investment expenses:			
Investment activity expenses	23,341	2,734	26,075
Security lending expenses	24,786	-	24,786
Net investment income	654,132	63,066	717,198
Capital share and individual account transactions:			
Shares sold	-	5,837,339	5,837,339
Reinvested interest income	-	64,418	64,418
Shares redeemed	-	(6,283,033)	(6,283,033)
Net capital share and individual account transactions	-	(381,276)	(381,276)
Other additions	8,447	-	8,447
Total Additions	1,273,039	(318,210)	954,829
DEDUCTIONS:			
Retirement and disability benefits	1,460,855	-	1,460,855
Death benefits	15,861	-	15,861
Refunds to withdrawing members, including interest	58,537	-	58,537
Administrative expense	25,494	-	25,494
Dividends to investors	-	63,066	63,066
Other deductions	15,338	-	15,338
Total Deductions	1,576,085	63,066	1,639,151
Change in net assets held in trust for:			
Pension benefits	(303,046)	-	(303,046)
Pool participants	-	(381,276)	(381,276)
Net Assets - Beginning	23,758,022	3,573,820	27,331,842
Net Assets - Ending	$ 23,454,976	$ 3,192,544	$ 26,647,520

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

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STATE OF ARIZONA
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2003
(Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	TOTAL
ASSETS				
Current Assets:				
Cash	$ -	$ 13,341	$ -	$ 13,341
Cash and pooled investments with State Treasurer	47,504	-	5,993	53,497
Cash held by trustee	21,794	-	2,695	24,489
Short-term investments	-	22,318	-	22,318
Receivables, net of allowances:				
Interest	1,168	-	141	1,309
Loans and notes	12,165	-	-	12,165
Other	-	42,790	2,186	44,976
Inventories, at cost	-	8,259	-	8,259
Other current assets	-	-	1,345	1,345
Total Current Assets	82,631	86,708	12,360	181,699
Noncurrent Assets:				
Restricted assets:				
Investments held by trustee	-	12,343	9,739	22,082
Loans and notes receivable, net of allowances	320,439	-	-	320,439
Investments	73,458	7,818	-	81,276
Other noncurrent assets	2,655	3,895	49,519	56,069
Capital assets:				
Land and other nondepreciable	-	10,125	-	10,125
Depreciable buildings, property and equipment	82	288,306	1,179	289,567
Less: accumulated depreciation	(57)	(193,965)	(1,018)	(195,040)
Total Noncurrent Assets	396,577	128,522	59,419	584,518
Total Assets	479,208	215,230	71,779	766,217
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	13	24,525	1,640	26,178
Accrued liabilities	3,823	5,843	894	10,560
Unearned deferred revenue	491	-	-	491
Current portion of accrued insurance losses	-	2,671	-	2,671
Current portion of long-term debt	10,515	2,860	2,320	15,695
Current portion of other long-term liabilities	59	3,423	-	3,482
Total Current Liabilities	14,901	39,322	4,854	59,077
Noncurrent Liabilities:				
Unearned deferred revenue	1,202	-	-	1,202
Accrued insurance losses	-	9,738	-	9,738
Long-term debt	224,438	65,012	63,994	353,444
Other long-term liabilities	-	9,359	-	9,359
Total Noncurrent Liabilities	225,640	84,109	63,994	373,743
Total Liabilities	240,541	123,431	68,848	432,820
NET ASSETS				
Invested in capital assets, net of related debt	25	34,744	161	34,930
Restricted for:				
Debt service	-	8,610	-	8,610
Loans and other financial assistance	199,180	-	-	199,180
Unrestricted	39,462	48,445	2,770	90,677
Total Net Assets	$ 238,667	$ 91,799	$ 2,931	$ 333,397

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

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

		PROGRAM REVENUES			GENERAL REVENUES
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE	UNRESTRICTED INVESTMENT EARNINGS
FUNCTIONS/PROGRAMS					
Water Infrastructure Finance Authority	$ 14,533	$ 12,513	$ 7,557	$ 5,537	$ 6,419
University Medical Center (charges for services are net of provision for bad debts of $17,757)	280,471	281,048	-	577	960
Arizona Power Authority	25,833	25,013	-	(820)	627
Total	$ 320,837	$ 318,574	$ 7,557	$ 5,294	$ 8,006

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

CHANGE IN NET ASSETS	TOTAL NET ASSETS - BEGINNING, AS RESTATED	TOTAL NET ASSETS - ENDING
$ 11,956	$ 226,711	$ 238,667
1,537	90,262	91,799
(193)	3,124	2,931
$ 13,300	$ 320,097	$ 333,397

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
INDEX

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 applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

The State of Arizona is a general purpose government. The accompanying financial statements present the activities of the State (the primary government) and its component units.

Component units are legally separate entities for which the State is considered to be financially accountable. 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. The State has no blended component units. Discretely presented component units, however, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the State. Additionally, the State Compensation Fund is presented as a separate statement from the other discretely presented component units because it is reported on a statutory basis of accounting. Each discretely presented component unit discussed below has a June 30 year-end, with the exception of the State Compensation Fund. The State Compensation Fund's financial information is for the calendar year ended December 31, 2002.

The 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.

Discretely Presented Component Units

State Compensation Fund – The State Compensation Fund provides insurance to employers for workers' compensation, occupational disease compensation, and medical, surgical and hospital benefits. The Fund is governed by a board of directors that consists of five members appointed by the Governor for staggered terms of five years. Annually, the Governor appoints a chairman from among the board members. The State is required by statute to review and approve the operating and capital outlay budget of the Fund. Complete financial statements may be obtained from the State Compensation Fund's administrative offices.

State Compensation Fund
3031 North 2nd Street
Phoenix, Arizona 85012
(602) 631-2000

University Medical Center (UMC) – The UMC is the primary teaching hospital for the College of Medicine, College of Nursing and the College of Pharmacy of the University of Arizona. The UMC was created in 1984 when the State Legislature passed a bill that allowed the Arizona Board of Regents (ABOR) to convey the UMC to a not-for-profit corporation. Although an autonomous entity was created, the teaching missions and research alliances with the University of Arizona and the State of Arizona remained. The ABOR confirms all members of the UMC's Board of Directors, and must approve all amendments to the UMC's articles of incorporation and bylaws. Complete financial statements may be obtained from the University Medical Center's administrative offices.

The University Medical Center
655 East River Road
Tucson, Arizona 85704
(520) 694-2700

Arizona Power Authority (APA) – The APA purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydroelectric power 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 electors 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. All revenue bonds issued by the APA must be approved by the State Certification Board. Complete financial statements may be obtained from the Arizona Power Authority's administrative offices.

The Arizona Power Authority
1810 West Adams Street
Phoenix, Arizona 85007-2697
(602) 542-4263

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 appointed by the Governor. Directors serve staggered terms of five years and serve at the pleasure of the Governor. Complete financial statements may be obtained from the Water Infrastructure Finance Authority's administrative offices.

The Water Infrastructure Finance Authority
1100 West Washington, Suite 290
Phoenix, Arizona 85007
(602) 364-1310

Related Organizations

Related organizations are legally separate entities for which the State is not considered to be financially accountable. The State's accountability for these organizations does not extend beyond making the appointments. 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) – The Authority issues tax-exempt bonds and loans for the purpose of reducing health care costs and improving health care for Arizona residents by providing less expensive financing for health care institutions. Proceeds from bond issues are loaned to various qualifying nonprofit health care institutions. The health care institutions 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 only for cause.

Arizona International Development Authority (the Authority) – The Authority was established 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 for five-year terms, and can be removed only for cause.

Arizona Tourism and Sports Authority (the Authority) – Arizona Revised Statues §5-802 established the Authority to construct, finance, maintain, improve, operate, market and promote the use of a multipurpose facility and do all things necessary 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 five-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve terms of five years, and may be re-appointed for one full subsequent term, and can be removed only for cause.

Arizona Housing Finance Authority (the Authority) – Arizona Revised Statutes §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 is required to notify and obtain written consent from the governing bodies of any city, town, county, tribal government or existing corporation for any multifamily residential rental projects planned for their jurisdiction. 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.

Beginning with the year ended June 30, 2004, the Universities will be required to prepare their financial statements following GASB Statement No. 39 – *Determining Whether Certain Organizations are Component Units*. The implementation of GASB Statement No. 39 will result in additional component units being reported upon by the State in future Comprehensive Annual Financial Reports (CAFRs).

Joint Ventures

As described in Note 11, the University of Arizona and the University Medical Center both participate in joint ventures. In accordance with U.S. generally accepted accounting principles, 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.

Government-wide statements - provide information about the primary government (the State) and its component units. The statements include a statement of net assets 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 Assets** presents the State's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

> **Invested in capital assets, net of related debt** 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 assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions, enabling legislation, or voter initiative.
>
> **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

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 revenue includes:

- charges to customers or applicants for goods, services, privileges provided, and fines or forfeitures,
- operating grants and contributions, and
- 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 or 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 nonmajor 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. The Department builds and maintains the State's highway system and the Grand Canyon Airport.

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:

The Universities - account for transactions of the State's three universities, which comprise the State's university system.

The Unemployment Compensation Fund - pays claims for unemployment to eligible recipients from employer contributions and reimbursements.

The Industrial Commission Fund – accounts for deposits not to exceed 1½% of all premiums received by the State Compensation Fund and private insurance carriers during the preceding calendar year. These monies are used to provide additional awards as necessary to enable injured employees to accept the benefits of any law for promotion of vocational rehabilitation of persons disabled in industry. In addition, benefits may be paid for workers' compensation claims filed by employees of non-insured employers. The Industrial Commission then pursues against the non-insured employer for reimbursement of all benefits paid, including assessed penalties.

The Lottery Fund - accounts for the activities of the Arizona State Lottery.

Additionally, the State reports the following fund types:

Internal Service Funds - account for insurance coverage, automotive maintenance and operation, highway equipment rentals, and data processing and telecommunication services provided to State agencies on a cost-reimbursement basis. During the fiscal year some funds previously classified as Internal Service Funds were reclassified to the General Fund. It is the policy of the State to reclassify immaterial proprietary fund activities to related governmental funds. This policy helps to reduce the number of funds reported in the financial statements to the minimum amount needed. The reclassified funds allocate a fixed rate payroll processing charge among all agencies, allocate postage and mailing costs among all agencies, and arrange for the sale of the State's office equipment and motorized vehicles at public auctions.

Pension Trust Funds - account for the activities of the Arizona State Retirement System, the Public Safety Personnel Retirement System, the Elected Officials' Retirement Plan, and the Corrections Officer Retirement Plan, for which the State acts as a trustee. These retirement plans accumulate resources to pay pension 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, and property collected by the State, 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, fiduciary fund and component units financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. 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. The financial statements of the State Compensation Fund (a discretely presented component unit), are prepared using the statutory basis of accounting. The statutory basis of accounting is not in conformity with U.S. generally accepted accounting principles (GAAP).

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. 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 general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the State funds certain programs through a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The State's policy regarding whether to first apply restricted or unrestricted resources is made on a case-by-case basis.

The State's business-type activities and enterprise funds follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The State Compensation Fund (SCF) prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Arizona Department of Insurance (the Department). Effective January 1, 2001, the Department required insurance companies domiciled in the State of Arizona to prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual – Effective January 1, 2001* (the Manual). Accordingly, the admitted assets, liabilities and policyholders' surplus of the SCF as of December 31, 2002 and the results of its operations and changes in policyholders' surplus for the year then ended have been reported in accordance with these accounting principles.

The major variances from accounting principles generally accepted in the United States of America (GAAP) pursuant to such statutory accounting practices are as follows:

- Investments in common stocks are carried at current market values determined by the NAIC;
- Investments in debt securities are carried at amortized cost instead of separated into trading, available-for-sale or held-to-maturity portfolios, and then accounted for dependent on that classification;
- Land and buildings used in operations are classified as investments;
- Policy acquisition costs are charged to current operations rather than deferred and amortized with premium income over the periods covered by the policies;
- Certain assets designated as "nonadmitted assets" (principally fixed assets, prepaid expenses and miscellaneous accounts receivable) are charged directly against policyholders' surplus;
- Dividends to policyholders, which represent return of premiums, are charged against income;
- Imputed rental income for office space occupied by the SCF is computed and recognized as investment income, offset by imputed rental expense of the same amount, which is recognized as administrative expense;
- Comprehensive income and its components are not presented in the statutory financial statements; and

- The presentation and disclosure of admitted assets, liabilities and policyholders' surplus, and the related statements of operations and changes in policyholders' surplus differ from the presentation under GAAP.

D. CASH AND INVESTMENTS

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 Assets "Cash", "Cash with U.S. Treasury", "Cash and Pooled Investments with State Treasurer", "Cash Held by Trustee" and "Collateral Investment Pool" (for the Industrial Commission). 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.

- *Cash (not with State Treasurer)* – cash includes undeposited receipts, petty cash, bank accounts, non-negotiable certificates of deposit, and demand deposits with banking institutions other than the State Treasurer.

- *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.

- *Cash and Pooled Investments with State Treasurer* – the State Treasurer maintains a centralized management of most State cash resources. 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.

- *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. See Note 2.F for a description of securities lending.

Investments (not with State Treasurer) – investments are stated at fair value or amortized cost which approximates fair value, except for mortgages held by the State Compensation Fund, which are stated at amortized cost, and Treasurer's Custodial Securities of the Agency Funds, which are reported at par value.

E. TAXES RECEIVABLE

Taxes receivable represent amounts owed by taxpayers for the 2002 and prior calendar years 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, 2003. Sales and motor vehicle and fuel tax receivable represent amounts that are earned by the State in the fiscal period ended June 30, 2003, 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 and Universities. Inventories are stated at cost using the first-in, first-out method. 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.

Infrastructure, such as roads and bridges, was capitalized for the first time in fiscal year 2001-02. Most capital assets are depreciated over their useful lives using the straight-line depreciation method. However, infrastructure assets constructed and maintained by the Arizona Department of Transportation will utilize an alternative accounting treatment in which costs to maintain and preserve these assets are expensed and no depreciation expense is recorded. This approach is discussed further in the Required Supplementary Information portion of this report.

Depreciable capital assets are depreciated on a straight-line basis. Capitalization thresholds (the dollar values above 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:

	General State Policy		Other Authorized Agency Policies	
Asset Category	Capitalization Threshold	Estimated Useful Life (yrs)	Capitalization Threshold	Estimated Useful Life (yrs)
Land	All capitalized	Not depreciated	All capitalized	Not depreciated
Buildings	All capitalized	25-40	$300-$100,000	5-50
Improvements other than buildings	$5,000	15	$300-$5,000	1-40
Equipment	$5,000	3-15	$0-$5,000	3-25
Infrastructure	All capitalized	Not depreciated	$5,000-$100,000	10-100

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 has not been reliably estimated. Accordingly, this land is not reported in the accompanying financial statements. A portion of the land that the State is trustee for has been sold and the buyers of the land have defaulted on the loans. The value of this land has been recorded at the sales price and properly included in the financial statements.

The State has interest in, and maintains significant special collections, works of art, and historical treasures. 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.

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 4 and 6, respectively.

I. INVESTMENT INCOME

Investment income is 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 Assets. 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 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 Assets.

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 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 University employees, an employee forfeits accumulated annual leave in excess of 240 hours at the end of a calendar year, unless the Director of the Department of Administration authorizes an exception. 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.

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. Because sick leave benefits do not vest with employees, a liability for sick leave is not accrued in the financial statements. However, State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more, with a maximum of 1500 hours, upon retirement directly from State service (See Note 12.C).

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 certificates of participation are deferred and amortized over the life of the debt instrument using the straight-line method. Bonds and certificates of participation are reported net of the applicable premium or discount. Except for the Arizona Department of Transportation, bond issuance costs are immaterial and are charged to expense in the period incurred.

In the fund financial statements, governmental fund types recognize proceeds from revenue bonds, certificates of participation, and premiums and discounts on revenue bonds and certificates of participation as other financing sources and uses in the current period. Long-term liabilities are more fully described in Note 6.

N. STATE COMPENSATION FUND

Significant accounting policies relating to the State Compensation Fund include:

1. Policyholders’ Dividends

The Board of Directors of the State Compensation Fund makes provisions for dividends to policyholders based on the Fund’s overall experience. Dividends are paid to policyholders that meet premium volume and loss experience criteria established by the Board. Dividends of $50 million were declared as of December 31, 2002.

2. Reinsurance

The State Compensation Fund is assigned certain policyholders that participate in the National Council on Compensation Insurance (NCCI) assigned risk pool. All premiums collected on such policies are ceded to NCCI. All losses incurred by the Fund on such policies are recoverable from NCCI. In addition, the Fund is assigned a pro rata allocation of the liability for loss and loss expenses incurred by all NCCI policyholders in the State. Losses of other policyholders in excess of specified amounts are recoverable from other reinsurers. Contracts with these reinsurers do not relieve the Fund of its obligation to policyholders.

NOTE 2. CASH AND INVESTMENTS

A. CASH AND INVESTMENT POLICIES

Cash and cash equivalents are under the control of the State Treasurer, the retirement systems or other administrative bodies. Arizona Revised Statutes §35-312, §35-313 and §35-314 authorize the Treasurer to invest operating, trust and permanent endowment fund monies. Therefore, surplus cash deposited with the State Treasurer by State agencies with a statutory authorization to invest and all General Fund monies are invested by the 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 Treasurer invests in short-term securities and other investments. Provisions of Arizona law restrict these investments to obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities.

The State Treasurer also invests in various mortgage-backed securities for nineteen of the twenty-five investment pools it manages. These securities are reported at fair value on the Statement of Fiduciary Net Assets. In addition, they are reported in aggregate as U.S. Government securities. The securities are purchased to diversify the State's exposure to maturity and credit risks while providing for enhanced yields. The credit risk associated with holding these securities is reduced since all securities are rated AAA by Standard and Poor's and/or Moody's rating service. The market risk associated with holding these securities is linked to maturity risk in that as interest rates rise, the fair value of these securities will fall and prepayment of principal balances will decelerate. When interest rates fall, the fair value of these securities will rise and prepayment of principal balances will accelerate. The mortgage-backed securities are authorized under ARS §35-313.

Statutes enacted by the Legislature authorize the retirement systems to make investments in accordance with the "Prudent Person" rule. This rule imposes the responsibility of making investments with the judgment and care that persons of ordinary prudence would exercise in the management of their own affairs when considering both the probable safety of their capital and the probable income from that capital. Within this broad framework, the retirement systems have chosen to invest in short-term securities and repurchase agreements, obligations of the U.S. Government and its agencies, corporate bonds, common and preferred stocks and mortgages. The Statutes also place certain restrictions on the investment fund portfolios of the retirement systems.

Investments maintained by the State Treasurer are reported at fair value based upon an independent outside pricing service. Investments with a maturity of 91 days or more and all investments with a maturity of 90 days or less that were held at the beginning of the current fiscal year end, not valued by the pricing service, are valued using a market price solicited from the selling broker or a second outside pricing service. All investments with a remaining maturity of 90 days or less, that have no available market price, and were not held at the beginning of the current fiscal year, are valued using amortized cost. If different amortized cost values exist, the weighted average amortized cost is given to like investments.

The State Treasurer also maintains external investment pools [the Local Government Investment Pool (LGIP) and Local Government Investment Pool-Government] with no regulatory oversight. 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. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV 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. During the year, the LGIP's share of National Century Financial Enterprises (NCFE) NPF-XII bonds, valued at $131 million at July 1, 2002, was transferred to a new pool (Local Government Investment NPF) pending an investigation of possible fraud and violations of federal and state laws by the NCFE. The transfer was made to provide for the decline in fair value of the NPF-XII securities held by the LGIP. The likelihood that these LGIP participant monies will be recovered is not known.

The State Treasurer makes investments only in external investment pools that are registered with the Securities and Exchange Commission. The State Treasurer is not an involuntary participant in another entity's external investment pool.

The State Treasurer is not aware of any involuntary participation of local governments in the State's external investment pools. Participants meeting the criteria established under ARS §35-316 are eligible to participate in the pools and are not required to disclose the reason for requesting the account.

The investments of the State Treasurer's Custodial Securities, an Agency Fund, are recorded at par value. The investments are held by the State Treasurer for State agencies that perform a business compliance function.

The investments of the Industrial Commission and the Arizona Coliseum and Exposition Center are reported at the fair value.

The Arizona State Retirement System investments are reported at fair value and cost. Investments, other than real estate and commercial mortgages, are reported at fair values determined by the custodial agents. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Commercial mortgages have been valued on an amortized cost basis, which approximates fair value. Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, management, 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.

The Public Safety Personnel, Elected Officials' and Corrections Officer Retirement Systems investments are reported at fair value and cost. Fair values are determined as follows: Short-term investments are reported at fair value, which approximates cost. 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 an outside pricing service. Investments that do not have an established market are reported at estimated fair value.

The investments of the Universities are reported at fair value determined by quoted market prices, except non-participating interest bearing contracts and joint ventures, which are reported at cost. Donated land is reported at fair market value at time of donation.

The University Medical Center's short-term investments are reported at cost, which approximates fair value. Long-term investments are reported at fair value as determined by quoted market prices.

The investments of the Arizona Power Authority are reported at amortized cost, which approximates fair value.

The investments of the Water Infrastructure Finance Authority in Guaranteed Investment Contracts are stated at cost, since they are non-participating contracts. The other investments are stated at fair value, which approximates cost.

The investments of the State Compensation Fund (statutory basis) are primarily valued at amortized cost. Bonds and participation certificates are reported at cost plus or minus amortization of premium or discount. Investments in mortgages are reported at amortized cost. Equity securities are stated at market value as determined by the National Association of Insurance Commissioners. Short-term investments are reported at cost, which approximates fair value.

B. UNEMPLOYMENT COMPENSATION

ARS §23-703 requires that unemployment compensation contributions from Arizona employers be deposited in an unemployment trust fund account with the Secretary of the Treasury of the United States that is established and maintained pursuant to Section 1104 of the Social Security Act. The cash on deposit in the trust fund account is pooled and invested. Interest earned from investments purchased with such pooled monies is deposited in the trust fund account. The Unemployment Compensation Fund, reported as a major proprietary fund, has been established for this purpose.

C. COLLATERAL AND INSURANCE

The State requires that deposits and investments with financial institutions be entirely covered by Federal depository insurance or, alternatively, collateralized with surety equal to at least 100% (102% for the Treasurer) of the deposits so collateralized. Cash deposited with banks is collateralized based on bank balances. Surety collateralized includes U.S. Government obligations, State obligations, obligations of counties and municipalities within the State, and certain other securities.

D. DEPOSITS COLLATERALIZATION

At June 30, 2003, the carrying amount of the State's deposits for the Primary Government was a deficit of $15.298 million, $60.226 million for Fiduciary funds and a deficit of $44 thousand for the Component Units. The cash deficit results from the State Treasurer not reducing investments until the servicing bank presents warrants for payment. At June 30, 2003, the bank balance was $197.132 million for the Primary Government, $79.224 million for Fiduciary funds and $0.00 for the Component Units. For the Primary Government bank balances, $1.915 million was collateralized by Federal depository insurance. The remaining $195.217 million was collateralized by securities held by the bank's trust division or agent in the State's name in book-entry form. For the Fiduciary funds, $1.552 million was collateralized by Federal depository insurance. The remaining $77.672 million was collateralized by securities held by the bank's trust division or agent in the State's name in book-entry form.

E. INVESTMENTS CUSTODIAL RISK

The following tables summarize the credit risk of the State's investments (expressed in thousands). Category A includes investments that are insured or registered, or for which securities are held by the State or the State's agent in the State's name. Category B includes uninsured and unregistered investments for which securities are held by the counterparty's agent or trust department in the State's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty, or by its agent or trust department but not in the State's name.

Primary Government

Type of Deposit or Investment	Category A	Category B	Category C	Reported Amount
U.S. Government securities	$ 1,730,993	$ -	$ 158,663	$ 1,889,656
U.S. Government securities on securities loan	9,206	-	-	9,206
Corporate stocks	590,801	-	-	590,801
Corporate debt	1,442,876	-	-	1,442,876
Corporate debt on securities loan	304	-	-	304
Repurchase agreements	185,367	-	-	185,367
Other investments	8,015	-	137,949	145,964
Subtotal	$ 3,967,562	$ -	$ 296,612	4,264,174
Investments Not Subject to Custodial Risk:				
Guaranteed Investment Contracts				1,948
Money market mutual funds				98,872
U.S.Treasury mutual funds				23,348
Mutual Funds-Benchmark Portfolio				5,837
Exchange traded mutual funds				30,735
Equity mutual funds				210
Bond mutual funds				2,494
Donated land				420
Mortgages				834
Joint venture				14,000
Collateral Investment Pool				69,525
Investments held by brokers/dealers under Security Loan Program:				
U.S. Government securities				49,189
Corporate stocks				8,630
Corporate debt				9,656
United States Treasury Pooled Investment				860,872
Total Investments				5,440,744
Deposits				(15,298)
Total Cash and Investments				$ 5,425,446

Fiduciary Funds

Type of Deposit or Investment	Category A	Category B	Category C	Reported Amount
US Government securities	$ 5,610,230	$ -	$ -	$ 5,610,230
Corporate stocks	12,661,917	2,327,623	-	14,989,540
Corporate debt	3,712,931	-	-	3,712,931
State and local government securities	603,152	-	-	603,152
Repurchase agreements	381,142	-	-	381,142
Other investments	113,108	20,768	471	134,347
Subtotal	$ 23,082,480	$ 2,348,391	$ 471	25,431,342
Investments Not Subject to Custodial Risk:				
Other investment-not categorized				266,236
Short-Term Investment Fund				3,309,228
Real estate				30,212
Collateral Investment Pool				1,305,921
Investments held by brokers/dealers under Security Loan Program:				
U.S. Government securities				1,828,530
Corporate stocks				1,277,246
Corporate debt				422,013
Total Investments				33,870,728
Deposits				60,226
Total Cash and Investments				$ 33,930,954

Component Units

Type of Deposit or Investment	Category A	Category B	Category C	Reported Amount
U.S. Government securities	$ 31,192	$ -	$ 2,695	$ 33,887
Corporate stocks	-	5,036	-	5,036
Corporate debt	18,796	5,272	-	24,068
State and local government securities	-	9,327	-	9,327
Repurchase agreements	13,189	-	-	13,189
Other investments	103	57,979	-	58,082
Subtotal	$ 63,280	$ 77,614	$ 2,695	143,589
Investments Not Subject to Custodial Risk:				
Guaranteed Investment Contracts				73,458
Total Investments				217,047
Deposits				(44)
Total Cash and Investments				$ 217,003

As reported on the Statement of Net Assets and Statement of Fiduciary Net Assets

	Primary Government	Fiduciary	Component Units
Cash	$ 187,778	$ 44,047	$ 13,341
Cash with U.S. Treasury	860,872	-	-
Cash and pooled investments with State Treasurer	2,333,085	160,742	53,497
Cash held by trustee	146,263	-	24,489
Collateral investment pool	69,525	-	-
Short-term investments	50,385	2,978	22,318
Investments held by trustee	106,561	-	22,082
Investments	342,725	30,757,112	81,276
Endowment investments	1,328,252	-	-
Custodial securities in safekeeping	-	2,966,075	-
Total	$ 5,425,446	$ 33,930,954	$ 217,003

At June 30, 2003, the State had no commitments to resell securities under yield maintenance agreements.

During the year ended June 30, 2003, the State did not make significant investments in types of investments beyond those enumerated in the preceding tables.

State Compensation Fund (Statutory Basis)

The following table (expressed in thousands) summarizes the types of investments of the State Compensation Fund. The State Compensation Fund provided no information as to collateralization or custodial credit risk of its deposits and investments.

U.S. Government securities	$ 818,674
Corporate stocks	156,885
Corporate debt	907,220
State and local government securities	209,378
Mortgages	156,293
Properties occupied by the Fund	26,436
Other investments	274,320
Total Cash and Investments	$ 2,549,206

F. 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. State Treasurer

The State Treasurer (Treasurer) is permitted by Title 35, Chapter 2, Article 2 of the Arizona Revised Statutes to enter into securities lending transactions. During the fiscal year ended June 30, 2003, there were no violations of legal or contractual provisions, and there were no borrower or lending agent default losses to the securities lending agent. At June 30, 2003, the State Treasurer had no securities on loan.

2. Industrial Commission

State statutes and Industrial Commission (the Commission) 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, Northern Trust, 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, 2003. Northern Trust'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, 2003 for loaned securities collateralized by cash and non-cash collateral was $34.317 million and $9.510 million, respectively. As part of the securities lending transactions, Northern Trust received cash and non-cash collateral valued at $35.274 million and $9.779 million, respectively at June 30, 2003. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral received on the securities lent.

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the loans is 58 days and cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 38 days as of June 30, 2003. 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 lender or 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 Assets. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2003, the Commission had $35.274 million outstanding as payable for securities lending.

3. Arizona State Retirement System

The Arizona State Retirement System (ASRS) is permitted by Arizona Revised Statutes §38-715(D)(3), to enter into securities lending transactions. The ASRS enters into agreements with brokers to loan securities and have the same securities redelivered at a later date. All securities are eligible for loan (U.S. fixed income securities, U.S. equities, international equities) with a higher percentage of U.S. Treasuries on loan than most other security types. It is the policy of the ASRS to receive as collateral at least 102% of the market value of the loaned securities and maintain collateral at no less than 100% for the duration of the loan. At year-end, the ASRS has no credit risk exposure to borrowers because the amount the ASRS owes the borrowers exceeds the amount the borrowers owe the ASRS. During fiscal year 1998, statutes were amended to allow for other than cash collateral. The ASRS records the collateral received as an asset and the same amount as an obligation for securities on loan. Any cash collateral received is invested in short-term investments. The ASRS receives a spread for its lending activities. Investments made with cash collateral received are classified as an asset on the Statement of Fiduciary Net Assets. A corresponding liability is recorded as the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2003, the ASRS had $2.248 billion outstanding as payable for securities on loan.

Due to the flow of securities to and from transfer agents and the security loan program, securities occasionally cannot be delivered for a sale or received for a purchase, resulting in a "failed" transaction. Securities with trade dates in June and settlement dates in July result in "outstanding" transactions. Since these securities have contractually changed ownership, receivables and payables result from these transactions. Such transactions resulted in a receivable for securities sold of $336.946 million and a payable for securities purchased of $1.017 billion at June 30, 2003.

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

The Public Safety Personnel Retirement System (PSPRS), the Elected Officials' Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP) are permitted by Title 38, Chapter 5, Articles 3, 4, and 6 of the Arizona Revised Statutes to enter into securities lending transactions. The PSPRS, EORP and CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, EORP and 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, EORP and 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, 2003, the fair value of securities on loan were (expressed in millions):

PSPRS	$ 1,009.390
EORP	80.942
CORP	189.454

The PSPRS, EORP and CORP receive a negotiated fee for their loan activities and are indemnified for broker default by the securities lending agent. The PSPRS, EORP and CORP participate in a collateral investment pool. All security loans can be terminated on demand by either the pool participants or the borrower. The total cash collateral investments received for unmatched loans (any loan for which the cash collateral has not been invested for a specific maturity) will have a maximum effective duration of 233 days. And, at least 20% of total collateral investments shall be invested on an overnight basis. All matched loans shall have matched collateral investments. At June 30, 2003, the weighted average maturity was three days for all investments purchased with cash collateral from unmatched loans. The PSPRS, EORP, and CORP have no credit risk because the amounts owed to borrowers exceed the amounts borrowers owe to them. Under this program, they have not experienced any defaults or losses on these loans.

5. University of Arizona

During the fiscal year, the University engaged in securities lending transactions. The University entered into an agreement with Wells Fargo, the University's custodian, to carry out these transactions. The custodian enters into agreements with brokers to loan securities and have the same securities returned at a later date. It is the policy of the University to receive as collateral at least 102% of the market value of the loaned securities and accrued interest, and maintain collateral at no less than 100% for the duration of the loan. At year-end, the University had no credit risk to borrowers because the University was holding more collateral than the amount of loaned securities outstanding.

The University records the collateral received as an asset, which is offset by an obligation recorded under securities lending. During the fiscal year ended June 30, 2003, there were no violations of legal or contractual provisions, and there were no borrower or lending agent default losses. Wells Fargo does not indemnify the University to the extent of borrower defaults. Collateral can be received in the form of U.S. Government securities, letters of credit, or cash. As of June 30, 2003, the custodian has received only cash collateral. Cash collateral received from the borrowers is invested in a short-term cash collateral investment pool, which, on average, has a weighted maturity of 14 days. The relationship between the maturities of the cash collateral investment pool and the University's loans is affected by the maturities of the securities loans made by other entities that use the custodian's pool, which the University cannot determine. This pool consists of investments in domestic and foreign bank obligations, commercial paper and participations, mortgage-backed and pass-through securities, corporate notes, bond debentures, and tri-party repurchase agreements. At June 30, 2003, cash collateral investments totaled $34.251 million with a corresponding market value of securities on loan of $33.158 million. Securities lent for cash collateral included corporate stocks, corporate bonds, government notes, and government bonds. The University or the borrower can terminate all securities loans on demand. The University cannot sell or pledge securities received as collateral unless the borrower defaults. The University earns a negotiated fee for participating in loan activities.

6. State Compensation Fund (Statutory Basis)

The State Compensation Fund (the Fund) participates in a securities lending program in which securities are loaned to approved brokers/dealers for specified periods of time. All securities on loan are collateralized by cash or cash equivalents of at least 102% of their fair market value. The collateral is maintained by the Fund's investment trustee who is not a party to the security lending agreement. The Fund had invested securities on loan with a market value of approximately $203.641 million and a book value of $194.558 million at December 31, 2002.

G. DERIVATIVES

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

- It has (1) one or more underlyings and (2) 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.

- 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.

- 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 principal categories of derivatives employed and their uses during the year were as follows:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies.
Futures	Reduce transaction costs; obtain market exposure; enhance returns.

Generally, derivatives are subject to both market risk and counterparty risk. The derivatives utilized by ASRS internal investment managers typically have no greater market risk than their physical counterparts, and in many cases are offset by exposure elsewhere in the portfolio. All derivatives are reported at fair value.

The ASRS believes that it is unlikely that any of the derivatives used by its internal investment managers could have a material adverse effect on the financial conditions of the System.

H. CUSTODIAL SECURITIES

In accordance with Arizona Revised Statutes, various State agencies deposit securities with the Treasurer for safekeeping. The State agencies have securities in safekeeping with the Treasurer in the form of U.S. Government and agency securities, certificates of deposit, municipal and corporate bonds, and surety bonds at June 30, 2003. These securities are reported in the Fiduciary Agency Fund.

I. STATE TREASURER'S SEPARATELY ISSUED FINANCIAL STATEMENTS

The State Treasurer issues a separately published Annual Financial Report. The report provides additional information relating to the State Treasurer's total investing activities and the internal and external participants of the Investment Trust Funds. The Investment Trust Funds report on the activities of the Local Government Investment Pools and Central Arizona Water Conservation District Investment Accounts. A copy of the State Treasurer's Office Annual Financial Report can be obtained from his office at:

State Treasurer's Office
1700 W. Washington
Phoenix, Arizona 85007-2812

The Treasurer's financial statements are audited by the Office of the Auditor General.

NOTE 3. RECEIVABLES/DEFERRED REVENUE

A. TAXES RECEIVABLE

The following table summarizes taxes receivable at June 30, 2003 (expressed in thousands). These amounts include $83.365 million for underpayments, penalties, and interest:

Type of Tax	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Unemployment Compensation Fund	Non-Major Governmental Funds	Government-Wide Total
Sales	$ 262,819	$ -	$ -	$ 2,812	$ 265,631
Income – individual and corporate	101,012	-	-	-	101,012
Insurance premium	25,231	-	-	-	25,231
Motor vehicle and fuel	-	68,683	-	-	68,683
Luxury	2,698	-	-	5,020	7,718
Unemployment	-	-	39,659	-	39,659
Gross taxes receivable	391,760	68,683	39,659	7,832	507,934
Allowance for uncollectible taxes	(104,891)	-	-	-	(104,891)
Net Taxes Receivable	$ 286,869	$ 68,683	$ 39,659	$ 7,832	$ 403,043

B. DEFERRED REVENUE

At June 30, 2003, the components of deferred revenue, in terms of revenue unavailable and unearned, were as follows (expressed in thousands):

	Unavailable	Unearned	Total Deferred Revenue
Current Deferred Revenue for Governmental Funds:			
General Fund:			
Delinquent sales tax	$ 42,165	$ -	$ 42,165
Delinquent income tax	42,827	-	42,827
Advance insurance premiums	-	273	273
Advance land lease payments	-	291	291
Public assistance overpayments	2,340	-	2,340
Food stamps	-	86	86
Vaccine & commodity food supplement	-	9,301	9,301
Member premiums	-	15,061	15,061
Federal grants	6,984	685	7,669
Tribal reimbursements	723	-	723
Transportation & Aviation Planning, Highway Maintenance & Safety Fund:			
Notes receivable for real estate mortgage loans	9,854	-	9,854
Land Endowments Fund:			
Land sales receivable	261,094	-	261,094
Land leases receivable	1,713	-	1,713
Advance land lease payments	-	23,681	23,681
Non-Major Funds:			
Public assistance overpayments	1,938	-	1,938
Advance payments for Hawaii/Arizona PMMIS Alliance	-	1,951	1,951
Other	-	15	15
Total current deferred revenue for governmental funds	369,638	51,344	420,982
Non-current Deferred Revenue for Governmental Funds:			
General Fund:			
Advance land lease payments	-	6,878	6,878
Total non-current deferred revenue for governmental funds	-	6,878	6,878
Total current and non-current deferred revenue for governmental funds	$ 369,638	$ 58,222	$ 427,860

	Unearned
Current Deferred Revenue for Proprietary Funds:	
Universities:	
Unexpended cash advances received for sponsored programs	$ 32,574
Auxiliary sales and services	4,816
IBM lease related to acquisition of research park	4,900
Student tuition and fees	38,000
Other deferred revenue	1,163
Deposits	1,650
Non-Major Funds:	
Member premiums	3,878
Magazine subscriptions	4,243
Total current deferred revenue for proprietary funds	$ 91,224
Non-current Deferred Revenue for Proprietary Funds:	
Universities:	
IBM lease related to acquisition of research park	$ 49,470
Total non-current deferred revenue for proprietary funds	$ 49,470
Current Deferred Revenue for Component Units:	
Water Infrastructure Finance Authority:	
Administrative fees	$ 491
Total current deferred revenue for component units	$ 491
Non-current Deferred Revenue for Component Units:	
Water Infrastructure Finance Authority:	
Unearned loan revenue	$ 1,202
Total non-current deferred revenue for component units	$ 1,202
Current Deferred Revenue for Component Units (Statutory basis);	
State Compensation Fund:	
Policyholders' advance premiums	$ 55,210
Total current deferred revenue for component units (Statutory basis)	$ 55,210

NOTE 4. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2003 were as follows (expressed in thousands):

	Primary Government				
	Beginning Balance, as restated	Increases	Decreases	Adjustments & Reclassifications	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 1,814,708	$ 129,459	$ (3,897)	$ (2,101)	$ 1,938,169
Construction in progress	1,676,519	631,203	(121,014)	(1,910)	2,184,798
Infrastructure	7,463,896	120,750	(304)	(19,569)	7,564,773
Total capital assets, not being depreciated	10,955,123	881,412	(125,215)	(23,580)	11,687,740
Capital assets, being depreciated:					
Buildings	1,063,937	96,892	(993)	37,161	1,196,997
Improvements other than buildings	115,837	1,465	(53)	11,786	129,035
Equipment	587,084	35,998	(45,520)	8,341	585,903
Infrastructure	4,643	-	-	1,961	6,604
Total capital assets, being depreciated	1,771,501	134,355	(46,566)	59,249	1,918,539
Less accumulated depreciation for:					
Buildings	(327,115)	(29,170)	120	(274)	(356,439)
Improvements other than buildings	(51,506)	(4,631)	21	4,240	(51,876)
Equipment	(404,345)	(62,284)	42,218	2,337	(422,074)
Infrastructure	(1,516)	(3,961)	-	1,516	(3,961)
Total accumulated depreciation	(784,482)	(100,046)	42,359	7,819	(834,350)
Total capital assets, being depreciated, net	987,019	34,309	(4,207)	67,068	1,084,189
Governmental activities capital assets, net	$ 11,942,142	$ 915,721	$ (129,422)	$ 43,488	$ 12,771,929

	Beginning Balance, as restated	Increases	Decreases	Adjustments & Reclassifications	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 133,523	$ 2,156	$ (222)	$ (362)	$ 135,095
Construction in progress	98,572	151,718	(116,146)	(158)	133,986
Collections	32,528	1,052	(436)	-	33,144
Total capital assets, not being depreciated	264,623	154,926	(116,804)	(520)	302,225
Capital assets, being depreciated:					
Buildings	2,100,782	135,388	(3,583)	29	2,232,616
Improvements other than buildings	36,920	-	(1)	(34,441)	2,478
Equipment	1,004,226	75,286	(38,006)	(215)	1,041,291
Infrastructure	213,301	31,371	-	34,822	279,494
Total capital assets, being depreciated	3,355,229	242,045	(41,590)	195	3,555,879
Less accumulated depreciation for:					
Buildings	(804,675)	(64,056)	1,285	565	(866,881)
Improvements other than buildings	(18,073)	(1,344)	-	(579)	(19,996)
Equipment	(665,585)	(72,441)	33,783	464	(703,779)
Infrastructure	(73,300)	(10,591)	-	(23)	(83,914)
Total accumulated depreciation	(1,561,633)	(148,432)	35,068	427	(1,674,570)
Total capital assets, being depreciated, net	1,793,596	93,613	(6,522)	622	1,881,309
Business-type activities capital assets, net	$ 2,058,219	$ 248,539	$ (123,326)	$ 102	$ 2,183,534

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

General government	$	22,860
Health and welfare		14,218
Inspection and regulation		1,960
Education		911
Protection and safety		34,719
Transportation		13,849
Natural resources		11,529
Total governmental activities	$	100,046

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

Lottery	$	269
Industrial Commission		1,082
Universities		144,274
Other		2,807
Total business-type activities	$	148,432

Discretely presented component units capital asset activities for the fiscal year ended June 30, 2003 were as follows (expressed in thousands):

	Component Units				
	Beginning Balance, as restated	Increases	Decreases	Adjustments & Reclassifications	Ending Balance
Component Units:					
Capital assets, not being depreciated:					
Land	$ 5,734	$ -	$ -	$ 88	$ 5,822
Construction in progress	5,144	9,753	(10,572)	(22)	4,303
Total capital assets, not being depreciated	10,878	9,753	(10,572)	66	10,125
Capital assets, being depreciated:					
Buildings	143,383	2,518	(487)	2	145,416
Improvements other than buildings	1,422	1	-	(2)	1,421
Equipment	130,644	20,262	(8,197)	21	142,730
Total capital assets, being depreciated	275,449	22,781	(8,684)	21	289,567
Less accumulated depreciation for:					
Buildings	(73,339)	(5,398)	18	1,850	(76,869)
Improvements other than buildings	(261)	(126)	157	(1,594)	(1,824)
Equipment	(111,536)	(12,698)	8,179	(292)	(116,347)
Total accumulated depreciation	(185,136)	(18,222)	8,354	(36)	(195,040)
Total capital assets, being depreciated, net	90,313	4,559	(330)	(15)	94,527
Component Units capital assets, net	$ 101,191	$ 14,312	$ (10,902)	$ 51	$ 104,652

Depreciation expense was charged to component units as follows (expressed in thousands):

University Medical Center	$	18,164
Arizona Power Authority		31
Water Infrastructure Finance Authority		27
Total Component Units	$	18,222

State Compensation Fund (Statutory Basis) capital asset activities for the calendar year ended December 31, 2002 were as follows (expressed in thousands):

	Balance
Land	$ 3,136
Buildings	32,517
Improvements other than buildings	4,561
Equipment	5,254
Total Capital Assets	45,468
Less: accumulated depreciation	(18,116)
State Compensation Fund capital assets, net	$ 27,352

Depreciation expense totaled $1,940 (expressed in thousands).

NOTE 5. RETIREMENT PLANS

The State contributes to the four plans described below. The four plans are considered part of the State's financial reporting entity and are included in the State's financial statements as Pension Trust Funds.

A. PLAN DESCRIPTIONS

The State participates in the Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS), the Elected Officials' Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP). Benefits are established by State statutes and provide retirement, death, long-term disability, survivor and health insurance premium benefits to State employees, public school employees and employees of counties, municipalities and certain other State political subdivisions.

The **ASRS** is a cost-sharing, multiple-employer defined benefit pension plan that benefits employees of the State, its political subdivisions and public schools. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2.

The **PSPRS** is an agent, multiple-employer defined benefit pension plan that benefits fire fighters and police officers employed by the State or certain local governments. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as the Fund Manager, and 186 local boards according to the provisions of ARS Title 38, Chapter 5, Article 4.

The **EORP** is a cost-sharing, multiple-employer defined benefit pension plan that benefits all elected State and county officials and judges and certain elected city officials. The EORP is governed by the Fund Manager of the PSPRS according to the provisions of ARS Title 38, Chapter 5, Article 3.

The **CORP** is an agent, multiple-employer defined benefit pension plan that benefits town, city and county detention officers and certain employees of the Arizona Department of Corrections and the Arizona Department of Juvenile Corrections. The CORP is governed by the Fund Manager of the PSPRS and 15 local boards according to the provisions of ARS Title 38, Chapter 5, Article 6.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

Arizona State Retirement System
P.O. Box 33910
Phoenix, Arizona 85067-3910
(602) 240-2000 or (800) 621-3778

Public Safety Personnel Retirement System, Elected Officials' Retirement Plan or the Corrections Officer Retirement Plan
1020 East Missouri Avenue
Phoenix, Arizona 85014
(602) 255-5575

The number of participating government employers as of June 30, 2003, are shown below:

Employer	ASRS	PSPRS	EORP	CORP
Cities and towns	68	118	17	-
Counties and county agencies	14	21	15	11
State	1	1	1	1
Special districts	62	46	-	-
School districts	232	-	-	-
Charter schools	150	-	-	-
Community college districts	10	-	-	-
Dispatchers	-	-	-	3

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As part of the Pension Trust Funds, the financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned and become measurable. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. 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.

For the ASRS, investments are reported at fair value and at cost. Security transactions and any resulting gains or losses are accounted for on a trade-date basis. Investments, other than real estate and commercial mortgages, are reported at fair values determined by the custodial agents. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Commercial mortgages have been valued on an amortized cost basis, which approximates fair value. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible.

Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, management, 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. Net investment income includes net increase in fair value of investments, interest income, dividend income and total investment expense, which includes investment management and custodial fees and all other significant investment related costs.

For the PSPRS, EORP and the CORP, investments are reported at fair value and at cost. Fair values are determined as follows: Short-term investments are reported at fair value, which approximates cost. 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 one of the world's largest and most prominent fixed-income broker/dealers. Investments that do not have an established market are reported at estimated fair value. Investment income is recognized as earned.

C. INVESTMENT RESTRICTIONS

Statutes enacted by the Arizona State Legislature restrict the four retirement plans from investing more than five percent of each plan's total assets in securities issued by any one institution, agency or corporation, other than securities issued as direct obligations of or fully guaranteed by the U.S. Government. As of June 30, 2003, the four retirement plans are in compliance with the State statutes.

D. FUNDING POLICY

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

Cost-sharing plans – For the year ended June 30, 2003, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.0 percent retirement and 0.49 percent long-term disability) of the members' annual payroll. The State's contributions to ASRS for the years ended June 30, 2003, 2002 and 2001 were $37.777, $36.605 and $36.832 million, respectively, for the primary government and $520, $565 and $298 thousand, respectively, for the component units, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7.00 percent 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 6.97 percent of the members' annual covered payroll, as determined by actuarial valuation. The State's contributions to EORP for the years ended June 30, 2003, 2002 and 2001 were $81, $77 and $183 thousand, respectively, which were equal to the required contributions for the year.

Agent plans – For the year ended June 30, 2003, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 5.71 – 20.03 percent. Active CORP members were required by statute to contribute 8.50 percent of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 4.08 - 5.26 percent.

E. ANNUAL PENSION COST

The State's annual pension cost and related actuarial data for each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2003, is as follows (expressed in thousands):

	PSPRS	CORP
Contribution rates:		
State	5.71% - 20.03%	4.08% - 5.26%
Plan members	7.65%	8.50%
Annual pension cost	$3,951	$5,789
Contributions made	$3,951	$5,789
Actuarial valuation date	6/30/01	6/30/01
Actuarial cost method	entry age	entry age
Actuarial assumptions:		
Investment rate of return	9%	9%
Projected salary increases	6.5% - 9.5%	6.5% - 9.5%
includes inflation at	5.5%	5.5%
Cost-of-living adjustments	none	none
Amortization method	level percent open	level percent open
Remaining amortization	20 years	20 years
Asset valuation method	4 year smoothed market value	4 year smoothed market value

F. TREND INFORMATION

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

Contributions Required and Contributions Made

	Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	6/30/03	$3,951	100%	$ 0
	6/30/02	4,834	100%	0
	6/30/01	4,510	100%	0
CORP	6/30/03	5,789	100%	0
	6/30/02	5,775	100%	0
	6/30/01	14,209	100%	0

G. UNIVERSITIES' RETIREMENT PLANS

Faculty, academic professional and administrative officers at the three universities (Arizona State University, Northern Arizona University, and University of Arizona) may select one of six retirement plans: the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), Fidelity Investments Tax-Exempt Services Company (Fidelity), Aetna Life Insurance and Annuity Company (Aetna), The Vanguard Group (Vanguard) or the Arizona State Retirement System (ASRS). The ASRS is a defined benefit plan (described above) and the other five plans are defined contribution plans. The five defined contribution plans are administered by independent insurance and annuity companies approved by the Arizona Board of Regents. In addition, University of Arizona employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. Eligible classified staff belong to the Arizona State Retirement System. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The Arizona State Legislature establishes and may amend active plan members' and the Universities' contribution rates. For the year ended June 30, 2003, plan members and the three Universities were each required by statute to contribute an amount equal to seven percent of an employee's compensation, except for a 7.06 percent contribution for the ASRS defined contribution plan.

Contributions to these plans for the year ended June 30, 2003, were as follows (expressed in thousands):

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	$ 23,678	$ 23,678	$ 47,356
VALIC	2,942	2,942	5,884
Fidelity	4,365	4,365	8,730
Aetna	988	988	1,976
Vanguard	1,184	1,184	2,368
ASRS	132	131	263

H. UNIVERSITY MEDICAL CENTER DEFINED CONTRIBUTION PLAN

The University Medical Center (UMC) has an Employee Pension Plan (the Plan) for its employees. The Plan is a defined contribution plan covering all UMC employees who are subject to minimum employment requirements, as defined in the Plan Agreement. The UMC makes contributions to the Plan in amounts equal to (a) 5.5 percent of total compensation plus (b) 5.4 percent of compensation in excess of 80 percent of the FICA wage base. Such contributions are allocated to each participant as defined in the Plan Agreement. Retirement plan expense, net of participant forfeitures, was approximately $5.193 million for the year ended June 30, 2003.

I. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described, the ASRS offers the Retiree Group Insurance Program and the Health Insurance Premium Benefit Program to eligible retired and disabled members. A retired member is defined as a member actively receiving an annuity benefit and a disabled member is defined as a member receiving a Long-Term Disability (LTD) benefit through the LTD program administered by the ASRS or through their former member employer's group LTD plan.

Pursuant to ARS §38-782, the Retiree Group Insurance Program makes available group health insurance coverage to eligible retired and disabled members and their dependents. Retired and disabled members of the ASRS, the Public Safety Personnel Retirement System, the Elected Officials' Retirement Plan, and the Corrections Officer Retirement Plan may participate if they are no longer eligible for health insurance benefits through their former employer. More than 38,000 coverage agreements currently exist for retired and disabled members and their dependents.

Pursuant to ARS §38-783, retired and disabled members with at least five years of credited service are eligible to participate in the Health Insurance Premium Benefit (subsidy) Program. This assistance is provided to those members that elect group coverage through either the Retiree Group Insurance Program or their former member employer.

The ASRS offers a monthly "subsidy" to decrease the cost of group healthcare insurance offered to all retired and disabled persons of the ASRS, PSPRS, CORP and EORP that is provided by the primary government of the State. The amount of the subsidy provided retired or disabled participants is dependent upon the number of years of credited service; whether the participant is eligible for Medicare coverage; if the participant elects group insurance coverage for spouse or dependents; and if the participant lives in an isolated or rural location of the State. The amount of the monthly subsidy paid on a member's and their dependents' behalf toward the cost of group health insurance by the ASRS ranges from $50 to $600. The ASRS reimbursed approximately $84.5 million and $76.0 million towards the cost of group health insurance coverage for the years ended June 30, 2003 and June 30, 2002, respectively. Employment functions of the retired and disabled members eligible for the "subsidy" are teachers, State employees, and political subdivision employees.

The "subsidy" was enacted by the State Legislature as part of the enabling and operating laws of the ASRS (ARS §§38-782 and 38-783). The actuarial calculation of the ASRS plan liabilities used to assess Annual Required Contribution Rate to all participating employers includes an actuarial dollar amount of approximately $846 million for fiscal year 2003 (0.37% of the total actuarial liabilities) to fund the health insurance "subsidy" program. The Total Annual Required Contribution Rate for both employers and employees during fiscal year 2003 was 0.74%. The participating ASRS employers and employees make no other contributions for funding the health insurance "subsidy" benefit enacted by the State Legislature.

Total actuarial liabilities of the ASRS, including funding for the healthcare insurance "subsidy", are determined on a projected unit-credit basis. As the ASRS is a cost-sharing plan, the number of "subsidy" participants and amount contributed for the "subsidy" by each participating employer is not available. Total Net Assets available to pay the "subsidy" for all participants at June 30, 2003, is $698 million.

The State Legislature in ARS §38-783 has made the payment of the healthcare "subsidy" to retired and disabled participants subordinate to the payment of normal retirement benefits.

During the November 1998 general election, voters added Article XXIX to the State of Arizona Constitution. Article XXIX is titled "Public Retirement Systems." Article XXIX provided for the following actions:

1. Public retirement systems shall be funded with contributions and investment earnings using actuarial methods and assumptions that are consistent with generally accepted actuarial standards.

2. The assets of the State's public retirement systems, including investment earnings and contributions, are separate and independent trust funds and shall be invested, administered, and distributed as determined by law solely in the interests of the members and beneficiaries of the public retirement systems.

3. Membership in a public retirement system is a contractual relationship that is subject to Article II, Section 25 of the State's constitution, and public retirement system benefits shall not be diminished or impaired.

Article II, Section 25 of the State's constitution indicates that no law impairing the obligation of a contract shall ever be enacted.

NOTE 6. LONG-TERM OBLIGATIONS

A. REVENUE BONDS

Governmental Activities

1. Arizona Department of Transportation

The Arizona Department of Transportation (ADOT) issued Senior and Subordinated Highway Revenue Bonds to provide funds for acquisition of right-of-way and construction of federal, state and local highways. The original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $734.155 million. During the year, Highway Revenue Bonds totaling $341.530 million were issued to (i) finance portions of the Transportation Board's Five Year Transportation Facilities Construction Program, (ii) pay costs of issuing the Bonds, and (iii) refund in advance of maturity portions of ADOT's outstanding Senior and Subordinated Bonds in the aggregate principal amount of $98.495 million.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, from exceeding $1.3 billion.

The Maricopa County Regional Area Road Bond Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by ADOT. The Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was $407.925 million. During the year, Transportation Excise Tax Revenue Bonds totaling $80.475 million were issued to (i) finance the acquisition of land and the design and construction of certain controlled access highways within Maricopa County, Arizona, (ii) pay costs of issuing the Bonds, and (iii) refund in advance of maturity portions of the Board's outstanding Senior 1998 Series A Revenue Bonds in the aggregate principal amount of $4.550 million.

The Bond Resolution adopted by the Transportation Board on July 25, 1986 established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transaction Excise Revenue Bond Resolution adopted by the Board on September 22, 1988, gives the Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reported in the accompanying financial statements. The policies (aggregating $70.064 million at June 30, 2003) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies, which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 2003, the carrying basis was $ 27.329 million. At June 30, 2003, the outstanding balance was $30.0 million.

In prior years ($132.346 million) and fiscal year 2003 ($103.045 million), the ADOT refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the ADOT at June 30, 2003 totaled $235.391 million.

During the year ended June 30, 2003, the ADOT advance refunded the Highway Refunding Senior Series 1993 bonds ($98.495 million) and the Transportation Excise Tax Senior 1998 Series A Revenue bonds ($4.550 million) to reduce its total debt service payments by $7.455 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $6.269 million.

2. School Facilities Board

On July 10, 2002, the Arizona School Facilities Board issued $278.635 million in State School Improvement Revenue Bonds, Series 2002, with interest rates ranging from 2% to 5.5%, and maturity dates ranging from 2003 to 2020. Series 2002 Bonds maturing after July 1, 2012, are subject to redemption prior to their stated maturity date, at the sole option of the Board. Net proceeds from the Series 2002 Bonds totaled $293.548 million (after receipt of a net original issue premium of $15.483 million, and payment of $570 thousand in underwriter discounts). The bond proceeds are being used to pay the costs of correcting existing deficiencies in school facilities throughout the State of Arizona and certain bond related expenses.

On May 9, 2003, the Arizona School Facilities Board issued $32.865 million of State School Improvement Revenue Bonds, Series 2003, with interest rates ranging from 2% to 5%, and maturity dates ranging from 2004 to 2021. Series 2003 Bonds maturing after July 1, 2013, are subject to redemption prior to their stated maturity date, at the sole option of the Board. Net proceeds totaled $35.535 million (after receipt of $2.746 million of original issue premium and payment of $76 thousand of underwriter fees). The bond proceeds are being used to pay the costs of correcting existing deficiencies in school facilities throughout the State of Arizona and certain bond related expenses.

On June 30, 2003, the Arizona School Facilities Board issued $20 million of State School Improvement Revenue Bonds (Qualified Zone Academy Bonds), Series 2003B. The bonds were issued at a supplemental interest rate of 0.35%, and a maturity date of June 30, 2018. The Series 2003B Bonds are not subject to redemption prior to their stated maturity date. In addition to the supplemental interest, eligible taxpayers owning the Series 2003B Bonds on the "credit allowance date" will be entitled to a credit against their Federal income tax equal to the product of the outstanding principal amount of the Series 2003B Bonds multiplied by the credit rate as of the date of issuance of the Series 2003B Bonds. The proceeds of $20 million will be allocated to eligible schools systems within the State of Arizona for eligible school projects. It is estimated that 95% of the funds will be used for the purpose of renovating, rehabilitating, and equipping school facilities within the Federal Empowerment Zones, Enterprise Zones, or schools where 35% or more of the students are eligible for free or reduced price meals.

Business-Type Activities

3. Universities

a. University of Arizona

The University's bonded debt consists of various issues of system 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. Bond proceeds are also used for refunding obligations from previously issued bonds. Principal and interest on bonds are secured by a pledge of tuition, fees, rentals, and other charges.

On April 28, 2003, the University sold System Revenue Refunding Bonds Series 2003 (2003 Bonds) for $30.805 million dated May 1, 2003. The 2003 Bonds include $25.110 million of serial bonds with interest rates ranging from 3.5% to 5.0% and maturity dates ranging from 2013 to 2022. The 2003 Bonds also include $5.695 million of term bonds with an interest rate of 4.5% due June 1, 2024. The 2003 Bonds with maturity on or after June 1, 2014, are subject to optional redemption without premium. The 2003 Bonds with maturity on June 1, 2024, are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2003 Bonds were sold at a premium of $1.373 million. The University realized net proceeds of $31.783 million after payment of $395 thousand for issuance costs, underwriter discounts and bond insurance. The net proceeds were used to advance-refund System Revenue Bond Series 1993 and Series 1994 with a total outstanding principal balance of $23.265 million. The net proceeds were also used to advance-refund a portion, $6.590 million, of the System Revenue Bonds Series 2000A with an outstanding principal balance of $20.8 million. The advance refunding reduced the University's debt service by an average of $4.021 million per year in the first five years. However, the total debt service on the refinancing debt is greater than the total debt service on the refunded debt by $16.792 million. Thus, the net present value of the difference between the old debt and the new debt (i.e. economic gain) is an additional cost of $1.164 million to the University. The refunded System Revenue Bonds will be paid by investments held in an irrevocable trust with a combined carrying value of $32.436 million. The refunded debt is considered defeased and is not included in the accompanying financial statements.

Restricted cash and investments are held in trust for capital projects by various commercial banks. $1.502 million is held for debt requirements, $47.965 million is available for future construction costs, and $5.094 million is from bond proceed earnings for unrestricted purposes. Trust funds are invested by the trustee in accordance with the Board's authorizing resolutions.

In fiscal year 1998, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 1994. At June 30, 2003, the outstanding principal balance of the refunded bonds was $15.740 million, which will be paid by investments held in trust with a carrying value of $17.035 million. These amounts are not included in the accompanying financial statements.

b. Northern Arizona University

The University's bonded debt consists of various issues of student housing and System Revenue Bonds that are generally callable with interest payable semiannually. 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.

In prior years, the University defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in the 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, 2003, $315 thousand of such bonds outstanding are considered defeased.

c. Arizona State University

The Housing Revenue Bonds are payable from housing revenues as defined in the bond indentures. The Series 1992A, 1993, 2002 and 2003 System Revenue Refunding Bonds, and the outstanding Series 1989, 1991, 2000 and 2002 System Revenue Bonds are payable from Main Campus tuition, fees, certain auxiliary enterprises revenue, and certain other revenues as defined in the bond indentures.

The University has pledged portions of its gross revenues towards the payment of debt related to various system revenue bonds outstanding at June 30, 2003. These pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues.

In prior years, certain system revenue bonds of the University were defeased through advance refunding by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of all such bonds outstanding at June 30, 2003, was $11.1 million.

Securities and cash restricted for bond retirement funds and maintenance and replacement reserves held by trustees at June 30, 2003 totaled $7.7 million.

Component Units

4. Arizona Power Authority

In prior years, Arizona Power Authority (APA) defeased various issues of bonds by purchasing United States government securities which were deposited in an irrevocable trust with an escrow agent to provide future debt service until the call dates. As a result, those bonds are considered to be defeased and the liability has been removed from the Hoover Uprating Fund. Accordingly, these trust account assets and related liabilities are not included in the accompanying financial statements. The remaining bonds, totaling $67.495 million, bear interest rates from 4.9% to 5.4% and are due from 2003 through 2017. These bonds are secured by the pledged property, as defined by the resolution, which includes the proceeds from the sale of the bonds, rights and interests in various contracts and revenues of the APA.

5. University Medical Center

In March 1992, the University Medical Center (UMC) issued $28.405 million of Hospital Revenue Bonds (the Series 1992 Bonds) and in May 1993, the UMC issued $54.750 million of Hospital Revenue Refunding Bonds (the Series 1993 Bonds). The proceeds of the Series 1992 Bonds and the Series 1993 Bonds were used to advance refund a portion of prior bonds.

The UMC is subject to certain financial covenants under the Master Trust Indenture (the Indenture), with which the Center is in compliance as of and for the year ended June 30, 2003. In addition, the Indenture places certain restrictions on the incurrence of additional indebtedness and the sale or acquisition of property.

The UMC has established and maintains separate funds for borrowings not yet expended for construction. These funds are held by the trustee and are reflected in investments held by trustee in the accompanying financial statements, and consist principally of guaranteed investment contracts.

The bonds or other obligations of the UMC do not constitute general obligations of the Arizona Board of Regents, the University of Arizona, the State of Arizona or any political subdivision thereof.

6. Water Infrastructure Finance Authority

The Water Infrastructure Finance Authority (WIFA) issued Financial Assistance Revenue Bonds in 1992, 1995, 1996, 1997 and 1998. The WIFA also issued Capitalization Revenue Bonds in 1992, 1995, 1996, and 1997. WIFA also issued Water Quality Refunding Bonds in 1999 and 2001. The 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.

The $1.688 million deferred loss on retirement of bonds is being amortized over the lives of the defeased bonds on the straight-line basis. The amortization for the year ended June 30, 2003, is $142 thousand and has been included in interest expense.

Bond premiums are being amortized over the life of the bonds. The amortization for the year ended June 30, 2003, is $292 thousand and is offset against interest expense.

On September 8, 1999, the WIFA issued $64.000 million of Water Quality Refunding Bonds to advance refund all of the 1991A bonds, and part of the 1992A, 1995A, and 1996A bonds. Under the terms of the refunding issue, sufficient assets to pay all of the principal and interest on the refunded bonds have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with the interest earned thereon, will provide amounts sufficient for future debt service requirements of the refunded bonds. The amount outstanding on the refunded bonds as of June 30, 2003 is $21.155 million. These bonds have been defeased through advanced refunding and, therefore, the corresponding liability has been removed from the accompanying financial statements.

7. Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2003 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Amount Authorized	Amount Issued	Outstanding Balance at June 30, 2003
Governmental Activities:						
Department of Transportation	1989-2003	2004-2022	2.0-8.8%	$2,815,540	$2,815,540	$1,421,100
School Facilities Board	2001-2003	2002-2021	.14-5.5%	820,000	820,000	751,955
Business-Type Activities:						
University Revenue Bonds	1963-2003	2003-2034	2.9-7.13%	1,030,616	957,516	597,238
Component Units:						
Arizona Power Authority	1993	2003-2017	4.9-5.4%	68,945	68,945	67,495
University Medical Center	1992-1993	2003-2021	5.53-6.11%	83,155	83,155	70,900
Water Infrastructure Finance Authority	1992-2002	2006-2022	3.7-6.10%	253,715	253,715	230,280

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2003 for the Primary Government are as follows (expressed in thousands):

	Annual Debt Service					
	Governmental Activities			Business-Type Activities		
Fiscal Year	Total Principal	Total Interest	Total	Total Principal	Total Interest	Total
2004	$ 276,280	$ 111,450	$ 387,730	$ 21,172	$ 30,063	$ 51,235
2005	288,755	96,314	385,069	32,386	28,576	60,962
2006	165,050	79,559	244,609	36,545	26,981	63,526
2007	89,010	73,701	162,711	39,660	25,342	65,002
2008	94,455	69,499	163,954	41,625	23,446	65,071
2009-2013	481,105	270,257	751,362	181,925	87,138	269,063
2014-2018	502,410	149,105	651,515	144,990	41,559	186,549
2019-2023	275,990	27,544	303,534	50,290	19,258	69,548
2024-2028	-	-	-	40,015	6,478	46,493
2029-2033	-	-	-	7,010	1,492	8,502
2034	-	-	-	1,620	81	1,701
Total	$ 2,173,055	$ 877,429	$ 3,050,484	$ 597,238	$ 290,414	$ 887,652

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2003 for the Component Units are as follows (expressed in thousands):

	Component Units		
Fiscal Year	Total Principal	Total Interest	Total
2004	$ 15,695	$ 19,021	$ 34,716
2005	17,165	18,243	35,408
2006	19,000	17,371	36,371
2007	20,365	16,369	36,734
2008	19,945	15,345	35,290
2009-2013	117,840	59,514	177,354
2014-2018	117,940	27,191	145,131
2019-2023	40,725	4,204	44,929
Total	$ 368,675	$ 177,258	$ 545,933

B. GRANT ANTICIPATION NOTES

Grant Anticipation Notes are issued by the Transportation Board and secured by revenues received from the Federal Highway Administration under a grant agreement and certain other federal-aid revenues. The original amount of grant anticipation notes issued was $182.295 million.

The following schedule summarizes grant anticipation notes outstanding at June 30, 2003 (expressed in thousands):

Grant Anticipation Notes Outstanding	Dates Issued	Maturity Dates	Interest Rates	Amount Authorized	Amount Issued	Outstanding Balance at June 30, 2003
Governmental Activities:						
Department of Transportation	2000-2001	2004-2008	4.0-5.3%	$ 182,295	$ 182,295	$ 169,145

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
2004	$ 36,755	$ 7,488	$ 44,243
2005	49,000	5,401	54,401
2006	38,540	3,209	41,749
2007	37,000	1,308	38,308
2008	7,850	196	8,046
Total	$ 169,145	$ 17,602	$ 186,747

C. CERTIFICATES OF PARTICIPATION

1. Department of Administration

The State has issued Certificates of Participation (COPs) to finance construction or improvements of office buildings that are primarily leased to State agencies. 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 State 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 lease will terminate and there can be no assurance that the proceeds for the re-leasing or sale of the project will be sufficient to pay principal and interest with respect to the then outstanding Certificates. The scheduled payments of principal and interest with respect to the Certificates of Participation 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 Certificates of Participation. 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.

Capitalized interest costs include interest incurred during the construction of an asset.

On July 1, 2002, the Department of Administration issued Series 2002B Certificates of Participation for $75.295 million, with interest rates ranging from 2.0% to 5.5%, and maturity dates ranging from 2004 to 2010. The Certificates are being issued to refund all outstanding Certificates of Participation, Series 1992B, dated as of June 1, 1992, originally executed and delivered in an aggregate amount of $129.640 million and currently outstanding of $88.645 million, and to pay the costs of issuing the Series 2002B Certificates. The 2002B Certificates are subject to optional redemption and payment prior to maturity. Net proceeds from the Series 2002B Certificates totaled $80.164 million, after receipt of a net original issue premium of $5.418 million, and payment of $549 thousand in underwriter discounts. In addition, $12.690 million of funds held in reserve for the Series 1992B Certificates were used to complete the refunding.

The above refunding reduced the State’s debt service requirements by $8.739 million, which resulted in an economic gain (difference between the present values of the old and new debt service payments) of $5.354 million.

2. School Facilities Board

On January 1, 2003, the Arizona School Facilities Board issued Series 2003A Certificates of Participation for $372.730 million, with interest rates ranging from 1.6% to 5.25%, and maturity dates ranging from 2004 to 2017. Series 2003A Certificates maturing on or after September 1, 2014 are subject to optional redemption and payment prior to maturity, at the sole option of the Board. Net proceeds from the Series 2003A Certificates totaled $401.291 million, after receipt of a net reoffering premium of $28.768 million, and payment of $206.8 thousand in issuance costs. The Certificates are being issued to finance the costs of acquiring leasehold interests in school sites and constructing and equipping thereon certain school facilities, which will be subleased to various school districts within the State participating in the Board’s Lease-to-Own program, and to pay the cost of issuing the 2003A Certificates.

3. Industrial Commission

The exempt adjustable mode refunding Certificates of Participation (COPs), Series 1985 were issued to refund the 1984 certificates which were used to finance the cost of acquiring and constructing the building at 800 W. Washington Street, Phoenix, Arizona. The COPs mature serially at six-month intervals and lease payments are made to the trustee, Bank One, Arizona, NA. The sale-leaseback agreement provides that title will pass to the Commission at the end of the lease term, once the COPs are completely redeemed. The refunded amount was $17.5 million. This amount has been paid and is not included in the outstanding amounts.

The Trust Indenture for COPS specifies that the rates of specific types of financial instruments must be considered by the Remarketing Agent in setting the variable interest rates for the COP certificates. These instruments include the following: other issues of bonds marketed under the TEAMS program or similar programs; variable rate demand bonds; variable rate notes; and fixed rate notes that, in the judgement of the Remarketing Agent are otherwise comparable to TEAM certificates in credit quality and length of time prior to which such instruments mature or become subject to purchase at par on the demand of the owner. The interest rate ranged from 1.33% to 2.50% during the fiscal year ended 2003.

4. University of Arizona

On October 31, 2002, the University of Arizona issued Certificates of Participation Series 2002B (2002B Certificates) for $29.845 million dated November 1, 2002. The 2002B Certificates include $16.665 million of serial certificates with interest rates ranging from 3.0% to 5.125% and maturity dates ranging from 2005 to 2021. The serial certificates maturing on or after June 1, 2013, are subject to optional redemption prior to maturity without premium. The 2002B Certificates also include several term certificates consisting of $3.725 million with an interest rate of 5.125% due June 1, 2016; $4.130 million with an interest rate of 5.125% due June 1, 2018; and $5.325 million with an interest rate of 4.75% due June 1, 2023. The term certificates maturing on June 1, 2016, June 1, 2018, and June 1, 2023, are subject to mandatory sinking fund redemption in part one year before maturity. There are also extraordinary redemption dates pursuant to the debt documents. The 2002B Certificates were issued at a premium of $1.154 million. The University of Arizona realized net proceeds of $30.044 million after payment of $555 thousand for issuance costs, underwriters discount and insurance. The net proceeds are being used to finance $16.2 million of the $17.2 million Meinel Optical Science Building project, and to refund in advance of maturity the Certificates of Participation Series

1994B with an outstanding principal balance of $14.130 million. The advance-refunding generated a net present value benefit of $652 thousand (difference between the present values of old debt and new debt service payments) for the University. The advance-refunding reduced the University's debt service by an average of $416 thousand per year in the first three years. The total debt service of the refinancing debt is $53 thousand less than the total debt service of the refunded debt. The refunded Certificates of Participation Series 1994B will be paid by investments held in an irrevocable trust with a carrying value of $15.426 million. As a result, the refunded debt is considered to be defeased and is not included in the University of Arizona financial statements.

On May 6, 2003, the University of Arizona issued Refunding Certificates of Participation Series 2003A (2003A Certificates) in the amount of $10.615 million dated May 1, 2003. The 2003A Certificates include $6.575 million of serial certificates with interest rates ranging from 3.5% to 5.0% and maturity dates ranging from 2013 to 2022. The 2003A Certificates include $4.040 million of term certificates due June 1, 2018, with an interest rate of 4.0%. The certificates maturing on or after June 4, 2014, have an optional redemption prior to maturity without premium. The certificates maturing on June 1, 2018, are subject to mandatory sinking fund redemption without premium. All 2003A Certificates are subject to extraordinary redemption pursuant to the debt documents. The 2003A Certificates were issued at a premium of $2 thousand. The University realized net proceeds of $10.384 million after payment of $233 thousand for issuance costs, underwriters discount and insurance. The net proceeds from the sale of these certificates are being used to advance-refund the Certificates of Participation Series 1997 with an outstanding principal balance of $1.630 million and $8.040 million of the Certificates of Participation Series 2001B with an outstanding balance of $21.425 million. The advance-refunding reduced the University's debt service by an average of $781 thousand per year in the first ten years. However, the total debt service on the refinancing debt is greater than the total debt service on the refunded debt by $5.514 million. Thus, the net present value of the difference between the old debt service and the new debt service payments is an additional cost of $675 thousand to the University. The refunded Certificates of Participation Series 1997 and 2001B will be paid by investments held in an irrevocable trust with a combined carrying value of $11.642 million. The refunded debt is considered to be defeased and is not included in the University of Arizona financial statements.

The University of Arizona had outstanding at June 30, 2003, two Variable Rate Certificates of Participation Series 1999B and 2000A totaling $63.5 million. Both certificates bear interest at a weekly rate determined by Paine Webber, as remarketing agent, with final maturity dates of June 1, 2024 and June 1, 2025, respectively. These certificates are subject to conversion, at the option of the Arizona Board of Regents, to an adjustable rate, an annual rate, or a term rate pursuant to the debt documents. If not converted, the 1999B and 2000A certificates will bear interest at a weekly rate not to exceed 12 percent per annum determined under prevailing market conditions by the remarketing agent.

A summary of the COPs issued as of June 30, 2003, is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Amount Authorized and Issued	Outstanding Balance	Interest Rates
Governmental Activities:					
School for the Deaf and Blind/Game and Fish	1993	2011	$ 31,250	$ 18,265	2.75 – 5.0%
Refunding Certificates of 92A, 92C, & 1091	2001	2011	57,930	55,225	3.25 – 5.25
Health Lab/HRIS	2002	2022	63,270	57,680	3.0 – 5.5
Refunding Certificates of 92B	2002	2011	75,295	75,295	2.0 – 5.5
School Facilities Board	2003	2018	372,730	372,730	1.6 – 5.25
AHCCCS	1994	2005	12,642	3,316	6.66
Total Governmental Activities:			613,117	582,511	
Business-Type Activities:					
Industrial Commission Special Fund	1985	2005	17,500	6,000	Variable
Arizona State University:					
Towers Project	1991	2010	4,500	2,645	6.89
West Campus - Refunding	1993	2009	46,905	30,135	5.18
Downtown Center – A	1999	2024	5,620	5,365	5.75
Downtown Center – B	1999	2024	5,165	4,995	8.00
2002 Certificates of Participation	2002	2026	103,800	103,800	4.75
University of Arizona:					
Residence Life	1994	2014	16,725	12,000	4.1 – 5.8
Fixed Student Union A	1999	2024	21,607	22,123	5.0 – 5.3
Student Union B	1999	2024	36,500	36,500	Variable
Parking Garage/Residence Hall	1999	2024	18,635	18,245	4.2 – 5.75
McKale/UAPD/Mt. Graham	2000	2025	28,300	27,000	Variable
Park Student Union/Ln Svcs/6th St Gar	2001	2025	31,695	31,340	3.4 – 5.5
Gittings Bldg. Highland Infra. Life Sci.	2001	2022	21,425	13,386	3.0 – 5.125
Student Housing, Health Bldg., UA North	2002	2022	76,965	75,150	3.75 – 5.5
Meinel Bldg & Refund COPS 1994B	2002	2023	29,845	29,845	3.0 – 5.125
Refund COPS 1997 & Portions and Series 2001B	2003	2022	10,615	10,615	3.5 – 5.0
Total Business -Type Activities:			475,802	429,144	
Total Certificates of Participation:			$ 1,088,919	$ 1,011,655	

Principal and interest debt service requirements on COPs outstanding at June 30, 2003, are as follows (expressed in thousands):

	Annual Debt Service					
	Governmental Activities			Business-Type Activities		
Fiscal Year	Total Principal	Total Interest	Total Amount Required	Total Principal	Total Interest	Total Amount Required
2004	$ 10,522	$ 33,758	$ 44,280	$ 14,310	$ 18,262	$ 32,572
2005	31,553	27,474	59,027	14,330	17,733	32,063
2006	31,436	26,151	57,587	16,590	17,122	33,712
2007	32,290	24,848	57,138	14,050	16,516	30,566
2008	33,440	23,507	56,947	15,110	15,866	30,976
2009-2013	191,070	91,006	282,076	83,850	69,645	153,495
2014-2018	241,935	35,412	277,347	108,488	49,389	157,877
2019-2023	10,265	1,350	11,615	127,616	20,853	148,469
2024-2026	-	-	-	34,800	2,032	36,832
Total	$ 582,511	$ 263,506	$ 846,017	$ 429,144	$ 227,418	$ 656,562

D. LEASES AND INSTALLMENT PURCHASES

1. Leases

The total operating lease expenses for the fiscal year ended June 30, 2003, were $38.839 million for governmental activities, $19.033 million for business-type activities, and $1.477 million for the Component Units. The future minimum lease payments for long-term operating leases as of June 30, 2003, are summarized below (expressed in thousands):

	Primary Government				
Fiscal Year	Governmental Activities	Business-Type Activities	Component Units	Total
2004	$ 29,421	$ 2,952	$ 637	$ 33,010
2005	22,820	1,421	491	24,732
2006	15,540	1,081	466	17,087
2007	9,267	650	110	10,027
2008	2,231	372	113	2,716
2009-2013	781	31	156	968
2014-2018	1	-	-	1
Total Minimum Lease Payments	$ 80,061	$ 6,507	$ 1,973	$ 88,541

Many operating leases are for buildings and land leased by State agencies. Although these leases are considered to be long-term, they are cancelable under certain circumstances.

* An agency must be able to cancel the lease if monies are not appropriated to cover the lease expenditures.

* If an agency is ordered to move into State-owned property and a 60-day notice is given, the lease can be canceled without penalty.

* In situations where the use of the leased property is dependent on the use of Federal monies, the lease must be cancelable in the event Federal monies are no longer available.

The State has entered into capital lease agreements for the acquisition of buildings, telephone systems, copy machines and other equipment. A lease is reported as a capital lease if one or more of the following criteria is met:

- Title to or ownership of the asset is transferred to the State at the end of the lease.

- The lease contains a bargain purchase option.

- The lease term is equal to 75% or more of the useful life of the leased asset. (This criteria does not apply if the beginning lease term falls within the last 25% of the total useful life of the asset.)

- 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 lease asset. (This criteria 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 (all primary government) as of June 30, 2003 are summarized below (expressed in thousands):

	Annual Debt Service	
Fiscal Year	Governmental Activities	Business-Type Activities
2004	$ 9,931	$ 8,772
2005	10,181	6,659
2006	10,135	5,568
2007	10,149	4,047
2008	10,294	2,784
2009-2013	51,957	8,665
2014-2018	56,490	156
2019-2023	63,981	-
2023-2028	58,686	-
Total minimum lease payments	281,804	36,651
Less: amount representing interest	(89,007)	(4,728)
Less: amount representing executory costs	(88,153)	-
Present value of net minimum lease payments	$ 104,644	$ 31,923

2. Installment Purchases

The State has installment purchase contracts payable for acquisitions of computer and other equipment. Installment purchases assets and liabilities are reported in the government-wide Statement of Net Assets.

The future minimum payments for long-term installment purchases (all primary government) as of June 30, 2003, are summarized below (expressed in thousands):

	Annual Debt Service	
Fiscal Year	Governmental Activities	Business-Type Activities
2004	$ 4,092	$ 931
2005	1,033	730
2006	599	624
2007	389	416
2008	283	341
2009-2013	71	1,439
2014-2018	-	-
Total future minimum payments	6,467	4,481
Less: amount representing interest	(279)	(658)
Obligations under installment purchases	$ 6,188	$ 3,823

3. Capital Assets Financed through Capital Leases and Certificates of Participation

The following table summarizes the historical costs of assets acquired under capital leases and certificates of participation:

	Governmental Activities	Business-Type Activities
Land	$ 6,078	$ -
Construction in Progress	31,929	-
Buildings	282,305	319,164
Improvements other than Buildings	2,420	-
Equipment	12,616	-
	335,348	319,164
Less: Accumulated Depreciation	(83,441)	(38,920)
Carrying Value	$ 251,907	$ 280,244

E. NOTES PAYABLE

The Arizona Department of Transportation (ADOT) governmental activities notes payable as of June 30, 2003 was $10.301 million. The notes payable represent the Maricopa Regional Area Road Construction Fund loan payable to the City of Mesa for $8.031 million and the Equipment Fund loan payable to creditors for $2.270 million.

F. LITIGATION

The amounts shown for the *Ladewig vs. Arizona Department of Revenue* settlement and the *Schofield vs. State of Arizona* settlement are further discussed in Note 12 – *Commitments, Contingencies, and Compliance*. The State has typically paid for litigation from the General Fund.

G. 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 2003, the State paid for compensated absences as follows: 80% from the General Fund, 11% from other major funds and 9% from other funds.

H. CHANGES IN LONG-TERM OBLIGATIONS

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

	Restated Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Due Within One Year	Due Thereafter
Governmental Activities:						
Long-term Debt:						
Revenue Bonds	$ 1,782,510	$ 753,505	$ (362,960)	$ 2,173,055	$ 276,280	$ 1,896,775
Grant Anticipation Notes	182,295	-	(13,150)	169,145	36,755	132,390
Certificates of Participation	231,904	448,025	(97,418)	582,511	10,522	571,989
Capital Leases	8,517	100,276	(4,149)	104,644	1,925	102,719
Installment Purchase Contracts	10,228	2,222	(6,262)	6,188	3,925	2,263
Notes Payable	38,859	6,783	(35,341)	10,301	8,031	2,270
Revenue Bond Premium	28,026	46,377	(4,181)	70,222	5,971	64,251
Certificates of Participation Premium	4,674	34,186	(350)	38,510	2,945	35,565
Total Long-term Debt	2,287,013	1,391,374	(523,811)	3,154,576	346,354	2,808,222
Other Long-term Liabilities:						
Compensated Absences	138,214	162,335	(156,012)	144,537	139,135	5,402
Ladewig vs. Arizona Department of Revenue Settlement	350,000	-	(10,586)	339,414	-	339,414
Roosevelt School District Settlement	88,000	-	(88,000)	-	-	-
Schofield vs. State of Arizona Settlement	-	11,400	-	11,400	-	11,400
Total Other Long-term Liabilities	576,214	173,735	(254,598)	495,351	139,135	356,216
Total Long-term Obligations	$ 2,863,227	$ 1,565,109	$ (778,409)	$ 3,649,927	$ 485,489	$ 3,164,438
Business-Type Activities:						
Long-term Debt:						
Revenue Bonds	$ 596,403	$ 69,635	$ (68,800)	$ 597,238	$ 21,172	$ 576,066
Certificates of Participation	422,010	40,604	(33,470)	429,144	14,310	414,834
Capital Leases	37,758	5,065	(10,900)	31,923	7,649	24,274
Installment Purchase Contracts	3,832	913	(922)	3,823	770	3,053
Notes Payable	-	150	(21)	129	49	80
Revenue Bond Premium	18,114	2,927	(1,906)	19,135	760	18,375
Deferred Amount on Refundings	(8,999)	(5,340)	3,034	(11,305)	(947)	(10,358)
Certificates of Participation Premium	2,680	-	(129)	2,551	-	2,551
Total Long-term Debt	1,071,798	113,954	(113,114)	1,072,638	43,763	1,028,875
Other Long-term Liabilities:						
Compensated Absences	46,315	52,381	(51,108)	47,588	8,355	39,233
Total Other Long-term Liabilities	46,315	52,381	(51,108)	47,588	8,355	39,233
Total Long-term Obligations	$ 1,118,113	$ 166,335	$ (164,222)	$ 1,120,226	$ 52,118	$ 1,068,108
Component Units:						
Long-term Debt:						
Revenue Bonds	$ 384,415	$ -	$ (15,740)	$ 368,675	$ 15,695	$ 352,980
Revenue Bond Discount	(4,560)	-	351	(4,209)	-	(4,209)
Revenue Bond Premium	4,964	-	(291)	4,673	-	4,673
Total Long-term Debt	384,819	-	(15,680)	369,139	15,695	353,444
Other Long-term Liabilities:						
Compensated Absences	7,918	9,320	(9,345)	7,893	3,482	4,411
Other	-	4,948	-	4,948	-	4,948
Total Other Long-term Liabilities	7,918	14,268	(9,345)	12,841	3,482	9,359
Total Long-term Obligations	$ 392,737	$ 14,268	$ (25,025)	$ 381,980	$ 19,177	$ 362,803

Beginning balances for notes payable in the governmental activities and the business-type activities have been restated for the Department of Transportation. The Board Funding Obligations issued by the Transportation Board and outstanding at fiscal year end 2002 should have been reported as interfund receivables/payables in fiscal year 2002. These obligations are to be paid to the General Fund from the Transportation & Aviation Planning, Highway Maintenance & Safety (governmental activities) and the Highway Expansion & Extension Loan Program (H.E.L.P., business-type activities) for the outstanding amount of $60.010

million and $145.536 million, respectively. Additionally, the Transportation & Aviation Planning, Highway Maintenance & Safety notes payable to the H.E.L.P. in the outstanding amount of $93.980 million at fiscal year end 2002 should have been reported as an interfund receivable/payable in fiscal year 2002. The remaining notes payable for governmental activities and business-type activities represent amounts payable to third parties.

The above long-term obligations relating to governmental activities include internal service funds. Amounts for installment contracts and compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets because liabilities of $481 thousand of installment contracts and $10.401 million of compensated absences are attributable to internal service funds. These amounts are included in the reconciliation as part of internal service fund net assets.

NOTE 7. INTERFUND TRANSACTIONS

INTERFUND BALANCES AND TRANSFERS

Interfund Receivables/Payables

Interfund balances, as of June 30, 2003, are as follows (expressed in thousands):

	Due To						
Due From	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Non-Major Enterprise Funds	Internal Service Funds	Total Due To
General Fund	$ -	$ -	$ 291	$ 30,548	$ 92	$ 6,061	$ 36,992
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	62,554	-	-	6,156	109,540	-	178,250
Land Endowments Fund	15,159	-	-	9,683	-	11	24,853
Non-Major Governmental Funds	46,832	264	-	2,618	-	387	50,101
Unemployment Compensation Fund	15	-	-	286	-	-	301
Lottery Fund	-	-	-	7,130	-	-	7,130
Non-Major Enterprise Funds	151,645	20,000	-	1,186	-	-	172,831
Internal Service Funds	11	-	-	-	-	6	17
Total Due From	$ 276,216	$ 20,264	$ 291	$ 57,607	$ 109,632	$ 6,465	$ 470,475

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, 2003 are as follows (expressed in thousands):

	Transferred To							
Transferred From	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Universities	Non-Major Enterprise Funds	Internal Service Funds	Total Transfers Out
General Fund	$ -	$ 1,228	$ 341	$ 47,919	$ 746,908	$ -	$ 40	$ 796,436
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	51,936	-	-	459,174	-	-	-	511,110
Land Endowments Fund	18,152	-	-	971	-	-	-	19,123
Non-Major Governmental Funds	304,028	21,557	59	30,848	-	7,281	1	363,774
Non-Major Enterprise Funds	23,744	-	-	1,186	-	-	-	24,930
Internal Service Funds	28,432	-	-	32	-	-	-	28,464
Unemployment Compensation Fund	3,591	-	-	1,598	-	-	-	5,189
Lottery Fund	34,455	-	-	24,611	-	-	-	59,066
Total Transfers In	$ 464,338	$ 22,785	$ 400	$ 566,339	$ 746,908	$ 7,281	$ 41	$ 1,808,092

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.

NOTE 8. ACCOUNTING CHANGES AND RESTATEMENTS

A. FUND FINANCIAL STATEMENTS

Fund Balances and Net Assets have been restated as follows (expressed in thousands):

	Governmental Funds		Proprietary Funds		
	General Fund	Other Non-Major Governmental Funds	Universities	Internal Service Funds	Component Units
Fund Balances, as previously reported	$ 712,816	$ 1,125,759	$ 1,738,449	$ (95,961)	$ 866,967
Fund Reclassifications:					
Library and Archives Funds	1,857	(1,857)			
Defensive Driving Fund	2,553	(2,553)			
Arizona State Hospital Construction Fund	24,379	(24,379)			
Construction Insurance Fund	3,887			(3,877)	
Special Services Fund	917			(1,098)	
Surplus Property Fund	221			(689)	
Personnel Division Fund	719			(847)	
Information Technology Fund	633			(657)	
Registrar of Contractors Recovery Fund		5,792			
Other Funds	291	(291)			
Change in application of an accounting principle			(34,544)		
Prior year correction of errors				2,983	53
Change in accounting basis					(546,923)
Fund Balances/Net Assets, as restated	$ 748,273	$ 1,102,471	$ 1,703,905	$ (100,146)	$ 320,097

B. GOVERNMENT-WIDE STATEMENT

Government-wide Net Assets have been restated as follows (expressed in thousands):

	Governmental Activities of Primary Government	Business-Type Activities of Primary Government	Component Units	State Compensation Fund Statutory Basis
Net Assets, as previously reported	$ 12,569,580	$ 2,966,188	$ 866,967	$ 546,923
Fund Reclassifications:				
Registrar of Contractors Recovery Fund	5,792			
Change in application of an accounting principle		(34,544)		
Prior year correction of errors	2,983		53	
Change in accounting basis			(546,923)	(76,733)
Net Assets, as restated	$ 12,578,355	$ 2,931,644	$ 320,097	$ 470,190

1. Fund Reclassifications

Funds previously classified as Special Revenue for the State Library, Archives and Public Records facility and the Supreme Court Defensive Driving Fund have been reclassified to the General Fund based upon further review of their establishing statutes. The amount of fund equity moved from Special Revenue Funds (Other Non-Major Governmental Funds) to the General Fund was $4.410 million.

The Arizona State Hospital Construction Fund was reclassified from a Capital Projects Fund (Other Non-Major Governmental Funds) to the General Fund. Capital projects not funded by the issuance of long-term debt may be accounted for in the fund that is paying for project construction costs. The construction of the Arizona State Hospital is being funded by unrestricted tax revenues. The amount of fund equity reclassified is $24.379 million.

The Registrar of Contractors Recovery Fund has been reclassified from an Agency Fund to a Special Revenue Fund. The reclassification resulted in an increase in fund equity of $5.792 million. This reclassification affects both the fund level statements and the Government-wide Statement of Net Assets.

All "Other Internal Service Funds" at fiscal year end 2002 have been reclassified to the General Fund for fiscal year 2003. The reclassified funds do not provide services to all agencies of the State or were being utilized as cost allocation plans for the benefit of the General Fund. Internal Service Funds are recorded on a full accrual basis. The General Fund is recorded on a modified accrual basis. For purposes of fund reclassifications, the General Fund will not record the 2002 fiscal year end $924 thousand of capital assets (net of accumulated depreciation) or $133 thousand of Compensated Absences reported by "Other Internal Service Funds". Net assets deleted from the "Other Internal Service Funds" at July 1, 2002, is $7.168 million. Fund balance added to the General Fund at July 1, 2002 is $6.377 million.

Several funds reclassified due to a change in fund type are included as "Other Funds". The net amount of fund equity reclassified to the General Fund is $291 thousand.

2. Change in Application of an Accounting Principle

In fiscal year 2003, the University of Arizona increased its capitalization threshold for equipment from $1,000 to $5,000 to enhance asset management and data integrity. The decrease in net assets was $34.544 million.

3. Prior Year Correction of Errors

The Sick Leave Liability Fund overstated the future benefits liability (compensated absences) in fiscal year 2002 by $1.960 million.

The Technologies & Telecommunications Fund omitted $1.023 million of capital contributions when the 2002 statements were prepared.

The Water Infrastructure Finance Authority omitted capital assets, net of depreciation, of $53 thousand when the 2002 statements were prepared.

4. Change in Accounting Basis

For fiscal year 2003, the State Compensation Fund prepared a Statutory-Basis Financial Statement for calendar year 2002. The fiscal year 2002 statement was prepared in accordance with GAAP.

NOTE 9. FUND DEFICIT

The major contributor to the Industrial Commission Fund deficit of $25.039 million is the $48.240 million increase in the actuarial liability for several insolvent insurance carriers and self-insured plans. The Industrial Commission Fund is responsible for paying all current and future Arizona workers' compensation claims of these companies. Some of the claims expense will be recovered over a period of years as the Industrial Commission Fund receives liquidation distributions from the bankrupt companies. In addition, the deficit will also be recovered through the reinstatement of the Industrial Commission Fund assessments in fiscal year 2004 on all self-insured plans and insurance carriers doing workers' compensation business in Arizona. This is the first time these assessments will have been levied since 1992.

The Internal Service Funds deficit primarily results from the Risk Management Fund net losses in prior years. The Risk Management Fund deficit of $214.617 million is primarily due to the State's policy of funding 50% of the actuarially determined liability. However, 100% of the liability is recorded for financial statement purposes. The Risk Management Fund accumulated deficit at June 30, 2003, should be recovered through annual adjustments to insurance billings. The entire liability is reflected in the Internal Service Funds. Current period losses are allocated to functions of government in the government-wide Statement of Activities.

NOTE 10. RELATED PARTY TRANSACTIONS

A. ARIZONA STATE UNIVERSITY

Not included in the accompanying financial statements are six financially interrelated organizations that are nonprofit corporations controlled by separate Boards of Directors whose goals are to support Arizona State University. Financial statements of these organizations are audited by independent auditors.

Four of these financially interrelated organizations (the Arizona State University Alumni Association, Arizona State University Foundation, Sun Angel Foundation and the Sun Angel Endowment) receive funds primarily through donations and dues, and contribute funds to the University for support of various programs.

A fifth financially interrelated organization, Price-Elliott Research Park, Inc. (Park), is developing a research park to promote and support research activities, in coordination with the University. In developing the research park, the Park has issued bonds guaranteed by the University.

As of June 30, 2003, the Park had $18.0 million of revenue bonds outstanding at an average interest rate of 5.26%. The debt service on the bonds is secured by a subordinated lien on University Main Campus revenues. Park revenues are not pledged in order to provide development flexibility to the Park.

Annual debt service on the Park bonds will be $900 thousand in fiscal year 2004 and varies from a low of $900 thousand in fiscal year 2004 to a high of $1.7 million in fiscal year 2006. The University is obligated to pay the annual debt service, if not paid by the Park, under a debt service assurance agreement.

Beginning in fiscal year 1990, the University provided operating cash advances to the Park repayable with interest to the University (1) upon the Park's total gross receipts for a fiscal year exceeding its total disbursements for the fiscal year and (2) before any Park surpluses are transferred to the Arizona State University Foundation, for the benefit of Arizona State University. The last year for cash transfers to the Park was fiscal year 1998. Since the Park's repayment to the University was dependent upon successful future operations and entering into additional land leases, the transfers to the Park were recorded by the University as current year expenditures when made and not as an asset on the University's balance sheet. Total cash advances repayable to the University at June 30, 2003, including the accrued interest, totaled $5.4 million. During fiscal year 2003, the Park repaid $1.2 million to the University, with this amount being recorded as other revenues with the timetable for future repayments dependent upon the Park entering into additional land leases.

A sixth financially interrelated organization, the Collegiate Golf Foundation, operates a University-owned golf course.

Assets, net assets, and revenues for these organizations for the most recent fiscal year for which audits have been completed aggregated $356.1, $258.0 and $95.2 million, respectively, with substantially all of the net assets being donor restricted or endowment funds.

The University has, or is in the process of entering into several privatized arrangements for on-campus student housing and campus energy management where an independent management company is responsible for providing services to the University and/or students served by the University. In conjunction with these privatized arrangements, the independent management companies, with the approval and assistance of the University have obtained, or are in the process of obtaining, tax-exempt financing in order to maximize the overall financial benefits to the University and its students. As of June 30, 2003, four tax-exempt financings had been completed by an independent management company through separately incorporated nonprofit entities formed by the independent companies to do the tax-exempt financings. The University is not legally responsible for repayment of the tax-exempt debt, and there is no pledge or guarantee by the University for repayment of the debt. On June 30, 2003, there were $79.1 million of bonds outstanding for these four privatized arrangements with approximately $14.0 million of financings for another privatized arrangement effectively in process. Upon final principal repayment of the financings, title to the student housing and energy management equipment transfers to the University. In addition to the privatized and third party financings existing as of June 30, 2003 or in process as of this date, the possibility exists for several more third party financings to occur during fiscal 2004, totaling around $100 million.

Subsequent to June 30, 2003, the University received approval from the Arizona Board of Regents to enter into a lease with ASUF, LLC, an Arizona limited liability company to be formed by the ASU Foundation. The University will lease a portion of the project, approximately 90,000 square feet of office space and the related parking structure. The lease payments will start during fiscal 2005, after construction is completed and will be approximately $2.4 million per year for approximately thirty years.

B. NORTHERN ARIZONA UNIVERSITY

The financial activities of the Northern Arizona University Foundation, Inc., (Foundation) and the Northern Arizona Capital Facilities Finance Corporation (NACFFC) are not included in the accompanying financial statements. The Foundation and the NACFFC are nonprofit corporations controlled by separate Boards of Directors. The goals of the Foundation are to promote the cause of education and the objectives of the University. The NACFFC was formed for the purpose of building on-campus student housing.

The NACFFC, with the approval and assistance of the University, has obtained tax-exempt financing to construct a student housing facility. The University is not legally responsible for repayment of the tax-exempt debt, and there is no pledge or guarantee by the University for repayment. The housing facility was opened in the fall of 2002 and daily operations are managed by the University. On June 30, 2003, there were $15.4 million of bonds outstanding for this privatized arrangement. Upon final principal repayment of the financing, title to the student housing transfers to the University. This housing is built on University property that is leased to the NACFFC for the term of the bond issue.

C. UNIVERSITY OF ARIZONA

The accompanying financial statements do not include the operations of the University of Arizona Foundation, Inc., the University Physicians, Inc., the Southern Arizona Capital Facilities Finance Corporation, the Arizona Research Park Authority, and the Campus Research Corporation.

The University of Arizona Foundation, Inc. (Foundation) is a nonprofit corporation controlled by a separate Board of Directors. The principal goals of the Foundation are to support the University of Arizona through various fund-raising activities, and to contribute funds to the University for support of various programs. According to the audited financial statements of the Foundation for the year ended June 30, 2002, assets, liabilities, revenues, and expenditures totaled $298, $28, $43 and $43 million, respectively.

The University Physicians, Inc. (UPI) is a nonprofit corporation established to support the University of Arizona in achieving its teaching and research missions through the provision of patient care. The UPI is controlled by a Board of Directors comprised of the Dean, three faculty physicians, a representative of the twelve clinical department heads and three community members. According to the audited financial statements of the UPI for the year ended June 30, 2002, assets, liabilities, revenues and expenditures totaled $117, $57, $163 and $154 million, respectively.

The Southern Arizona Capital Facilities Finance Corporation (SACFFC) is a nonprofit corporation formed in June 2002 and governed by a separate Board of Directors. SACFFC acquires, constructs, and operates student housing for the benefit of the University of Arizona. On July 3, 2002, SACFFC issued tax-exempt Certificates of Participation in the amount of $20.875 million for 30 years to construct a student housing facility on University property, under a ground lease agreement with the Arizona Board of Regents. The term of the agreement is 40 years or until the debt is retired. The University is not legally responsible for repayment of the tax-exempt debt, and there is no pledge or guarantee by the University for repayment of the debt. The student housing facility is expected to open in September 2003, operated by a private company under a Management Agreement with SACFFC. Audited financial statements are not available.

The Arizona Research Park Authority (ARPA) is a nonprofit corporation created under the auspices of the Arizona Board of Regents (ABOR) and designated by Arizona law as a political subdivision of the State, governed by a separate Board of Directors, which by law may not include officers or employees of ABOR. The ARPA was established under the State's industrial development authority statute to assist in the acquisition, improvement, and operation of university research parks and related properties. In August 1994, ARPA, with approval of ABOR, sold $98 million of nontransferable special revenue bonds to International Business Machines Corporation (IBM) to enable the University to acquire from IBM a 345-acre developed industrial site near Tucson, Arizona, together with 1,000 acres of adjacent unimproved land (collectively, the University of Arizona Science and Technology Park or the "Park"). The bonds are payable solely from lease rentals paid by IBM. If IBM defaults or cancels its lease, the bonds must be surrendered and discharged. Title to the entire Park resides in the University and neither the Park nor any payments by the University secures ARPA's bonds. Since the original transaction, IBM has reduced its leasehold to 68% of the building space for periods up to the remaining term of 21 years. Audited financial statements are not available.

The Campus Research Corporation (CRC) is a nonprofit corporation governed by a separate Board of Directors and was established to assist the University in the acquisition, improvement, and operation of the Park and related properties. The CRC currently leases from the University the remaining 32% of the building space of the Park that is not leased to ARPA (see preceding paragraph). 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 University is responsible for payment of operational expenses associated with the space occupied by the University departments, offices, and programs. All income received by the CRC from its activities, after payment of expenses and financial reserves, will be distributed to the University. During fiscal year 2003, $350 thousand was distributed to the University of Arizona. In February 2003, Arizona Center for Innovation, LLC (AzCI), a wholly owned subsidiary of CRC, was organized for the purpose of promoting the development of high technology companies in southern Arizona. AzCI's financial statements have been consolidated with the CRC's and all significant intercompany transactions have been eliminated.

The CRC's June 30, 2003, audited financial statements disclosed:

- $20.199 million total assets, including $10.307 million in net property and equipment and $4.776 million of net intangible assets, the major components of which relate to leasehold interest and deferred leasing costs.
- $13.182 million total liabilities, including $10.493 million of long-term debt in the form of two collateralized notes payable to Wells Fargo, Arizona.
- $6.283 million total revenues, primarily consisting of rental income from the Park and related properties.
- $7.293 million total expenses, including $2.431 million of project operating costs, $729 thousand amortization of intangible assets and a $1.744 million loss on interest rate swap agreements.
- During fiscal year 2003 cash and cash equivalents increased by $450 thousand.

The CRC's audited financial statements may be obtained by writing to the Office of Economic Development, P.O. Box 210066, Tucson, Arizona 85721-0066.

D. UNIVERSITY MEDICAL CENTER

The University Medical Center (UMC) and the University of Arizona (the University) both provide and receive services from each other under various contracts. Payments to the University by the UMC include resident and intern salaries, utilities, ground maintenance, mailroom operations and various administrative functions. Amounts paid to the University for these services were $15.714 million for the year ended June 30, 2003.

The UMC has entered into contractual agreements with the University to provide support for the academic mission of the University. Charges to the University for such services and facilities provided by the UMC were $9.90 million for the year ended June 30, 2003. These amounts are included in other operating revenue in the accompanying financial statements.

University Physicians, Inc. (UPI) is a not-for-profit corporation whose members are physicians employed by the University and who practice at the UMC. The UMC has agreements with UPI whereby the UPI provides physician and other services to UMC. Additionally, the UMC provides healthcare services to the UPI.

NOTE 11. JOINT VENTURES

A. UNIVERSITY OF ARIZONA

The University of Arizona (the University) 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 University and the Arcetri Astrophysical Observatory in Florence, Italy (Arcetri). The purpose of the joint venture is to design, develop, construct, own, operate and maintain a binocular telescope currently being constructed in Arizona. The current members of the LBT are the University, Arcetri Research Corporation, Ohio State University and the LBT Beteiligungsgesellschaft.

The University has committed resources equivalent to 25% of the project's construction costs and the LBT's annual operating costs. As of June 30, 2003, the University has made cash contributions of $14.0 million toward the project's construction costs. The University's financial interest represents its future viewing/observation rights. Upon completion of construction, viewing rights will be divided among the participants in proportion to their contributions. According to the audited financial statements of the LBT for the year ended December 31, 2002, assets, liabilities, revenues and expenses totaled $84.0 million, $1.0 million, $10.0 million and $3.0 million, respectively.

The LBT's separate audited financial statements can be obtained from LBT Project Office, Steward Observatory, University of Arizona, Tucson, AZ 85721-0065.

B. UNIVERSITY MEDICAL CENTER

The University Medical Center entered into a joint venture with Med-Forte Research Foundation, a Utah Corporation and an affiliate of the University of Utah, to form CardioWest Technologies, Inc. (CardioWest) in 1991. CardioWest was established to continue research and production of artificial heart technology and similar products. During 2002 the University Medical Center sold certain assets of CardioWest in exchange for a note receivable in the amount of $417 thousand and 15,000 shares of common stock of a newly formed company, Syncardia. There was no material gain or loss on the sale of the assets. The University Medical Center's interest in CardioWest was approximately 73% and the results of operations have been included in the financial statements through the date of the asset sale.

NOTE 12. COMMITMENTS, CONTINGENCIES AND COMPLIANCE

A. RISK MANAGEMENT INSURANCE LOSSES

The Department of Administration – Risk Management Section manages the State's property, environmental, 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 Section. Consequently, all agencies and the State's three universities are required to participate in this program. The State's Risk Management Section evaluates the proper mix of purchased commercial insurance and self-insurance annually.

The Industrial Commission provides payment of workers' compensation losses which are not covered by the State Compensation Fund, the Department of Administration – Risk Management Section, private insurance carriers, or self-insured employers. The workers' compensation claims paid by the Industrial Commission encompass losses against uninsured or underinsured employers, insolvent insurance carriers' 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 Industrial Commission is totally self-insured.

The management and payment of these losses is accomplished through the funding mechanism of the Risk Management Fund (Internal Service Fund) and the Industrial Commission Fund (Enterprise Fund). As discussed in the following paragraph, an independent annual actuarial analysis is performed to evaluate the needed funding. The Risk Management Section will assess each agency an annual portion of the necessary funding for the Risk Management Fund based on their exposures and prior loss experience. Interest and dividend earnings of investments currently fund the Industrial Commission Fund. To provide funding for workers' compensation claims, the Industrial Commission could direct payment to the State Treasurer an amount not to exceed one and one-half percent of all premiums received by the State Compensation Fund, private carriers and self-insured plans during the immediately preceding calendar year. No such assessments have been made by the Commission since January 1992.

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, salvage, subrogation, loss development factors and an estimate for incurred but not reported claims.

The Industrial Commission Fund discounts all benefit reserves at three and one-half percent, except for medical. Medical benefits are discounted at an assumed inflation rate equal to the investment rate of return earned by the Industrial Commission

Fund. During fiscal year 2003, claims for six new insolvent medical insurance companies were assigned to the State Compensation Fund and were included in the Industrial Commission's June 30, 2003 actuarial study. The State Compensation Fund, on behalf of the Industrial Commission, has filed proof of claim requests with ancillary receivers, liquidators holding deposits and surety bonds on these insolvent companies totaling $58 million. Since the actual amount that will ultimately be received cannot be determined, the Industrial Commission will continue to recognize receipt of insolvent carrier deposits (no insurance settlement income) as revenue at the time received rather than recording a receivable.

Occasionally, the Risk Management Section agrees with claimants to purchase an annuity contract to settle these specific claims when it is determined that it is in the best interest of the State to do so. In these instances, the State requires the claimant to sign an agreement releasing the State from any further obligation. In addition, the State requires that a third party assignment company be named in the contract should the annuity company fail to perform its obligations under the annuity contract. 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 years.

The following table presents the changes in claims liabilities balances (short- and long-term combined) during fiscal years ended June 30, 2002 and June 30, 2003 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2002	$ 233,677	$ 56,306	$ 55,652	$ 234,331
2003	234,331	55,005	56,256	233,080
Industrial Commission Fund:				
2002	150,470	52,892	15,697	187,665
2003	187,665	69,355	17,282	239,738

B. LITIGATION

In *Ladewig vs. Arizona Department of Revenue*, Ladewig is a class action tax refund case. The class members are seeking refunds for Arizona income tax paid on dividends received from corporations doing less than 50% of their business in Arizona during the years 1986 through 1989. The trial court held that such taxes violated the Commerce clause of the U.S. Constitution and certified the class. The class certification was upheld by the Arizona Supreme Court in 2001. The Tax Court approved a settlement in December 2002. Accordingly, the State has recorded a long-term liability in its financial statements in the amount of $339.4 million.

In *Kerr vs. Killian,* federal employees claimed an income tax refund on taxes paid on federal employee contributions. The Board of Tax Appeals granted these claims for the years before 1991, but has denied the claim for later years. The State did not appeal. The plaintiffs appealed for years after 1990. The Tax Court awarded attorneys fees from refunds the State is paying, and this ruling was upheld on appeal. The State has filed a petition for review. The attorneys' fees will be paid from funds otherwise due to taxpayers, so there will be little monetary effect on the State if the fees are awarded. The Tax Court has denied class certification, and ruled for the Plaintiffs on the merits regarding entitlement to refunds for years after 1990. The State appealed the substantive law issue and the Plaintiffs have appealed the denial of class certification, and the Court of Appeals ruled against the State. The Supreme Court has granted review, and supplemental memoranda was filed November 28, 2003. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, the State could incur losses ranging from $20 million to $100 million.

In *Roosevelt Elementary School District No. 66 vs. State of Arizona,* the plaintiffs allege the State failed to fully fund the Building Renewal Fund established by the Students FIRST legislation. On October 13, 2000, the court held that the State did not violate the statutory provisions regarding funding of the Building Renewal Fund for fiscal year 1998-99. However, the court held that neither party was entitled to summary judgement regarding funding for fiscal year 1999-00, and that in order to prevail on that claim, the plaintiffs would have to demonstrate that they were injured by the alleged underfunding. On February 21, 2002, the court granted the plaintiffs' motion to file an amended complaint, which included similar allegations regarding funding for fiscal year 2001-02. The parties both moved for summary judgment once again regarding the remaining claims in the case (fiscal years 1999-2000 and 2001-02), and on May 7, 2002, the trial court granted the plaintiffs' motion for summary judgment as to both years. The State timely appealed the decision to the Arizona Court of Appeals. On August 14, 2003, the Court of Appeals reversed the decision of the trial court and remanded the matter back to the trial court. Plaintiffs have filed a petition for review in the Arizona Supreme Court. The matter has been briefed, but no date for decision by the court has been set. 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 of approximately $88 million.

In the *Somerton Elementary School District No. 66 vs. State of Arizona*, the plaintiffs' claim is identical to that alleged in the *Roosevelt Elementary School District* case discussed above, except that it involves the level of State funding for the Building Renewal Fund for the fiscal year 2002-03. Because the issues raised in this case are identical to those raised in the *Roosevelt Elementary School District* case, it was assigned to the same trial court judge. 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 of approximately $90 million.

In *Schofield vs. State of Arizona*, a class action for on-call compensation was filed on behalf of all current and former State employees who were required to be on-call after normal working hours under State Personnel Rule R2-5-307. The parties entered a settlement agreement providing for the administration of individual claims by arbitrators. All State agencies, except the Department of Corrections (DOC), have completed the claims process. Accordingly, the State has recorded a long-term liability in its financial statements in the amount of $11.4 million to settle DOC claims.

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, that 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 Fund.

C. ACCUMULATED SICK LEAVE

State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1500 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 percent for 500 hours to a maximum of 50 percent for 1500 hours. The maximum benefit value is $30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the financial statements as an Internal Service Fund and accounts for the retiree accumulated sick leave. Unused accumulated sick leave of employees of the State, excluding Universities, at June 30, 2003, totaled $298.324 million.

D. UNCLAIMED PROPERTY

The State of Arizona's Uniform Unclaimed Property Act requires deposit of certain unclaimed assets into a managed Agency Fund. ARS §44-313 requires a separate trust fund of not less than $100 thousand to be retained for prompt payment of claims. The excess amount, above that which is required to be retained, is required to be deposited to the General Fund where it is included as other revenue. Under a statute that took effect July 1, 1990, up to $1.0 million in unclaimed utility deposits is deposited in the Utility Assistance Fund to help low income and elderly people make utility deposits and repairs. Fifty-five and twenty percent of the remaining net cash collected, after refunds, is transferred to the Department of Commerce Housing Fund to be used for low-cost housing and the State Treasurer for distribution as provided for in ARS §5-113, respectively. The balance is to be deposited in the General Fund. For fiscal year 2003, $1.119 million was deposited in the Utility Assistance Fund, $17.951 million was deposited in the Housing Fund, $6.528 million was deposited with the State Treasurer and $6.836 million was deposited in the General Fund. A total of approximately $258.681 million has been remitted since inception of the fund. In addition, the State is also holding stock valued at $22.0 million. 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 Governmental Accounting Standards Board 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. This liability is reported in the General Fund because it is the fund to which the property ultimately escheats in Arizona. At June 30, 2003, this amount, reported as Due to Others in the General Fund, is $103.036 million.

E. CONSTRUCTION COMMITMENTS

The Arizona Department of Transportation had outstanding commitments under construction contracts of approximately $650.738 million at June 30, 2003.

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, Standard & Poor's, Moody, Duff & Phelps or Weiss. The Lottery remains contingently liable on all annuities. Aggregate future payments to prize winners on existing annuities totaled approximately $271.821 million at June 30, 2003. Approximately $184.215 million of the total aggregate future payments at June 30, 2003 relate to annuities purchased from five separate insurance companies, of which approximately $81.431 million relates to a single insurance company.

In 1994, an insurance company from which the Lottery purchased annuities during the period 1983 through 1989 was placed under State supervision. At June 30, 2003, remaining aggregate minimum future payments on such purchased annuities approximated $8.186 million. In 1997, an insurance company from which the Lottery purchased annuities in 1986 was placed under State supervision. At June 30, 2003, remaining aggregate minimum future payments on such purchased annuities approximated $1.566 million. As of December 10, 2003, both insurance companies were current in their required annuity payments. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the operations or financial position of the Lottery.

NOTE 13. 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 received $109.489 million in fiscal year 2003. 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, the State did not record a receivable for the future payments at June 30, 2003.

NOTE 14. PUBLIC-PRIVATE PARTNERSHIP

The State of Arizona has entered into a partnership agreement with Accenture. The purpose of this partnership is to fund the Department of Revenue's technology needs. This agreement stipulates that Accenture will be paid 90 percent of the new revenue generated from the system enhancements, even if this amount is insufficient to cover the total contract cost. Accordingly, Accenture has created a system that increases the State's efficiency in collecting tax revenues. As of June 30, 2003, the State has paid Accenture $2.623 million towards the $140.330 million contract cost. Included in the contract cost, are application support charges of $32.986 million.

NOTE 15. CONDUIT DEBT

In December 2002, the Greater Arizona Development Authority (GADA) issued $7.64 million Infrastructure Revenue Bonds, Series 2002 for public infrastructure projects in the communities of Clarkdale, Coolidge and Guadalupe in the amounts of $400 thousand, $3.795 million and $3.445 million, respectively. GADA's bond structure provides lower borrowing costs for Arizona's communities by diversifying the risk to investors and by sharing financing costs among several borrowers. The GADA Fund is leveraged when GADA issues its bonds, which maximizes loan capacity for communities. An intercept mechanism for intercepting state-shared revenues for loans to political subdivisions enhances the security of the GADA bonds even further.

During previous years, the State has appropriated a total of $20 million to GADA for the express purpose of securing bonds issued by GADA. As of June 30, 2003, the remaining balance in the appropriations account is $16.523 million. The Series 2002 bonds were issued by GADA to make loans to the participants listed above and constitute special and limited obligations of GADA. The principal of and interest on the bonds are payable solely from the funds which are held in Trust by the Trustee (the Trust Estate). The Trust Estate includes debt service payments required to be made by the participants in the Series 2002 bond issue. The principal of and interest premium, if any, on the Series 2002 bonds shall not constitute or give rise to a pecuniary liability on the part of the directors and officers of GADA. The Series 2002 bonds do not constitute a legal debt of the State of Arizona and are not enforceable against the State of Arizona. At June 30, 2003, the outstanding face value of the Series 2002 bonds was $7.64 million and the total outstanding face value of all bonds issued by GADA was $42.73 million.

NOTE 16. SUBSEQUENT EVENTS

On December 1, 2001, the State of Arizona entered into a lease-to-own agreement with Capitol Mall, L.L.C. for the purpose of construction, occupancy and ownership of an office building and related parking facilities located on the capital mall. The State began occupying the buildings on July 1, 2003. The State began making lease payments on September 1, 2003. The scheduled building lease payments for fiscal year 2004 will total $828 thousand. In addition, the State will pay to Capital Mall, L.L.C., on a monthly basis, all estimated operating costs as additional rent. The estimated operating costs for the 2004 fiscal year is $488 thousand. The lease is not a general obligation or indebtedness of the State. The State shall have the right to cancel and terminate the lease only at the end of its fiscal period in the event that funds are not appropriated by the Arizona State Legislature or the Department of Administration fails to allocate monies for any subsequent fiscal period with respect to this lease. The State shall have the right, during the lease term, to purchase the Capital Mall, L.L.C.'s right, title, and interest in this project.

Effective July 1, 2003, the Arizona State University capitalization thresholds for equipment increased to $5 thousand and, the capital threshold for renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of structures increased to $100 thousand.

On July 2, 2003, the court ordered the Freemont Insurance Company, a California corporation, to begin liquidation on July 1, 2003. At June 30, 2003, no Arizona claims had been assigned, and no deposits released to the Arizona State Compensation Fund (a discretely presented component unit of the State of Arizona). The Industrial Commission Special Fund is ultimately responsible for any claims paid by the Arizona State Compensation Fund that are in excess of the deposits received during the liquidation of the insurance company.

On August 6, 2003, the Arizona Department of Transportation issued $148.955 million in Grant Anticipation Notes, Series 2003A to (i) finance a portion of the costs of various projects on the Maricopa County Regional Freeway System, (ii) refund all of the Board's Outstanding Series 2000A Notes and (iii) pay a portion of the costs of issuing the Notes. The Series 2003A Notes are due January 1, 2004, through July 1, 2015. Net proceeds totaled $134.181 million (after receipt of $10.162 million reoffering premium and payment of $249.072 thousand in underwriting fees and costs of issuance).

In August 2003, the Arizona Department of Transportation repaid in advance of scheduled maturity $100.0 million of the Board Funding Obligations (BFOs) deposited to the Highway Expansion and Loan Program (HELP) in fiscal year 2000, and $60.0 million of the BFOs deposited in fiscal year 2002. With interest, the total amount repaid was $172.694 million. Concurrent with these repayments, the Arizona Department of Transportation borrowed $160.0 million ($100.0 million deposited to HELP and $60.0 million deposited to the Transportation & Aviation Planning, Highway Maintenance & Safety Fund) under a new series of BFOs that are payable no later than August 2007.

On September 1, 2003, the Arizona School Facilities Board issued $194.610 million of Certificates of Participation, Series 2003B, with interest rates ranging from 2.25 % to 6.0%, and maturity dates ranging from 2006 to 2019. Series 2003B Certificates maturing after September 1, 2014 are subject to redemption and payment prior to maturity at the option of the Board. The 2003B Certificates are being issued (i) to finance the costs of acquiring leasehold interests in certain school sites and constructing and equipping school facilities which will be subleased to various school districts within the State of Arizona, (ii) to pay capitalized interest on the 2003B Certificates, and (iii) to pay the costs of issuing the 2003B Certificates. Net proceeds totaled $200.000 million after receipt of $11.311 million of net reoffering premium, and payment of $4.616 million of capitalized interest, and payment of $1.305 million of issuance costs.

On October 1, 2003, the Arizona School Facilities Board issued $247.125 million of State School Trust Revenue Bonds. The Series 2003A Bonds will be issued initially as Auction Rate Securities, and will initially bear interest at Auction Rates for generally successive 28-day Auction Periods. The Series 2003A Bonds may be converted, in whole, to Auction Rate Securities (ARS) bearing interest at Auction Rates determined on the basis of a 7-day Auction Period or, with the consent of the Insurer, to other interest rate modes. As long as there is no continuing Event of Default under the terms of the Indenture, the ARS shall be subject to redemption prior to stated maturity by the Board, at the written direction of the Board, on any ARS Interest Payment Date. The 2003A Bonds mature in 2019. The 2003A Bonds are being issued to (i) pay the costs of correcting existing deficiencies in school facilities within the State of Arizona, (ii) pay capitalized interest on the 2003A bonds, and (iii) pay issuance costs of the 2003A Bonds. Net proceeds are estimated to be $225.815 million, after payment of $8.954 million of bond issuance costs, and $12.356 million deposit to the bond reserve account.

Subsequent to June 30, 2003, the Arizona State University issued $103 million of variable rate system revenue bonds with a final maturity of 2034 for various projects, including Arizona Biodesign Institute Phase I.

On September 12, 2001 the Arizona Power Authority (a discretely presented component unit, hereinafter referred to as APA) issued $57.520 million of Special Obligation Crossover Refunding Bonds, bearing an interest rate of 5%, and maturing in 2017. Proceeds from the sale of the bonds along with a fund contribution by the APA will be held in an escrow trust account invested in government securities until October 1, 2003 (the “Crossover Date”) when, if certain conditions are met, the crossover refunding is scheduled to take place and $62.630 million of the 1993 Series Power Resource Revenue Refunding Bonds maturing on and after October 1, 2005 will be called. If these conditions are not met, the assets in the escrow trust account will be used to retire the Special Obligation Crossover Refunding Bonds on the Crossover Date. The Special Obligation Crossover Refunding Bonds are payable solely from the amounts in the escrow trust account and are not payable from any other source. Because they are not payable from revenues derived by the APA or secured by any assets held by the APA, neither the Special Obligation Crossover Refunding Bonds nor the assets held in the escrow trust account are reflected in the State’s Statement of Net Assets at June 30, 2003. If the crossover occurs on the Crossover Date, the outstanding Special Obligation Crossover Refunding Bonds will be exchanged for 2001 Series Power Resource Revenue Refunding Bonds of the same principal amount, maturity date, and interest rate as the crossover bonds. The proceeds in the escrow trust account will be used to call that portion of the 1993 Series Bonds maturing on and after October 1, 2005.

On October 1, 2003, the APA met the conditions described above to effect the crossover refunding which resulted in $57.520 million of the Special Obligation Crossover Refunding Bonds being exchanged for 2001 Series Power Resource Revenue Refunding Bonds of the same principal amount, maturity date and interest rates as the crossover bonds. In addition, as part of the crossover, $62.630 million of the 1993 Series Power Resource Revenue Refunding Bonds maturing on and after October 1, 2005 were called. As a result of this transaction, the APA recognized an economic gain (difference between the present value of the old and new debt service payments) of $2.096 million. The cash flows required to service the new debt are $4.572 million less than the cash flows required to service the old debt.