FINANCIAL SECTION

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

The Honorable Janet Napolitano, Governor
State of Arizona

The Honorable Tim Bee, President
Arizona State Senate

The Honorable James P. Weiers, Speaker
Arizona House of Representatives

The Honorable Ruth V. McGregor, Chief Justice
Arizona Supreme Court

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain departments and the component units, which account for the following percentages of the assets and revenues of the opinion units affected:

Opinion Unit/Department	Assets	Revenues
Government-Wide Statements		
Governmental activities:		
Arizona Health Care Cost Containment System	1.99%	15.51%
Department of Transportation	62.77%	13.59%
Business-type activities:		
Lottery Department	1.31%	12.62%
Arizona Health Care Cost Containment System	.26%	1.37%
Department of Transportation	4.30%	.40%
Aggregate discretely presented component units:		
Component Units	100.00%	100.00%
Universities—Affiliated Component Units	100.00%	100.00%

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Opinion Unit/Department	Assets	Revenues
Fund Statements		
General Fund:		
Arizona Health Care Cost Containment System	11.62%	17.75%
Transportation and Aviation Planning, Highway Maintenance and Safety Fund:		
Department of Transportation	100.00%	100.00%
Lottery Fund:		
Lottery Department	100.00%	100.00%
Aggregate Remaining Fund Information:		
Arizona Health Care Cost Containment System	.11%	2.78%
Department of Transportation	.73%	7.33%
Arizona State Retirement System	66.09%	43.54%
Public Safety Personnel Retirement System	13.05%	7.21%
Corrections Officer Retirement Plan	2.24%	1.55%
Elected Officials' Retirement Plan	.90%	.53%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component units (except for the Water Infrastructure Finance Authority) and the fiduciary fund financial statements of the Arizona State Retirement System, Public Safety Personnel Retirement System, Corrections Officer Retirement Plan, and Elected Officials' Retirement Plan were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The financial statements of the Healthcare Group of Arizona, a nonmajor enterprise fund, are included as part of the State's business-type activities and aggregate remaining fund information. As discussed in Note 8, the Healthcare Group of Arizona has incurred operating losses and has a net fund deficit of $3.696 million at June 30, 2006, that raise substantial doubt about its ability to continue operations. Management's plans in regard to these matters are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

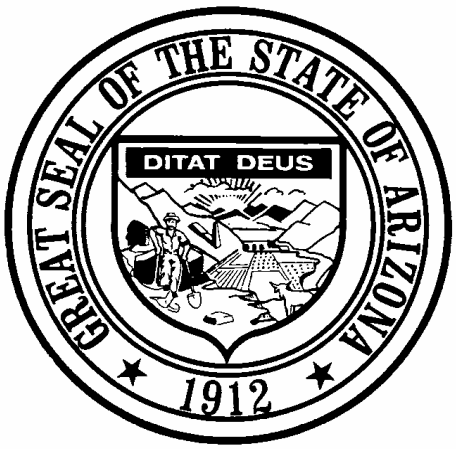
The Management's Discussion and Analysis on pages 23 through 34, the Budgetary Comparison Schedules on pages 129 through 150, the Infrastructure Assets information on pages 151 through 155, and the Schedule of Agent Retirement Plans' Funding Progress on page 156 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, combining financial statements and schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Debbie Davenport
Auditor General

May 25, 2007


GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Arizona's (the State's) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of the State's officials and management.

FINANCIAL HIGHLIGHTS

Government-Wide:

- The assets of the State exceeded liabilities at the close of the fiscal year by $20.0 billion (reported as *net assets*). Of this amount, $985.535 million is unrestricted, $5.0 billion is restricted for specific purposes (*restricted net assets*), and $14.0 billion is invested in capital assets, net of related debt.
- The State's total net assets increased in fiscal year 2006 by $3.1 billion. Net assets of governmental activities increased by $2.9 billion, while net assets of the business-type activities increased by $241.135 million.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of $5.6 billion, an increase of $1.4 billion from the beginning of the year. Approximately 38% of the combined fund balances, or $2.1 billion, is available to meet the State's current and future needs (*unreserved fund balance*).
- As of the close of the fiscal year, unreserved fund balance for the General Fund was $1.4 billion, or 8%, of total General Fund expenditures.
- The enterprise funds reported net assets at year end of $2.8 billion, an increase of $258.185 million during the year.
- The Land Endowments Fund reported fund balance at year end of $2.0 billion, an increase of $326.494 million during the year. The Land Endowments Fund is used to help finance public education within the State as required by the federal government and the State's Constitution.

Long-term Debt:

- The State's total long-term primary government debt decreased during the fiscal year to $5.7 billion, a slight decrease of $10.864 million (less than 1%). Changes during the year included the addition of revenue bonds and certificates of participation of $782.880 million and $175.027 million, respectively. Also, the State retired $812.425 million of revenue bonds, $38.540 million of grant anticipation notes, and $122.887 million of certificates of participation.

More detailed information regarding the government-wide financial statements, fund level financial statements and long-term debt activity can be found beginning on **page 26**.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Statements (Reporting the State as a Whole)

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

The Statement of Net Assets and the Statement of Financial Position (pages 38-40) present all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating.

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

Both government-wide statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.

- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, the State's unemployment compensation services, Industrial Commission rehabilitation services, and the State's three universities are examples of business-type activities.

- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the State are financially accountable. The University Medical Center, the Arizona Power Authority, and the Water Infrastructure Finance Authority are discretely presented component units reported by the State. Based on GASB Statement No. 39, the State has added university foundations and financing authorities whose financial statements are prepared in conformity with U.S. generally accepted accounting principles as adopted by the Financial Accounting Standards Board. These organizations include the ASU Foundation, Arizona Capital Facilities Finance Corporation, the U of A Foundation, and other non-major foundations and financing authorities. Financial statements for these organizations are presented immediately following the government-wide statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by GASB, and include a statement of financial position **(page 40)** and a statement of activities **(page 44)**. See **pages 67-69 and 114-126** for more information on discretely presented component units.

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

The fund financial statements begin on **page 45** and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, **page 160** begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – each category uses different accounting approaches.

- *Governmental funds* – Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the general, special revenue, capital projects, debt service, and permanent funds. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. This report includes two schedules **(pages 46 and 48-49)** that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) reported on the appropriate government-wide statement.

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

- *Proprietary funds* – When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting; the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public – such as the State Lottery Fund and Universities. Internal service funds report activities that provide supplies and services for the State's other programs and activities – such as the State's Risk Management Fund. Internal service fund operations primarily benefit governmental funds and are reported as governmental activities on the government-wide statements. The reconciliation between the government-wide financial statement business-type activities and the proprietary fund financial statements is presented at the end of the financial statements on **pages 52-55.**

Proprietary fund financial statements can be found on pages 50-59 of this report.

- *Fiduciary funds* – The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on **page 60.** These funds, which include pension trust, investment trust, and agency funds are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Fiduciary fund financial statements can be found on pages 60-61 of this report.

Notes to the Financial Statements

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

The notes can be found beginning on page 67 of this report.

Required Supplementary Information

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

Required supplementary information begins on page 129 of this report.

Other Supplementary Information

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

Other supplementary information begins on page 160 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

State of Arizona-Primary Government
Net Assets as of June 30, 2006 and 2005
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2006	2005	2006	2005	2006	2005
Current assets	$ 4,723,241	$ 3,503,360	$ 1,804,687	$ 1,516,254	$ 6,527,928	$ 5,019,614
Capital assets	14,989,475	14,012,830	2,884,950	2,677,802	17,874,425	16,690,632
Other non-current assets	3,555,772	2,955,282	937,469	1,063,599	4,493,241	4,018,881
Total Assets	23,268,488	20,471,472	5,627,106	5,257,655	28,895,594	25,729,127
Current liabilities	2,157,620	2,069,865	539,784	484,636	2,697,404	2,554,501
Non-current liabilities	3,887,329	4,049,808	2,341,478	2,268,310	6,228,807	6,318,118
Total Liabilities	6,044,949	6,119,673	2,881,262	2,752,946	8,926,211	8,872,619
Net assets:						
Invested in capital assets, net of related debt	12,878,151	11,825,961	1,144,374	1,166,954	14,022,525	12,992,915
Restricted net assets	3,560,868	2,938,288	1,400,455	1,232,016	4,961,323	4,170,304
Unrestricted net assets	784,520	(412,450)	201,015	105,739	985,535	(306,711)
Total Net Assets	$ 17,223,539	$ 14,351,799	$ 2,745,844	$ 2,504,709	$ 19,969,383	$ 16,856,508

The largest portion of the State's net assets (70%) represents *capital assets, net of related debt* of $14.0 billion. The State uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the State's investment in its capital assets is reported net of accumulated depreciation and related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The State's net assets also include $5.0 billion (25%) of resources that are subject to external restrictions on how they may be used. The largest restrictions are by the State's Constitution for basic education funded by the earnings of the Land Endowments Fund and by federal regulations for unemployment insurance premiums from employers for funding the Unemployment Compensation Fund. Another major restriction is unspent debt instrument proceeds primarily for the acquisition and construction of federal, state, and local highways.

The remaining balance of the State's net assets of $985.535 million (5%) represents *unrestricted net assets*.

The State's net assets increased $3.1 billion during the current fiscal year. This increase was primarily caused by governmental activities increases for sales taxes, income taxes, gains on the sale of trust land, and capital assets. Additionally, net assets were further increased by business-type activities' increases for the Universities Fund, the Unemployment Compensation Fund, and the Industrial Commission's Special Fund.

State of Arizona-Primary Government
Changes in Net Assets for Fiscal Years Ended June 30, 2006 and 2005
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	$ 721,759	$ 617,659	$ 1,906,465	$ 1,701,249	$ 2,628,224	$ 2,318,908
Operating grants and contributions	7,941,223	7,544,370	852,788	834,421	8,794,011	8,378,791
Capital grants and contributions	388,646	497,140	30,056	19,774	418,702	516,914
General revenues:						
Sales taxes	6,322,311	5,421,949	54,550	57,584	6,376,861	5,479,533
Income taxes	4,548,843	3,562,916	-	-	4,548,843	3,562,916
Tobacco taxes	248,122	237,430	-	-	248,122	237,430
Property taxes	43,035	46,148	-	-	43,035	46,148
Motor vehicle and fuel taxes	1,857,293	1,758,950	-	-	1,857,293	1,758,950
Other taxes	575,946	493,501	-	-	575,946	493,501
Unrestricted investment earnings	172,311	106,362	49,050	40,311	221,361	146,673
Unrestricted grants and contributions	12,293	11,624	-	5	12,293	11,629
Miscellaneous revenue	235,610	387,269	58,816	26,017	294,426	413,286
Gain on sale of trust land	567,364	288,483	-	-	567,364	288,483
Total Revenues	23,634,756	20,973,801	2,951,725	2,679,361	26,586,481	23,653,162
Expenses:						
General government	781,542	646,452	-	-	781,542	646,452
Health and welfare	9,057,733	8,494,206	-	-	9,057,733	8,494,206
Inspection and regulation	159,766	149,238	-	-	159,766	149,238
Education	5,304,555	4,853,458	-	-	5,304,555	4,853,458
Protection and safety	1,279,129	1,171,340	-	-	1,279,129	1,171,340
Transportation	386,777	589,966	-	-	386,777	589,966
Natural resources	187,947	184,538	-	-	187,947	184,538
Intergovernmental revenue sharing	2,658,636	2,335,828	-	-	2,658,636	2,335,828
Interest on long-term debt	172,439	182,852	-	-	172,439	182,852
Universities	-	-	2,759,142	2,540,193	2,759,142	2,540,193
Unemployment compensation	-	-	226,171	292,127	226,171	292,127
Industrial Commission special fund	-	-	(18,300)	106,295	(18,300)	106,295
Lottery	-	-	377,104	317,226	377,104	317,226
Other business-type activities	-	-	136,894	120,629	136,894	120,629
Total Expenses	19,988,524	18,607,878	3,481,011	3,376,470	23,469,535	21,984,348
Excess (deficiency) before contributions, special items and transfers	3,646,232	2,365,923	(529,286)	(697,109)	3,116,946	1,668,814
Contributions to permanent endowments	-	-	3,803	2,955	3,803	2,955
Special item - intergovernmental transfer of Sundome Center for the Performing Arts	-	-	(7,874)	-	(7,874)	-
Transfers	(774,492)	(707,597)	774,492	707,597	-	-
Change in Net Assets	2,871,740	1,658,326	241,135	13,443	3,112,875	1,671,769
Net Assets - July 1	14,351,799	12,693,473	2,504,709	2,491,266	16,856,508	15,184,739
Net Assets - June 30	$ 17,223,539	$ 14,351,799	$ 2,745,844	$ 2,504,709	$ 19,969,383	$ 16,856,508

Change in Net Assets

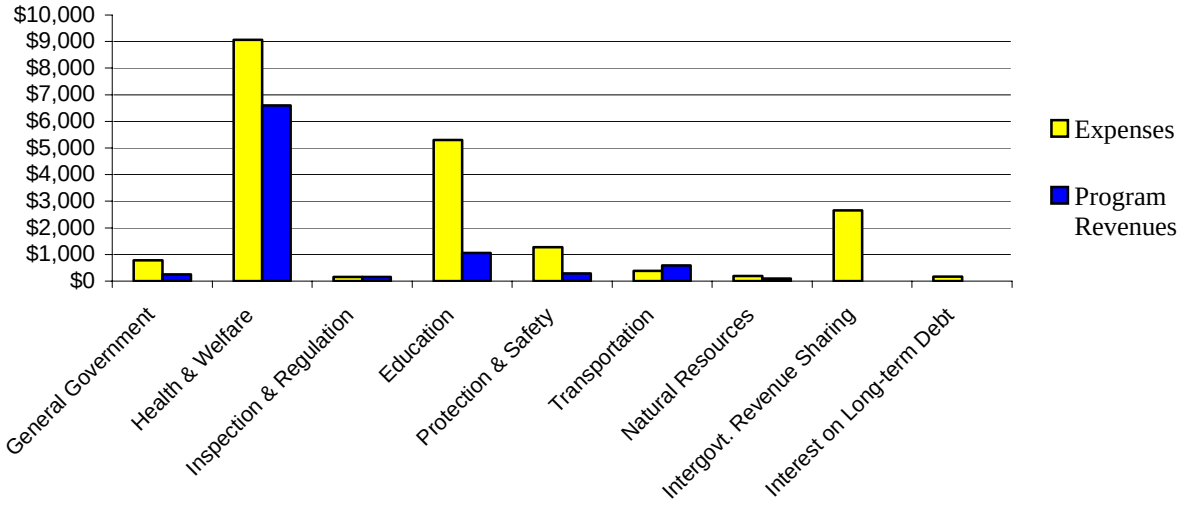
Governmental Activities – Net assets increased by $2.9 billion, or 20%. This increase was primarily attributed to the increases in earned general tax revenues. Reported sales tax and income tax revenue increased by $900.362 million, or 17%, and $985.927 million, or 28%, as compared to fiscal year 2005, respectively. Several key elements have led to this increase. The State ranked fourth, nationally, in terms of the number of jobs added during fiscal year 2006, as reported by Arizona's Department of Economic Security, Research Administration. Furthermore, annual estimates of the U.S. Census Bureau show that Arizona led the nation in population growth, with a 3.5% increase, during fiscal year 2006. Additionally, during fiscal year 2006, personal income growth in Arizona, as reported by the U.S. Bureau of Economic Analysis, increased 7.8%, ranking Arizona sixth among all states in percentage change. Additionally, the State's improved efforts in tax enforcement resulted in the collection of $530.00 million for fiscal year 2006 (an increase of $74.436 million from the prior fiscal year). Another significant contributor to the net asset increase was record auction sales of 3,426 acres in State trust land for gross sales of $544.330 million. In many of these auctions there was intense, competitive bidding which raised the total sales price by approximately 10.5% above the appraised value. Furthermore, net assets were increased by the capitalization of $302.375 million of capital assets that were previously recorded as transportation expenses.

A comparison of the net cost (income) of services by function for the State's governmental activities is shown below for fiscal years 2006 and 2005. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

Governmental Activities
(expressed in thousands)

	Total Cost of Services		Net Cost (Income) of Services	
	2006	2005	2006	2005
Functions/Programs:				
General government	$ 781,542	$ 646,452	$ 525,480	$ 367,749
Health and welfare	9,057,733	8,494,206	2,454,326	2,190,654
Inspection and regulation	159,766	149,238	(678)	1,262
Education	5,304,555	4,853,458	4,247,978	3,881,306
Protection and safety	1,279,129	1,171,340	985,492	924,270
Transportation	386,777	589,966	(200,657)	(43,964)
Natural resources	187,947	184,538	93,880	108,752
Intergovernmental revenue sharing	2,658,636	2,335,828	2,658,636	2,335,828
Interest on long-term debt	172,439	182,852	172,439	182,852
Total Governmental Activities	$19,988,524	$18,607,878	$ 10,936,896	$ 9,948,709

Expenses and Program Revenues
Governmental Activities for Fiscal Year 2006
(in millions of dollars)



Business-type Activities – The net assets increased by $241.135 million, or 10%. This increase was primarily caused by the net increase of the Unemployment Compensation Fund of $129.536 million; a net increase in the Universities Fund of $48.523 million; and a decrease in the Industrial Commission's Special Fund deficit of $83.116 million. The increase in net assets from the Unemployment Compensation Fund was primarily caused by an increase in employer assessments (wages subject to unemployment tax rose 11% during the 12 months ending December 31, 2005) and a decline in the cost of sales and benefits (the amount of unemployment benefits paid decreased 23% during fiscal year 2006). The increase in net assets for the Universities Fund was primarily attributed to increases in non-operating revenues, including gains on sale of land, increased State appropriations, investment income, and gifts and donations. The Industrial Commission's Special Fund deficit decreased primarily due to a decrease in insolvent carrier liabilities. Insolvent carrier liability decreased during fiscal year 2006, because there was an insignificant number of new workers' compensation cases being assigned to the State Compensation Fund under ARS §23-966. In addition, during fiscal year 2006, $19.000 million was transferred from the Industrial Commission's Administrative Fund to the Special Fund.

A comparison of the net cost (income) of services by function for the State's business-type activities is shown below for fiscal years 2006 and 2005. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

Business-type Activities
(expressed in thousands)

	Total Cost of Services		Net Cost (Income) of Services	
	2006	2005	2006	2005
Functions/Programs:				
Universities	$ 2,759,142	$ 2,540,193	$ 957,929	$ 871,465
Unemployment Compensation	226,171	292,127	(132,076)	(25,969)
Industrial Commission Special Fund	(18,300)	106,295	(52,394)	49,248
Lottery	377,104	317,226	(91,593)	(80,335)
Other	136,894	120,629	9,836	6,617
Total Business-type Activities	$ 3,481,011	$ 3,376,470	$ 691,702	$ 821,026

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

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

General Fund

The General Fund is the chief operating fund of the State. At June 30, 2006, unreserved fund balance of the General Fund was $1.4 billion, while total fund balance closed the year at $2.3 billion. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and other financing uses. Unreserved fund balance represents 8% of total expenditures and other financing uses, while total fund balance represents 13% of the same amount.

The fund balance of the State's General Fund increased by $955.736 million during the fiscal year. The primary source of the increase in fund balance is from the increase of sales tax and income tax revenues. Sales tax revenues increased $881.221 million from fiscal year 2005, an increase of 19%. Sales taxes paid by retail stores and construction contractors increased approximately $387.765 million and $253.975 million, respectively, when compared to fiscal year 2005 sales tax receipts. Income tax revenues increased $1.0 billion, an increase of 29%. Income taxes paid by individuals increased by approximately $812.594 million, when compared to fiscal year 2005 individual income tax receipts. In addition, income taxes paid by corporations increased approximately $194.338 million during the same period.

Health and welfare expenditures and intergovernmental revenue increased by $568.922 million, or 7%, and $399.100 million, or 6%, as compared to fiscal year 2005, respectively. Overall program enrollment in the State's various healthcare programs declined .2%. However, the cost of healthcare programs, including the Social Security Act Titles XIX (Medicaid) and XXI (State Children's Health Insurance Program), were major contributing factors to an increase in health and welfare expenditures during fiscal year 2006. Utilization and inflationary trends for health care costs are incorporated into a rate development process for the managed care organization capitation rates. The capitation rates were increased by a weighted average of 8% for the contract period of October 2005 to September 2006, primarily due to pharmacy, physician, and inpatient costs. The State received additional intergovernmental revenue (including federal grants and county funding) to cover a major portion of these increased costs.

Education expenditures increased $379.944 million, or 9%, compared to fiscal year 2005. The increase can be primarily attributed to an increase of approximately $216.000 million in State assistance for kindergarten through twelfth grade (K-12) operating expenditures largely to support an increase of 40,543 student enrollments and a 3.2% inflation adjustment. In addition, expenditures for full day kindergarten increased approximately $22.000 million and programs supported by federal grant aid increased by approximately $57.000 million during fiscal year 2006.

Transportation and Aviation Planning, Highway Maintenance and Safety Fund

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund is responsible for the repair and maintenance of existing roads, paying the debt service for roads that are built from the issuance of revenue bonds, and providing technical assistance with road construction provided by contractors hired by the Arizona Department of Transportation. Total fund balance increased $52.124 million during fiscal year 2006. Fund balance increased primarily due to a $98.361 million increase in motor vehicle and fuel tax revenues and a $39.365 million increase in licenses, fees, and permits due to increased population, which tends to follow job growth. Also, distributions to other State agencies were $118.000 million less than fiscal year's 2005 distributions due to 2004 Senate Bill 1314, which required an additional $118.000 million to be transferred from vehicle license tax revenues to the State's General Fund in fiscal year 2005. Fund balance increases were offset, in part, due to a $103.952 million increase in distributions to Arizona counties and cities, as a result of increased motor vehicle and fuel tax collections, and a $91.407 million decrease in intergovernmental revenues.

Land Endowments Fund

The fund was established when the federal government granted Arizona statehood. Both the State's Constitution and the federal government require that the land grants given to the State be maintained indefinitely, and the earnings from the land grants should be used for public education, primarily K-12. The Land Endowments Fund total fund balance increased $326.494 million during fiscal year 2006. Permanent fund endowment investments increased $311.657 million, at fiscal year end, due to record receipts from State Trust land sales and a net increase in the fair value of investments of $71.006 million.

Proprietary funds

The business-type activities discussion for the fund level financial statements of the State's enterprise funds provide the same type of information found in the government-wide financial statements analysis on **page 29**.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Budgetary Comparison Schedules for the major governmental funds are in the Required Supplementary Information section beginning on **page 129**. Differences between the original budget and the final amended budget resulted in a $657.075 million increase in appropriations for the General Fund, before adjustments. The following comments summarize current year budgetary results:

- Some of the primary reasons for the General Fund appropriations $657.075 million increase were 1) $192.021 million of prior fiscal year obligations that were paid in the current fiscal year per ARS §35-191; 2) $191.294 million for the Department of Education's deferral of Basic State Aid and Additional State Aid payments to school districts; 3) $16.163 million supplemental appropriation for the Arizona Health Care Cost Containment System's Disproportionate Share Hospital program; 4) $38.050 million to the Department of Education for full-day kindergarten funding; 5) $16.564 million to the Department of Education, primarily for increases to Basic State Aid Entitlement and achievement testing; 6) $20.000 million for the Parks Board Growing Smarter transfer to the Land Conservation Fund per ARS §41-511.23; 7) $39.854 million for a 2.5% performance pay adjustment and increase of $1,650 for each full-time equivalent position beginning March 11, 2006. The original General Fund appropriation total was $13.2 billion, before adjustments. The final General Fund appropriation total was $13.9 billion, before adjustments.

- The difference between the final budget and actual expenditures was $543.405 million, after adjustments. Of this amount, $69.861 million will continue as legislative multiple fiscal year spending authority for fiscal year 2007 and beyond, depending upon the budgetary guidelines of the Legislature. The remaining $473.544 million represents the unused portion of the State's legislatively authorized annual operating budget.

Additional budgetary information can be found on pages 149-150 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets:

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2006 totaled $17.9 billion, net of accumulated depreciation. The total primary government increase in capital assets for the current period was 7%, with a 7% increase in capital assets used for governmental activities and an 8% increase for business-type activities. Depreciation charges of the governmental and business-type activities for the fiscal year totaled $279.010 million.

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

- The Universities' additions to capital assets totaled approximately $501.933 million and included increased investments in instruction and research facilities.

- The Department of Transportation started or completed roads and bridges totaling $1.4 billion during the fiscal year.

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

Capital assets for the governmental and business-type activities as of June 30, 2006 are presented below (expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	$ 2,227,782	$ 1,980,978	$ 143,587	$ 143,195	$ 2,371,369	$ 2,124,173
Buildings	1,527,996	1,515,343	3,101,431	2,709,694	4,629,427	4,225,037
Improvements other than buildings	133,624	142,563	3,601	3,600	137,225	146,163
Equipment	696,119	666,417	1,166,876	1,108,706	1,862,995	1,775,123
Collections (non-depreciable)	-	-	34,159	33,130	34,159	33,130
Infrastructure	9,386,364	8,870,232	305,975	289,215	9,692,339	9,159,447
Construction in progress	2,036,194	1,785,351	163,030	284,181	2,199,224	2,069,532
Less accumulated depreciation	(1,018,604)	(948,054)	(2,033,709)	(1,893,919)	(3,052,313)	(2,841,973)
Total	$ 14,989,475	$ 14,012,830	$ 2,884,950	$ 2,677,802	$ 17,874,425	$ 16,690,632

See Note 4, capital assets, beginning on **page 90** for additional capital asset data.

As provided by GASB Statement 34, the State has elected to record its infrastructure assets, that the Department of Transportation is responsible for maintaining, using the modified approach. Assets accounted for under the modified approach include 6,922 center lane miles (18,668 travel lane miles) and 4,676 bridges.

The State manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The State's serviceability rating goal is 3.23 for the overall system. The most recent assessment indicated that an overall rating of 3.52 was achieved for fiscal year 2006.

The State manages its bridges using the Arizona Bridge Information and Storage System (ABISS). The State determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the State to maintain a Condition Rating Index (CRI) of 92.5% or better. In fiscal year 2006, a CRI of 93.8% was obtained.

In addition to many smaller projects, each of the following major highway construction projects in excess of $20.000 million were started during fiscal year 2006 (expressed in thousands):

Project Description	Contract Start Date	Contract Amount	Current Year Expenditures
Widen roadway on US 60 from Gilbert Road to Power Road within the City of Mesa, in Maricopa County.	09/23/05	$ 73,705	$ 37,153
Construction of State Route Loop 202 from Power Road to University Drive within the City of Mesa, in Maricopa County.	12/19/05	195,340	34,091
Construction of State Route Loop 202 from University Drive to Southern Avenue within the City of Mesa, in Maricopa County.	10/24/05	67,415	24,065
Reconstruct roadway to a four lane divided highway on US 93, in Yavapai County.	09/23/05	25,472	10,302
Reconstruction of the intersection of US 89 and I-40B within the City of Flagstaff, in Coconino County.	11/22/05	30,480	6,398
Reconstruction at the intersection of I-40 and North Park Drive within the City of Winslow, in Navajo County.	10/25/05	20,629	5,578

In addition to many smaller projects, the following major highway construction projects had expenditures in excess of $15.000 million in fiscal year 2006 (expressed in thousands):

Project Description	Project Expenditures
Construction at the interchange of State Route Loop 202 and US 60, in Maricopa County.	$ 50,944
Construction of State Route Loop 202 from Power Road to University Drive, in Maricopa County.	43,694
Construction of State Route Loop 202 from Frye Road to Power Road, in Maricopa County.	43,013
Widen roadway on US 60 from Gilbert Road to Power Road, in Maricopa County.	40,130
Construction of State Route Loop 202 from Gilbert Road to Frye Road, in Maricopa County.	36,549
Construction of State Route Loop 202 from University Drive to Southern Avenue, in Maricopa County.	26,088
Construction on US 93 north of Wickenburg, in Mohave County.	22,912
Construction on US 60 at 59th Avenue and Glendale Avenue, in Maricopa County.	21,306
Construction of State Route Loop 202 from Power Road to Elliot Road, in Maricopa County.	20,162

Capital assets financed by debt instruments do not generate funds to repay the debt instruments.

More detailed information regarding capital assets are on pages 90 and 91.

Long-term debt:

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

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

- The Department of Transportation issued revenue bonds for $265.650 million to (i) finance portions of the Transportation Board's Five Year Transportation Facilities Construction Program, (ii) pay the costs of issuing the bonds, (iii) pay interest on any bonds issued for highway purposes, and (iv) advance refund portions of previously issued revenue bonds with a total outstanding principal balance of $148.750 million.

- The School Facilities Board issued $448.760 million of revenue bonds to advance refund portions of previously issued revenue bonds with a total outstanding principal balance of $446.680 million.

- The Universities issued revenue bonds for $68.470 million to fund the acquisition, construction or renovation of capital facilities and infrastructure. Furthermore, proceeds were used to pay principal and/or interest payments on the University of Arizona's previously issued revenue bonds.

- The Universities issued $175.027 million of certificates of participation to (i) fund building and infrastructure projects, (ii) current-refund previously issued certificates of participation with a total outstanding principal of $62.100 million, (iii) refund previously issued certificates of participation with a total outstanding principal of $9.845 million in advance of maturity, and (iv) pay principal and/or interest payments on some of the University of Arizona's previously issued certificates of participation.

State of Arizona-Primary Government
Outstanding Major Long-Term Debt as of June 30, 2006
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue bonds	$ 2,106,700	$ 2,170,845	$ 802,600	$ 768,000	$ 2,909,300	$ 2,938,845
Grant anticipation notes	325,430	363,970	-	-	325,430	363,970
Certificates of participation	1,020,810	1,054,677	946,766	860,759	1,967,576	1,915,436
Total	$ 3,452,940	$ 3,589,492	$ 1,749,366	$ 1,628,759	$ 5,202,306	$ 5,218,251

More detailed information regarding long-term debt begins on page 95.

ECONOMIC CONDITION AND OUTLOOK

Arizona's economy outpaced the nation in fiscal year 2006, with solid growth in labor markets, population, and personal income. As previously mentioned, the State ranked fourth, nationally, in terms of the number of jobs added during fiscal year 2006, as reported by Arizona's Department of Economic Security, Research Administration. Furthermore, annual estimates of the U.S. Census Bureau show that Arizona led the nation in population growth, with a 3.5% increase, during fiscal year 2006. Additionally, during fiscal year 2006, personal income growth in Arizona, as reported by the U.S. Bureau of Economic Analysis, increased 7.8%, ranking Arizona sixth among all states in percentage change.

Arizona's economy is projected to see a moderation of growth in 2007. Job growth was expected to slow in the second half of 2006, with further slowing in 2007, as the housing market and growth in consumer spending slows down. Nevertheless, Arizona's economy was projected to grow at a faster rate than the nation in 2006 and 2007, according to the forecast update of the Arizona Department of Economic Security, Research Administration.

CONTACTING THE STATE COMPTROLLER'S OFFICE

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

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. Contact information regarding the component units begins on **page 68**.

BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

STATE OF ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2006
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash	$ 7,611	$ 158,994	$ 166,605	$ 14,783
Cash with U.S. Treasury	-	902,130	902,130	-
Cash and pooled investments with State Treasurer	3,471,382	244,890	3,716,272	141,371
Restricted cash and pooled investments with State Treasurer	-	88,486	88,486	-
Cash held by trustee	-	-	-	126,815
Collateral investment pool	-	77,666	77,666	-
Short-term investments	-	146,674	146,674	85,848
Restricted investments held by trustee	-	-	-	2,818
Receivables, net of allowances:				
Taxes	521,006	71,945	592,951	-
Interest	62,096	3,889	65,985	7,820
Loans and notes	28,406	11,625	40,031	-
Other	130,347	91,020	221,367	70,203
Internal balances	91,684	(91,684)	-	-
Due from U.S. Government	368,014	64,217	432,231	-
Due from local governments	1,461	120	1,581	-
Due from others	1	-	1	-
Inventories, at cost	18,646	29,123	47,769	10,102
Other current assets	22,587	5,592	28,179	7,513
Total Current Assets	4,723,241	1,804,687	6,527,928	467,273
Noncurrent Assets:				
Restricted assets:				
Cash	2,271	20,163	22,434	-
Cash and pooled investments with State Treasurer	740,978	872	741,850	-
Cash held by trustee	16,089	149,931	166,020	-
Investments	2,882	32,696	35,578	-
Investments held by trustee	-	52,214	52,214	161,062
Receivables, net of allowances:				
Loans and notes	707,962	39,531	747,493	574,935
Other	-	6,563	6,563	-
Securities held in escheat	52,742	-	52,742	-
Investments	-	346,969	346,969	80,896
Endowment investments	2,032,848	270,542	2,303,390	-
Other noncurrent assets	-	17,988	17,988	49,820
Capital assets:				
Infrastructure, land, and other non-depreciable	13,643,731	340,776	13,984,507	36,072
Depreciable buildings, property and equipment, net of accumulated depreciation	1,345,744	2,544,174	3,889,918	86,031
Total Noncurrent Assets	18,545,247	3,822,419	22,367,666	988,816
Total Assets	$ 23,268,488	$ 5,627,106	$ 28,895,594	$ 1,456,089

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

(Continued)

STATE OF ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2006
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	$ 443,908	$ 116,781	$ 560,689	$ 37,488
Accrued liabilities	534,117	69,378	603,495	21,617
Obligations under securities loan agreements	-	77,666	77,666	-
Tax refunds payable	417	-	417	-
Due to U.S. Government	7,990	9	7,999	-
Due to local governments	460,779	7,698	468,477	-
Due to others	102,811	71,410	174,221	-
Unearned deferred revenue	104,570	93,494	198,064	-
Current portion of accrued insurance losses	53,366	27,304	80,670	5,013
Current portion of long-term debt	230,797	65,422	296,219	31,770
Current portion of other long-term liabilities	218,865	10,622	229,487	4,878
Total Current Liabilities	2,157,620	539,784	2,697,404	100,766
Noncurrent Liabilities:				
Unearned deferred revenue	6,006	34,770	40,776	2,355
Contracts payable	-	2,125	2,125	-
Accrued insurance losses	313,834	382,939	696,773	9,733
Funds held for others	-	45,095	45,095	-
Long-term debt	3,560,892	1,824,336	5,385,228	867,820
Other long-term liabilities	6,597	52,213	58,810	9,139
Total Noncurrent Liabilities	3,887,329	2,341,478	6,228,807	889,047
Total Liabilities	6,044,949	2,881,262	8,926,211	989,813
NET ASSETS				
Invested in capital assets, net of related debt	12,878,151	1,144,374	14,022,525	10,240
Restricted for:				
Federal grants	63,219	-	63,219	-
Capital projects	561,795	6,106	567,901	-
Unemployment Compensation	-	949,919	949,919	-
Debt service	44,846	9,198	54,044	19,489
Permanent funds and University funds:				
Expendable	19,244	189,746	208,990	-
Nonexpendable	2,785,419	178,001	2,963,420	-
Loans and other financial assistance: expendable	-	67,423	67,423	261,156
Other purposes	86,345	62	86,407	-
Unrestricted	784,520	201,015	985,535	175,391
Total Net Assets	$ 17,223,539	$ 2,745,844	$ 19,969,383	$ 466,276

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

STATE OF ARIZONA
STATEMENT OF FINANCIAL POSITION
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

ASSETS		
Cash and cash equivalent investments	$	80,427
Receivables:		
Pledges receivable		128,740
Other receivables		11,194
Total receivables		139,934
Investments:		
Investments in securities		812,999
Investments held in trust for Universities		69,156
Other investments		64,847
Total investments		947,002
Net direct financing leases		72,709
Property and equipment, net of accumulated depreciation		269,644
Other assets		56,135
Total Assets		1,565,851
LIABILITIES		
Liability under Universities' endowment trust agreements		89,821
Bonds payable		463,967
Unearned revenue		20,770
Other liabilities		42,705
Total Liabilities		617,263
NET ASSETS		
Permanently restricted		596,752
Temporarily restricted		279,168
Unrestricted		72,668
Total Net Assets	$	948,588

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

(This page intentionally left blank)

STATE OF ARIZONA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

		PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	$ 781,542	$ 161,664	$ 94,398	$ -
Health and welfare	9,057,733	79,806	6,523,453	148
Inspection and regulation	159,766	146,191	14,251	2
Education	5,304,555	33,390	1,023,187	-
Protection and safety	1,279,129	110,814	182,823	-
Transportation	386,777	134,068	65,752	387,614
Natural resources	187,947	55,826	37,359	882
Intergovernmental revenue sharing	2,658,636	-	-	-
Interest on long-term debt	172,439	-	-	-
Total Governmental Activities	19,988,524	721,759	7,941,223	388,646
Business-type Activities:				
Universities	2,759,142	962,967	808,190	30,056
Unemployment Compensation	226,171	314,237	44,010	-
Industrial Commission Special Fund	(18,300)	34,094	-	-
Lottery	377,104	468,697	-	-
Other	136,894	126,470	588	-
Total Business-type Activities	3,481,011	1,906,465	852,788	30,056
Total Primary Government	$ 23,469,535	$ 2,628,224	$ 8,794,011	$ 418,702
COMPONENT UNITS:				
Water Infrastructure Finance Authority	$ 19,249	$ 18,670	$ 20,952	$ -
University Medical Center	392,602	406,697	-	-
Arizona Power Authority	26,612	26,329	-	-
Total Component Units	$ 438,463	$ 451,696	$ 20,952	$ -

General Revenues:
Taxes:
Sales
Income
Tobacco
Property
Motor vehicle and fuel
Other
Unrestricted investment earnings
Unrestricted grants and contributions
Gain on sale of trust land
Miscellaneous
Contributions to permanent endowments
Special Item - intergovernmental transfer of
Sundome Center for the Performing Arts
Transfers
Total General Revenues, Contributions, Gains, Special Items, and Transfers
Change in Net Assets
Net Assets - Beginning
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
$ (525,480)		$ (525,480)	
(2,454,326)		(2,454,326)	
678		678	
(4,247,978)		(4,247,978)	
(985,492)		(985,492)	
200,657		200,657	
(93,880)		(93,880)	
(2,658,636)		(2,658,636)	
(172,439)		(172,439)	
(10,936,896)		(10,936,896)	
	$ (957,929)	(957,929)	
	132,076	132,076	
	52,394	52,394	
	91,593	91,593	
	(9,836)	(9,836)	
	(691,702)	(691,702)	
(10,936,896)	(691,702)	(11,628,598)	
			$ 20,373
			14,095
			(283)
			34,185
6,322,311	54,550	6,376,861	-
4,548,843	-	4,548,843	-
248,122	-	248,122	-
43,035	-	43,035	-
1,857,293	-	1,857,293	-
575,946	-	575,946	-
172,311	49,050	221,361	19,817
12,293	-	12,293	-
567,364	-	567,364	-
235,610	58,816	294,426	95
-	3,803	3,803	-
-	(7,874)	(7,874)	-
(774,492)	774,492	-	-
13,808,636	932,837	14,741,473	19,912
2,871,740	241,135	3,112,875	54,097
14,351,799	2,504,709	16,856,508	412,179
$ 17,223,539	$ 2,745,844	$ 19,969,383	$ 466,276

STATE OF ARIZONA
STATEMENT OF ACTIVITIES
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions	$ 15,165	$ 98,851	$ 83,815	$ 197,831
Rental revenue	22,361	-	-	22,361
Sales and services	26,822	120	-	26,942
Net investment income	16,216	16,200	34,899	67,315
Net assets released from restrictions	100,935	(108,910)	7,975	-
Capital lease revenue	92	-	-	92
Other revenues	19,430	10,311	153	29,894
Total Revenues	201,021	16,572	126,842	344,435
EXPENSES				
Program services:				
Payments to Universities	72,724	-	-	72,724
Leasing related expenses	6,265	-	-	6,265
Payments on behalf of Universities	22,361	-	-	22,361
Other program services	16,210	-	-	16,210
Personal services, operations, and administrative expenses	39,471	-	-	39,471
Fundraising expenses	7,465	-	-	7,465
Interest	8,955	-	-	8,955
Other expenses	9,605	-	-	9,605
Total Expenses	183,056	-	-	183,056
Increase in Net Assets	17,965	16,572	126,842	161,379
Net Assets - Beginning, as restated	54,121	264,487	468,601	787,209
Transfers	582	(1,891)	1,309	-
Net Assets - Ending	$ 72,668	$ 279,168	$ 596,752	$ 948,588

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

STATE OF ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	GENERAL FUND	TRANSPORTATION & AVIATION PLANNING, HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS					
Cash	$ 1,769	$ -	$ 28	$ 5,814	$ 7,611
Cash and pooled investments with State Treasurer	2,298,635	144,645	61,305	852,371	3,356,956
Receivables, net of allowances:					
Taxes	431,202	70,212	-	19,592	521,006
Interest	27,008	1,681	30,549	2,846	62,084
Loans and notes	-	9,464	726,904	-	736,368
Other	84,974	8,493	4,628	25,353	123,448
Due from U.S. Government	339,631	26,759	-	-	366,390
Due from local governments	1,461	-	-	-	1,461
Due from others	-	-	-	1	1
Due from other Funds	263,600	20,000	392	59,665	343,657
Inventories, at cost	10,299	5,005	-	369	15,673
Restricted assets:					
Cash	2,271	-	-	-	2,271
Cash and pooled investments with State Treasurer	122,274	595,049	-	23,655	740,978
Cash held by trustee	12,330	-	-	3,759	16,089
Investments	2,882	-	-	-	2,882
Securities held in escheat	52,742	-	-	-	52,742
Endowment investments	-	-	2,032,848	-	2,032,848
Other	216	8,128	-	1	8,345
Total Assets	$ 3,651,294	$ 889,436	$ 2,856,654	$ 993,426	$ 8,390,810
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	$ 258,799	$ 88,786	$ 7,072	$ 33,102	$ 387,759
Accrued liabilities	208,559	11,784	191	77,983	298,517
Tax refunds payable	417	-	-	-	417
Due to U.S. Government	7,990	-	-	-	7,990
Due to local governments	282,118	127,684	-	50,977	460,779
Due to others	102,760	-	-	51	102,811
Due to other Funds	44,784	200,990	13,107	28,941	287,822
Unavailable deferred revenue	401,733	9,464	760,574	1,389	1,173,160
Unearned deferred revenue	77,996	-	31,621	959	110,576
Total Liabilities	1,385,156	438,708	812,565	193,402	2,829,831
Fund Balances:					
Reserved for:					
Budget stabilization fund	651,020	-	-	-	651,020
Highway construction	-	405,571	-	20,444	426,015
Other construction	-	-	-	6,256	6,256
School facilities improvements	110,149	-	-	-	110,149
Permanent funds	-	-	2,043,591	-	2,043,591
Continuing appropriations	69,861	79,832	498	38,341	188,532
Debt service	-	-	-	37,792	37,792
Other fund balance reservations	302	5,005	-	140	5,447
Unreserved	1,434,806	(39,680)	-	-	1,395,126
Unreserved reported in:					
Non-major special revenue funds	-	-	-	697,051	697,051
Total Fund Balances	2,266,138	450,728	2,044,089	800,024	5,560,979
Total Liabilities and Fund Balances	$ 3,651,294	$ 889,436	$ 2,856,654	$ 993,426	$ 8,390,810

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, 2006

(Expressed in Thousands)

Total fund balances - governmental funds		$ 5,560,979
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.		14,919,764
Receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,173,160
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.		(245,684)
The allocation of internal service fund net loss results in an amount due from business-type activities, which is not reported in the funds.		34,500
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.		7,066
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	(2,106,700)	
Grant anticipation notes	(325,430)	
Certificates of participation	(1,020,810)	
Capital leases	(118,678)	
Installment purchase contracts	(6,815)	
Premium on debt	(219,958)	
Deferred amount on refundings	17,832	(3,780,559)
Accrued liabilities for AHCCCS programmatic costs and reimbursements are not due and payable from current financial resources and, therefore, are not reported in the funds.		(237,071)
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	(122,000)	
Claims and judgments	(91,116)	(213,116)
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:		
Other long-term assets		4,500
Net assets of governmental activities		$ 17,223,539

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, 2006
(Expressed in Thousands)

	GENERAL FUND	TRANSPORTATION & AVIATION PLANNING, HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
REVENUES					
Taxes:					
Sales	$ 5,427,713	$ 316,491	$ -	$ 568,886	$ 6,313,090
Income	4,535,454	-	-	38	4,535,492
Tobacco	64,078	-	-	184,044	248,122
Property	29,117	13,686	-	232	43,035
Motor vehicle and fuel	587	1,856,682	-	24	1,857,293
Other	467,428	-	-	108,518	575,946
Intergovernmental	7,532,085	453,502	41	33,881	8,019,509
Licenses, fees, and permits	106,244	121,179	-	182,646	410,069
Earnings on investments	116,618	17,717	75,126	37,789	247,250
Sales and charges for services	89,593	1,214	13,729	57,512	162,048
Fines, forfeitures, and penalties	18,087	-	-	120,267	138,354
Gaming	6,008	-	-	78,786	84,794
Tobacco settlement	86,231	-	-	-	86,231
Other	97,532	9,607	17,939	144,333	269,411
Total Revenues	18,576,775	2,790,078	106,835	1,516,956	22,990,644
EXPENDITURES					
Current:					
General government	749,992	-	28	111,353	861,373
Health and welfare	8,657,773	-	6,290	331,367	8,995,430
Inspection and regulation	53,422	-	-	103,979	157,401
Education	4,713,730	-	50,622	538,590	5,302,942
Protection and safety	1,129,320	-	5,911	112,277	1,247,508
Transportation	76	370,358	-	3,169	373,603
Natural resources	66,892	-	-	111,940	178,832
Intergovernmental revenue sharing	1,470,931	1,190,963	-	-	2,661,894
Debt service:					
Principal	17,861	-	-	243,416	261,277
Interest and other fiscal charges	39,339	2,748	-	134,846	176,933
Capital outlay	85,736	731,072	343	249,664	1,066,815
Total Expenditures	16,985,072	2,295,141	63,194	1,940,601	21,284,008
Excess (Deficiency) of Revenues Over Expenditures	1,591,703	494,937	43,641	(423,645)	1,706,636
OTHER FINANCING SOURCES (USES)					
Transfers in	277,982	3,926	131	530,044	812,083
Transfers out	(917,492)	(457,857)	(1,571)	(208,834)	(1,585,754)
Proceeds from sale of trust land	-	-	284,293	-	284,293
Proceeds from sale of capital assets	-	11,118	-	-	11,118
Capital lease and installment purchase contracts	3,543	-	-	-	3,543
Refunding bonds issued	-	-	-	596,160	596,160
Payment to refunded bond escrow agent	-	-	-	(646,689)	(646,689)
Bonds issued	-	-	-	118,250	118,250
Premium on bonds issued	-	-	-	59,711	59,711
Total Other Financing Sources (Uses)	(635,967)	(442,813)	282,853	448,642	(347,285)
Net Change in Fund Balances	955,736	52,124	326,494	24,997	1,359,351
Fund Balances - Beginning	1,310,402	398,604	1,717,595	775,027	4,201,628
Fund Balances - Ending	$ 2,266,138	$ 450,728	$ 2,044,089	$ 800,024	$ 5,560,979

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, 2006

(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 1,359,351
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	1,066,815	
Depreciation expense	(95,527)	971,288
The net loss of internal service funds that is included with governmental activities in the Statement of Activities.		(39,812)
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	17,036	
Sales taxes	9,221	
Income taxes	13,351	
Accrued interest on land sales contracts	26,179	
Other revenue	3,508	69,295
Trust land sales are financed with long-term mortgages. In the Statement of Activities, the gain on sale of trust land is reported, whereas in the governmental funds, the proceeds from the collection of mortgage payments are reported.		283,071
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.		
Kerr vs. Killian lawsuit	(15,000)	
AHCCCS accrued programmatic costs	(31,965)	
Other noncurrent expenses	(423)	(47,388)
Certain expenditures that are reported in the funds in the current year, but were incurred in prior fiscal years, are not reported in the Statement of Activities.		
Ladewig vs. State of Arizona lawsuit	49,539	
Accrued contract payable	48,079	
Compensated absences	18,271	115,889

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

(Continued)

STATE OF ARIZONA

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

(Expressed in Thousands)

The estimated liability for the Ladewig vs. State of Arizona lawsuit, which was accrued at the government-wide level in fiscal year 2005, has been revised, in the State's favor, in fiscal year 2006. This accrual was not financed from current financial resources in fiscal year 2005 and, therefore, was not reported in the fund statements in fiscal year 2005.		25,250
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	(118,250)	
Refunding bonds issued	(596,160)	
Premium on bonds issued	(59,711)	
Deferred amount on debt refunding	21,398	(752,723)
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	261,277	
Payment to refunded bond escrow agent	595,430	
Debt premium/discount amortization	37,921	
Amortization of deferred amount	(3,566)	891,062
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.		(3,543)
Change in net assets of governmental activities		$ 2,871,740

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

STATE OF ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
ASSETS					
Current Assets:					
Cash	$ 115,576	$ -	$ 42,750	$ -	$ 668
Cash with U.S. Treasury	-	902,130	-	-	-
Cash and pooled investments with State Treasurer	145,863	-	13,345	56,589	29,093
Restricted cash and pooled investments with State Treasurer	-	-	-	-	88,486
Collateral investment pool	27,916	-	49,750	-	-
Short-term investments	146,632	-	-	-	42
Receivables, net of allowances:					
Taxes	-	67,287	4,658	-	-
Interest	1,251	-	2,175	-	463
Loans and notes	4,139	-	-	-	7,486
Other	71,901	7,882	1,489	3,489	6,259
Due from U.S. Government	64,146	-	-	-	71
Due from local governments	-	-	-	-	120
Due from other Funds	-	-	-	-	131,310
Inventories, at cost	19,172	-	-	2,897	7,054
Other current assets	4,960	-	-	-	632
Total Current Assets	601,556	977,299	114,167	62,975	271,684
Noncurrent Assets:					
Restricted assets:					
Cash	20,163	-	-	-	-
Cash and pooled investments with State Treasurer	-	-	-	-	872
Cash held by trustee	149,931	-	-	-	-
Investments	32,696	-	-	-	-
Investments held by trustee	52,159	-	55	-	-
Receivables, net of allowances:					
Loans and notes	29,424	-	-	-	10,107
Other	6,563	-	-	-	-
Investments	118,270	-	228,699	-	-
Endowment investments	270,542	-	-	-	-
Other long-term assets	10,672	-	-	7,316	-
Capital assets:					
Infrastructure, land, and other non-depreciable	332,348	-	2,996	1,110	4,322
Depreciable buildings, property and equipment, net of accumulated depreciation	2,506,352	-	18,552	2,563	16,707
Total Noncurrent Assets	3,529,120	-	250,302	10,989	32,008
Total Assets	4,130,676	977,299	364,469	73,964	303,692

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
$ 158,994	$ -
902,130	-
244,890	114,426
88,486	-
77,666	-
146,674	-
71,945	-
3,889	11
11,625	-
91,020	6,899
64,217	-
120	-
131,310	3,467
29,123	2,973
5,592	7,176
2,027,681	134,952
20,163	-
872	-
149,931	-
32,696	-
52,214	-
39,531	-
6,563	-
346,969	-
270,542	-
17,988	-
340,776	-
2,544,174	69,711
3,822,419	69,711
5,850,100	204,663

(Continued)

STATE OF ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	95,723	-	14,126	2,606	4,326
Accrued liabilities	43,247	17,836	-	-	8,295
Obligations under securities loan agreements	27,916	-	49,750	-	-
Due to U.S. Government	-	9	-	-	-
Due to local governments	-	-	-	7,698	-
Due to others	27,642	8,777	-	34,856	135
Due to other Funds	-	758	-	17,176	170,560
Unearned deferred revenue	81,805	-	-	-	11,689
Current portion of accrued insurance losses	-	-	27,304	-	-
Current portion of long-term debt	65,422	-	-	-	-
Current portion of other long-term liabilities	9,413	-	-	363	846
Total Current Liabilities	351,168	27,380	91,180	62,699	195,851
Noncurrent Liabilities:					
Unearned deferred revenue	34,770	-	-	-	-
Contracts payable	-	-	-	-	2,125
Accrued insurance losses	-	-	382,939	-	-
Funds held for others	45,095	-	-	-	-
Long-term debt	1,824,296	-	-	-	40
Other long-term liabilities	52,145	-	-	-	68
Total Noncurrent Liabilities	1,956,306	-	382,939	-	2,233
Total Liabilities	2,307,474	27,380	474,119	62,699	198,084
NET ASSETS					
Invested in capital assets, net of related debt	1,098,164	-	21,548	3,673	20,989
Restricted for:					
Capital projects	6,106	-	-	-	-
Unemployment compensation	-	949,919	-	-	-
Debt service	9,198	-	-	-	-
University funds:					
Expendable	189,746	-	-	-	-
Nonexpendable	178,001	-	-	-	-
Loans and other financial assistance:					
Expendable	-	-	-	-	67,423
Other	-	-	-	-	62
Unrestricted (deficit)	341,987	-	(131,198)	7,592	17,134
Total Net Assets	$ 1,823,202	$ 949,919	$ (109,650)	$ 11,265	$ 105,608

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 FUNDS
116,781	56,149
69,378	1,404
77,666	-
9	-
7,698	-
71,410	-
188,494	2,118
93,494	-
27,304	53,366
65,422	2,579
10,622	7,891
728,278	123,507
34,770	-
2,125	-
382,939	313,834
45,095	-
1,824,336	8,551
52,213	4,455
2,341,478	326,840
3,069,756	450,347
1,144,374	58,581
6,106	-
949,919	-
9,198	-
189,746	-
178,001	-
67,423	-
62	-
235,515	(304,265)
$ 2,780,344	$ (245,684)
(34,500)	
$ 2,745,844	

STATE OF ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
OPERATING REVENUES					
Sales and charges for services:					
Pledged student tuition and fees, net of scholarship allowances of $175,898	$ 624,923	$ -	$ -	$ -	$ -
Pledged auxiliary enterprises, net of scholarship allowances of $7,496	277,332	-	-	-	-
Pledged educational department	60,712	-	-	-	-
Lottery	-	-	-	468,697	-
Other	-	-	-	-	122,466
Unemployment assessments	-	311,687	-	-	-
Workers' compensation assessments	-	-	24,908	-	-
Intergovernmental	595,594	7,125	-	-	588
Nongovernmental grants and contracts	94,536	-	-	-	-
Licenses, fees, and permits	-	-	-	-	723
Earnings on investments	-	-	-	-	3,281
Fines, forfeitures, and penalties	-	2,550	-	-	-
Settlement income	-	-	9,186	-	-
Other (revenues for Universities are pledged)	23,325	27	-	81	2,557
Total Operating Revenues	1,676,422	321,389	34,094	468,778	129,615
OPERATING EXPENSES					
Cost of sales and benefits	657,436	226,171	(24,433)	308,572	89,494
Interest on notes payable	-	-	-	-	4,040
Scholarships and fellowships	114,354	-	-	-	-
Personal services	1,718,901	-	-	5,657	26,934
Contractual services	-	-	-	11,303	7,356
Depreciation and amortization	166,799	-	1,157	215	2,322
Insurance	-	-	-	53	503
Other	-	-	-	2,548	6,244
Total Operating Expenses	2,657,490	226,171	(23,276)	328,348	136,893
Operating Income (Loss)	(981,068)	95,218	57,370	140,430	(7,278)
NON-OPERATING REVENUES (EXPENSES)					
Share of State sales tax revenues	54,550	-	-	-	-
Gifts and donations	96,441	-	-	-	-
Gain (loss) on sale of capital assets	(27)	-	-	-	86
Investment income (revenues for Universities are pledged)	35,074	36,885	9,595	-	4,381
Endowment earnings on investments	21,619	-	-	-	-
Other non-operating revenue	29,247	-	2,127	796	597
Distributions to local governments	-	-	-	(48,650)	-
Interest expense	(70,255)	-	(3)	-	(1)
Other non-operating expense	(14,347)	-	(4,973)	(106)	-
Total Non-Operating Revenues (Expenses)	152,302	36,885	6,746	(47,960)	5,063
Income (Loss) Before Contributions and Transfers	(828,766)	132,103	64,116	92,470	(2,215)
Capital grants and contributions	30,056	-	-	-	-
Contributions to permanent endowments	3,803	-	-	-	-
Special Item - intergovernmental transfer of Sundome Center for the Performing Arts	(7,874)	-	-	-	-
Transfers in	851,304	-	19,000	-	110
Transfers out	-	(2,567)	-	(92,367)	(988)
Change in Net Assets	48,523	129,536	83,116	103	(3,093)
Total Net Assets - Beginning	1,774,679	820,383	(192,766)	11,162	108,701
Total Net Assets - Ending	$ 1,823,202	$ 949,919	$ (109,650)	$ 11,265	$ 105,608

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 FUNDS
$ 624,923	$ -
277,332	-
60,712	-
468,697	-
122,466	724,732
311,687	-
24,908	-
603,307	-
94,536	-
723	-
3,281	-
2,550	-
9,186	-
25,990	681
2,630,298	725,413
1,257,240	593,709
4,040	-
114,354	-
1,751,492	27,818
18,659	28,848
170,493	12,990
556	116,804
8,792	6,305
3,325,626	786,474
(695,328)	(61,061)
54,550	-
96,441	-
59	353
85,935	188
21,619	-
32,767	139
(48,650)	-
(70,259)	(356)
(19,426)	-
153,036	324
(542,292)	(60,737)
30,056	4,696
3,803	-
(7,874)	-
870,414	-
(95,922)	(821)
258,185	(56,862)
2,522,159	(188,822)
$ 2,780,344	$ (245,684)
$ 258,185	
(17,050)	
$ 241,135	

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$ -	$ -	$ -	$ 267,416	$ 131,795
Receipts from assessments	-	310,795	25,529	-	-
Receipts from student loans collected	37,468	-	-	-	-
Receipts from sales and services of auxiliary enterprises	280,497	-	-	-	-
Receipts from sales and services of educational departments	64,436	-	-	-	-
Receipts from interfund services / premiums	-	-	-	-	-
Receipts from student tuition and fees	618,343	-	-	-	-
Receipts from federal and local governments	685,848	7,125	-	-	621
Receipts from settlement income	-	-	9,186	-	-
Receipts from other Funds	-	-	-	-	19,232
Payments to suppliers, prize winners, claimants, insurance companies, or beneficiaries	(625,418)	(224,126)	(14,872)	(127,639)	(92,988)
Payments to employees	(1,689,944)	-	-	(5,555)	(27,088)
Payments to retirees	-	-	-	-	-
Payments for scholarships and fellowships	(133,726)	-	-	-	-
Payments for student loans issued	(38,115)	-	-	-	-
Payments to other Funds	-	-	-	-	(35,921)
Other receipts	19,161	2,577	-	13,152	687
Net Cash Provided (Used) by Operating Activities	(781,450)	96,371	19,843	147,374	(3,662)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Custodial funds received	263,311	-	-	-	-
Office rental receipts	-	-	2,127	-	-
Share of State sales tax receipts	65,168	-	-	-	-
Grants and contributions received	482,248	-	-	-	197
Transfers from other Funds	857,190	-	19,000	-	3,573
Interest paid	-	-	-	-	-
Custodial funds disbursed	(240,644)	-	-	-	-
Grants and contributions disbursed	(380,156)	-	-	-	-
Distributions to local governments	-	-	-	(48,650)	-
Transfers to other Funds	-	(2,056)	-	(92,187)	(988)
Other receipts (payments)	-	-	(1,967)	-	399
Net Cash Provided (Used) by Non-capital Financing Activities	1,047,117	(2,056)	19,160	(140,837)	3,181
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	22,058	-	-	-	-
Proceeds from capital debt, installment purchase contracts and capital leases	177,357	-	-	-	-
Capital grants and contributions received	16,951	-	-	-	-
Acquisition and construction of capital assets	(389,381)	-	(226)	(413)	(3,604)
Interest paid on capital debt, installment purchase contracts and capital leases	(70,854)	-	(3)	-	-
Principal paid on capital debt, installment purchase contracts and capital leases	(56,677)	-	(3,100)	-	(18)
Other (payments)	-	-	(12)	-	-
Net Cash (Used) by Capital and Related Financing Activities	(300,546)	-	(3,341)	(413)	(3,622)

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
$ 399,211	$ -
336,324	-
37,468	-
280,497	-
64,436	-
-	729,431
618,343	-
693,594	-
9,186	-
19,232	-
(1,085,043)	(677,637)
(1,722,587)	(27,534)
-	(9,785)
(133,726)	-
(38,115)	-
(35,921)	-
35,577	693
(521,524)	15,168
263,311	-
2,127	-
65,168	-
482,445	-
879,763	10,869
-	(356)
(240,644)	-
(380,156)	-
(48,650)	-
(95,231)	(11,700)
(1,568)	139
926,565	(1,048)
22,058	758
177,357	-
16,951	-
(393,624)	(10,040)
(70,857)	-
(59,795)	-
(12)	-
(307,922)	(9,282)

(Continued)

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	540,236	-	149,264	-	-
Interest and dividends from investments	33,821	36,884	12,776	330	4,220
Change in cash collateral received from securities lending transactions	-	-	2,811	-	-
Purchase of investments	(536,729)	-	(147,277)	-	(1)
Other (payments)	-	-	(3,269)	-	-
Net Cash Provided by Investing Activities	37,328	36,884	14,305	330	4,219
Net Increase in Cash and Cash Equivalents	2,449	131,199	49,967	6,454	116
Cash and Cash Equivalents - Beginning	429,084	770,931	55,878	50,135	119,003
Cash and Cash Equivalents - Ending	$ 431,533	$ 902,130	$ 105,845	$ 56,589	$ 119,119
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	$ (981,068)	$ 95,218	$ 57,370	$ 140,430	$ (7,278)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	166,799	-	1,157	215	2,322
Loss on sale of capital assets	-	-	-	3	-
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	287	(1,642)	671	3,366	114
Decrease in due from U.S. Government	-	-	-	-	33
Decrease in due from local governments	-	-	-	-	83
(Increase) in due from other Funds	-	-	-	-	(12,899)
(Increase) decrease in inventories, at cost	(258)	-	-	(570)	1,208
(Increase) decrease in other assets	(2,090)	-	-	(586)	13
Increase (decrease) in accounts payable	22,025	-	12,000	(271)	2,026
Increase in accrued liabilities	13,508	2,797	-	4,787	3,295
(Decrease) in due to U.S. Government	-	(2)	-	-	-
Increase in due to others	82	-	-	-	40
Increase in due to other Funds	-	-	-	-	4,040
Increase (decrease) in deferred revenue	(735)	-	-	-	1,401
Increase (decrease) in accrued insurance losses	-	-	(51,355)	-	-
Increase in contracts payable	-	-	-	-	2,125
Increase (decrease) in other liabilities	-	-	-	-	(185)
Net Cash Provided (Used) by Operating Activities	$ (781,450)	$ 96,371	$ 19,843	$ 147,374	$ (3,662)
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES					
Gifts and conveyances of capital assets	$ 3,076	$ -	$ -	$ -	$ -
Assets acquired under capital leases	-	-	-	-	-
Contribution of capital assets from other funds	-	-	-	-	-
Change in fair value of investments	(653)	-	3,187	31	106
Amortization of bond discount and issuance costs	(1,902)	-	-	-	-
Amortization of deferred amount on refunding and bond premium	1,248	-	-	-	-
Gain on disposal of capital assets, net	14,248	-	-	-	-
Intergovernmental transfer of capital assets	(7,874)	-	-	-	-
Amortization of deferred rent	4,900	-	-	-	-
Refinancing of long-term debt	71,585	-	-	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	$ 84,628	$ -	$ 3,187	$ 31	$ 106

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
689,500	-
88,031	188
2,811	-
(684,007)	-
(3,269)	-
93,066	188
190,185	5,026
1,425,031	109,400
$ 1,615,216	$ 114,426

$ (695,328)	$ (61,061)
170,493	12,990
3	-
2,796	4,502
33	-
83	-
(12,899)	(709)
380	(155)
(2,663)	(5,028)
35,780	(4,229)
24,387	987
(2)	-
122	-
4,040	1,427
666	-
(51,355)	65,600
2,125	-
(185)	844
$ (521,524)	$ 15,168

$ 3,076	$ -
-	5,220
-	3,903
2,671	-
(1,902)	-
1,248	-
14,248	-
(7,874)	-
4,900	-
71,585	-
$ 87,952	$ 9,123

STATE OF ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	PENSION TRUSTS	INVESTMENT TRUSTS	AGENCY FUNDS
ASSETS			
Cash	$ 28,649	$ -	$ 41,132
Cash and pooled investments with State Treasurer	-	-	376,799
Prepaid benefits	120,076	-	-
Short-term investments	-	-	5,906
Receivables, net of allowances:			
Accrued interest and dividends	82,343	8,775	786
Securities sold	371,018	-	-
Forward contract receivable	1,889,592	-	-
Contributions	39,686	-	-
Court fees	341	-	-
Due from other Funds	320	-	-
Miscellaneous receivables	4,785	-	-
Total receivables	2,388,085	8,775	786
Due from others	-	-	92,983
Investments, at fair value:			
Temporary investments	1,876,609	-	-
Temporary investments from securities lending	2,265,754	-	-
U.S. Government securities	4,411,362	1,081,884	-
Corporate bonds	2,713,331	873,213	-
Corporate notes	293,862	-	-
Corporate stocks	21,010,693	-	-
Real estate mortgages and contracts	245,787	-	-
Collateral investment pool	1,121,778	-	-
Repurchase agreements	-	1,264,696	-
Other investments	200,708	-	-
Money market mutual funds	-	8,703	-
Total investments	34,139,884	3,228,496	-
Custodial securities in safekeeping	-	-	2,641,576
Other assets	-	-	4,072
Property and equipment, net of accumulated depreciation	4,447	-	-
Total Assets	36,681,141	3,237,271	3,163,254
LIABILITIES			
Accounts payable and other current liabilities	1,916,812	-	188,274
Payable for securities purchased	895,749	-	-
Accrued liabilities	-	-	8,112
Obligation under securities loan agreements	3,387,532	-	-
Due to local governments	-	5,234	19,055
Due to others	-	-	2,947,813
Due to other Funds	320	-	-
Total Liabilities	6,200,413	5,234	3,163,254
NET ASSETS			
Held in trust for:			
Pension benefits	30,480,728	-	-
Pool participants	-	3,232,037	-
Total Net Assets	$ 30,480,728	$ 3,232,037	$ -

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, 2006
(Expressed in Thousands)

	PENSION TRUSTS	INVESTMENT TRUSTS
ADDITIONS:		
Member contributions	$ 728,682	$ -
Employer contributions	770,993	-
Member purchase of service credit	136,857	-
Court fees	3,855	-
Investment income:		
Net increase (decrease) in fair value of investments	2,050,159	(16)
Interest income	379,154	128,584
Dividends	301,489	-
Real estate	8,150	-
Other investment income	6,062	-
Securities lending income	90,333	-
Total investment income	2,835,347	128,568
Less investment expenses:		
Investment activity expenses	53,000	2,593
Security lending expenses	83,290	-
Net investment income	2,699,057	125,975
Capital share and individual account transactions:		
Shares sold	-	4,548,543
Reinvested interest income	-	117,750
Shares redeemed	-	(4,599,181)
Net capital share and individual account transactions	-	67,112
Other additions	5,790	-
Total Additions	4,345,234	193,087
DEDUCTIONS:		
Retirement and disability benefits	2,034,736	-
Death benefits	17,125	-
Refunds to withdrawing members, including interest	83,286	-
Administrative expense	36,047	-
Dividends to investors	-	125,975
Other deductions	9,107	-
Total Deductions	2,180,301	125,975
Change in net assets held in trust for:		
Pension benefits	2,164,933	-
Pool participants	-	67,112
Net Assets - Beginning	28,315,795	3,164,925
Net Assets - Ending	$ 30,480,728	$ 3,232,037

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

STATE OF ARIZONA
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	TOTAL
ASSETS				
Current Assets:				
Cash	$ -	$ 14,783	$ -	$ 14,783
Cash and pooled investments with State Treasurer	135,395	-	5,976	141,371
Cash held by trustee	126,815	-	-	126,815
Short-term investments	-	85,848	-	85,848
Restricted investments held by trustee	-	-	2,818	2,818
Receivables, net of allowances:				
Interest	7,671	-	149	7,820
Other	3,103	64,152	2,948	70,203
Inventories, at cost	-	10,102	-	10,102
Other current assets	-	5,630	1,883	7,513
Total Current Assets	272,984	180,515	13,774	467,273
Noncurrent Assets:				
Restricted assets:				
Investments held by trustee	-	154,515	6,547	161,062
Loans and notes receivable, net of allowances	574,935	-	-	574,935
Investments	80,896	-	-	80,896
Other noncurrent assets	3,540	3,520	42,760	49,820
Capital assets:				
Land and other nondepreciable	-	36,072	-	36,072
Depreciable buildings, property and equipment	102	271,123	1,324	272,549
Less: accumulated depreciation	(94)	(185,336)	(1,088)	(186,518)
Total Noncurrent Assets	659,379	279,894	49,543	988,816
Total Assets	932,363	460,409	63,317	1,456,089
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	-	34,010	3,478	37,488
Accrued liabilities	5,147	15,762	708	21,617
Current portion of accrued insurance losses	-	5,013	-	5,013
Current portion of long-term debt	25,110	3,835	2,825	31,770
Current portion of other long-term liabilities	59	4,751	68	4,878
Total Current Liabilities	30,316	63,371	7,079	100,766
Noncurrent Liabilities:				
Unearned deferred revenue	2,355	-	-	2,355
Accrued insurance losses	-	9,733	-	9,733
Long-term debt	586,895	228,004	52,921	867,820
Other long-term liabilities	-	9,139	-	9,139
Total Noncurrent Liabilities	589,250	246,876	52,921	889,047
Total Liabilities	619,566	310,247	60,000	989,813
NET ASSETS				
Invested in capital assets, net of related debt	8	9,996	236	10,240
Restricted for:				
Debt service	-	19,489	-	19,489
Loans and other financial assistance	261,156	-	-	261,156
Unrestricted	51,633	120,677	3,081	175,391
Total Net Assets	$ 312,797	$ 150,162	$ 3,317	$ 466,276

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

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	TOTAL
OPERATING REVENUES				
Sales and charges for services	$ -	$ 406,697	$ 26,329	$ 433,026
Intergovernmental	20,952	-	-	20,952
Licenses, fees, and permits	7,636	-	-	7,636
Earnings on investments	11,034	-	-	11,034
Total Operating Revenues	39,622	406,697	26,329	472,648
OPERATING EXPENSES				
Cost of sales and benefits	-	93,716	24,663	118,379
Personal services	823	188,627	-	189,450
Contractual services	553	61,001	-	61,554
Aid to local governments	121	-	-	121
Depreciation and amortization	4	18,706	40	18,750
Insurance	-	4,367	-	4,367
Other	17,748	22,647	1,514	41,909
Total Operating Expenses	19,249	389,064	26,217	434,530
Operating Income	20,373	17,633	112	38,118
NON-OPERATING REVENUES (EXPENSES)				
Investment income	10,021	9,046	750	19,817
Other non-operating revenue	-	-	95	95
Interest expense	-	(3,538)	(395)	(3,933)
Total Non-Operating Revenues (Expenses)	10,021	5,508	450	15,979
Change in Net Assets	30,394	23,141	562	54,097
Total Net Assets - Beginning	282,403	127,021	2,755	412,179
Total Net Assets - Ending	$ 312,797	$ 150,162	$ 3,317	$ 466,276

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

STATE OF ARIZONA
COMBINING STATEMENT OF FINANCIAL POSITION
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCIAL CORPORATION	OTHER COMPONENT UNITS	TOTAL
ASSETS					
Cash and cash equivalent investments	$ 6,835	$ 61,398	$ 224	$ 11,970	$ 80,427
Receivables:					
Pledges receivable	64,907	29,230	-	34,603	128,740
Other receivables	1,504	724	311	8,655	11,194
Total receivables	66,411	29,954	311	43,258	139,934
Investments:					
Investments in securities	345,224	303,638	76,870	87,267	812,999
Investments held in trust for Universities	64,135	-	-	5,021	69,156
Other investments	55,371	8,379	868	229	64,847
Total investments	464,730	312,017	77,738	92,517	947,002
Net direct financing leases	24,599	-	35,000	13,110	72,709
Property and equipment, net of accumulated depreciation	18,063	3,111	191,967	56,503	269,644
Other assets	20,664	15,321	7,649	12,501	56,135
Total Assets	601,302	421,801	312,889	229,859	1,565,851
LIABILITIES					
Liability under Universities' endowment trust agreements	64,135	20,245	-	5,441	89,821
Bonds payable	81,710	160	302,746	79,351	463,967
Unearned revenue	-	-	603	20,167	20,770
Other liabilities	11,672	5,142	18,168	7,723	42,705
Total Liabilities	157,517	25,547	321,517	112,682	617,263
NET ASSETS					
Permanently restricted	298,167	267,075	-	31,510	596,752
Temporarily restricted	112,721	116,235	-	50,212	279,168
Unrestricted	32,897	12,944	(8,628)	35,455	72,668
Total Net Assets	$ 443,785	$ 396,254	$ (8,628)	$ 117,177	$ 948,588

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

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCIAL CORPORATION	OTHER COMPONENT UNITS	TOTAL
REVENUES					
Contributions	$ 123,378	$ 53,345	$ -	$ 21,108	$ 197,831
Rental revenue	768	-	3,878	17,715	22,361
Sales and services	18,190	-	121	8,631	26,942
Net investment income	35,178	24,058	615	7,464	67,315
Capital lease revenue	-	-	-	92	92
Other revenues	7,262	10,525	4,370	7,737	29,894
Total Revenues	184,776	87,928	8,984	62,747	344,435
EXPENSES					
Program services:					
Payments to Universities	32,223	33,086	-	7,415	72,724
Leasing related expenses	-	-	-	6,265	6,265
Payments on behalf of Universities	-	14,345	-	8,016	22,361
Other program services	11,442	-	-	4,768	16,210
Personal services, operations, and administrative expenses	15,264	3,813	3,164	17,230	39,471
Fundraising expenses	-	4,798	-	2,667	7,465
Interest	2,375	-	3,850	2,730	8,955
Other expenses	2,709	-	4,217	2,679	9,605
Total Expenses	64,013	56,042	11,231	51,770	183,056
Increase (Decrease) in Net Assets	120,763	31,886	(2,247)	10,977	161,379
Net Assets - Beginning, as restated	323,022	364,368	(6,381)	106,200	787,209
Net Assets - Ending	$ 443,785	$ 396,254	$ (8,628)	$ 117,177	$ 948,588

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
INDEX

Page

Note 1. Summary of Significant Accounting Policies --- 67
- A. Reporting Entity --- 67
- B. Basis of Presentation --- 70
- C. Measurement Focus and Basis of Accounting --- 72
- D. Deposits and Investments --- 72
- E. Taxes Receivable --- 73
- F. Inventories --- 74
- G. Property Tax Calendar --- 74
- H. Capital Assets --- 74
- I. Investment Earnings --- 75
- J. Scholarship Allowances --- 75
- K. Deferred Revenue --- 75
- L. Compensated Absences --- 75
- M. Long-Term Obligations --- 75
- N. New Accounting Pronouncements --- 76

Note 2. Deposits and Investments --- 76
- A. Deposits and Investment Policies --- 76
- B. Custodial Credit Risk – Deposits and Investments --- 77
- C. Interest Rate Risk --- 78
- D. Credit Risk --- 82
- E. Concentration of Credit Risk --- 83
- F. Foreign Currency Risk --- 84
- G. Unemployment Compensation --- 85
- H. Securities Lending --- 85
- I. Derivatives --- 86
- J. State Treasurer's Separately Issued Financial Statements --- 87

Note 3. Receivables/Deferred Revenue --- 88
- A. Taxes Receivable --- 88
- B. Deferred Revenue --- 89

Note 4. Capital Assets --- 90

Note 5. Retirement Plans --- 91
- A. Plan Descriptions --- 91
- B. Summary of Significant Accounting Policies --- 92
- C. Funding Policy --- 92
- D. Annual Pension Cost --- 93
- E. Trend Information --- 93
- F. Universities' Retirement Plans --- 93
- G. Post-Employment Benefits --- 94

Page

Note 6. Long-Term Obligations --- 95
- A. Revenue Bonds --- 95
- B. Grant Anticipation Notes --- 98
- C. Certificates of Participation --- 99
- D. Leases and Installment Purchases --- 103
- E. Litigation --- 105
- F. Compensated Absences --- 105
- G. Changes in Long-Term Obligations --- 106

Note 7. Interfund Transactions --- 107

Note 8. Fund Deficit --- 108
- A. Industrial Commission Special Fund --- 108
- B. Healthcare Group --- 108
- C. Risk Management Fund --- 109
- D. Retiree Accumulated Sick Leave Fund --- 109

Note 9. Joint Venture --- 109

Note 10. Commitments, Contingencies, and Compliance --- 109
- A. Risk Management Insurance Losses --- 109
- B. Litigation --- 111
- C. Accumulated Sick Leave --- 112
- D. Unclaimed Property --- 112
- E. Construction Commitments --- 113
- F. Arizona State Lottery --- 113

Note 11. Tobacco Settlement --- 113

Note 12. Public-Private Partnership --- 113

Note 13. Conduit Debt --- 113

Note 14. Subsequent Events --- 114

Note 15. Summary of Significant Accounting Policies-Component Units --- 114
- A. Financial Reporting Policies --- 114
- B. Deposits and Investments --- 116
- C. Program Loans --- 119
- D. Pledges Receivable --- 120
- E. Direct Financing Lease Agreement --- 120
- F. Capital Assets --- 121
- G. Long-Term Obligations --- 121
- H. Related Party Transactions --- 126

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

A. REPORTING ENTITY

The State is a general purpose government. The accompanying financial statements present the activities of the State (the primary government) and its component units. Component Units' footnote disclosures are presented in Note 15 – *Summary of Significant Accounting Policies – Component Units.*

Component Units

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

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.

In addition, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB 39) requires that legally separate, tax-exempt entities that meet *all* of the following criteria should be discretely presented as component units: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents, (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The State reports the following blended component units:

The Arizona State Retirement System (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 a nine-member board that is appointed by the Governor and approved by the Senate to serve three-year terms.

The Public Safety Personnel Retirement System (PSPRS) is an agent, multi-employer, public employee retirement system that benefits fire fighters and police officers employed by the State and its political subdivisions. The PSPRS is jointly administered by the Fund Manager and 203 local boards. The Fund Manager is a five-member board appointed by the Governor. All members serve a fixed three-year term. Each eligible group participating in the system has a five-member local board. All members serve a fixed four-year term.

The Elected Officials' Retirement Plan (EORP) is a cost-sharing, multi-employer, public employee retirement plan that benefits all State and county elected officials and judges and certain elected city officials. The EORP is administered by a five-member board appointed by the Governor. All members serve a fixed three-year term.

The Corrections Officer Retirement Plan (CORP) is an agent, multi-employer, public employee retirement plan that benefits county detention officers and certain employees of the State's Department of Corrections and Department of Juvenile Corrections. The CORP is jointly administered by the Fund Manager of the PSPRS and 20 local boards. Each employer member participating in the CORP has a five-member local board. All members serve a fixed four-year term.

The State reports the following discretely presented component units:

University Medical Center (UMC) – The UMC is the primary teaching hospital for the College of Medicine, the College of Nursing, the College of Pharmacy, the College of Public Health, and the School of Health Related Professions of the University of Arizona (U of A). 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 private, not-for-profit, tax-exempt corporation. Although an autonomous entity was created, the teaching missions and research alliances with the U of A and the State 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 UMC's administrative offices at 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 hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws. The APA is governed by a commission of five members appointed by the Governor and approved by the Senate. The term of office of each member is six years and the members select a chairman and vice-chairman from among their membership for a term of two years. All revenue bonds issued by the APA must be approved by the State Certification Board. Complete financial statements may be obtained from the APA's administrative offices at 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. The ten Governor appointed directors serve staggered terms of five years and serve at the pleasure of the Governor. Complete financial statements may be obtained from the WIFA's administrative offices at 1100 West Washington, Suite 290, Phoenix, Arizona 85007, (602) 364-1310.

Component units of the State affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate Boards of Directors that meet the criteria established in GASB 39, with the exception of the Collegiate Golf Foundation and Campus Research Corporation (CRC). The Collegiate Golf Foundation is included because it is a legally separate organization that the State believes would be misleading to exclude due to its financial relationship to the State. The CRC is included because the U of A appoints a majority of the board of directors and approves the budget; the U of A can thus impose its will on the CRC.

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

Arizona State University Foundation (ASU Foundation) – The ASU Foundation's resources are disbursed at the discretion of the Foundation's independent board of trustees, in accordance with donor directions and Foundation policy.

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

University of Arizona Foundation (U of A Foundation) - The U of A Foundation supports the U of A through various fund-raising activities and contributes funds to the U of A in support of various programs.

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

Arizona State University Alumni Association, Sun Angel Foundation, and Sun Angel Endowment - These three foundations receive funds primarily through donations and dues, and contribute funds to ASU for support of various programs.

Arizona State University Research Park, Inc. (ASU Research Park) - ASU Research Park is developing a research park to promote and support research activities in coordination with ASU.

Mesa Student Housing, LLC – Mesa Student Housing, LLC provides facilities for either the use by students of ASU or ASU itself.

Collegiate Golf Foundation - This foundation operates an ASU-owned golf course.

University of Arizona Alumni Association (U of A Alumni Association) - The U of A Alumni Association was established to serve the U of A and its graduates, former students, and friends by attracting, organizing, and encouraging them to advance the U of A's missions - teaching, research, and public service.

University of Arizona Law College Association (Law Association) - The Law Association was established to provide support and financial assistance to the College of Law at the U of A. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships.

University of Arizona Campus Research Corporation (CRC) - The CRC was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park (Park) and related properties. The CRC currently leases from the U of A the remaining 32.00% of building space of the Park not leased to the Arizona Research Park Authority. The CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices, and programs.

Northern Arizona University Foundation, Inc. (NAU Foundation) - The NAU Foundation receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of the NAU for advancement of its mission.

Northern Arizona Capital Facilities Finance Corporation (NACFFC) - The NACFFC was established for the purpose of acquiring, developing, constructing, maintaining and operating student housing and other capital facilities and equipment for the use and benefit of the NAU's students.

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

ASU Foundation, ASU Alumni Association, Sun Angel Foundation, Sun Angel Endowment, ASU Research Park, Inc., Collegiate Golf Foundation, ACFFC, and Mesa Student Housing, LLC - Arizona State University, Financial Services, P.O. Box 875812, Tempe, Arizona 85287-5812 or (480) 965-3601

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

Law College Association of the U of A - P.O. Box 210176, Tucson, Arizona 85721-0176

CRC - University of Arizona Science and Technology Park, 9040 South Rita Road, Suite 1400, Tucson, Arizona 85747

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

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

Related Organizations

Related organizations are legally separate entities for which the State is not considered to be financially accountable, and that do not meet the criteria established by GASB 39. The State's accountability for these organizations does not extend beyond making the appointments, nor are the economic resources accessible to the State. As a result, financial activity for the organizations described below is not included in the State's financial statements.

Arizona Health Facilities Authority (the Authority) – Arizona Revised Statutes (ARS) §36-482 established the Authority to issue 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 for cause or at will by the Governor with the consent of the Senate.

Arizona International Development Authority (the Authority) – ARS §41-1553.01 established the Authority to facilitate the development of international trade or commerce between Arizona and other countries. The Authority is governed by a seven-member board of directors appointed by the Governor and approved by the Senate for five-year terms, and can be removed only for cause.

Arizona Tourism and Sports Authority (the Authority) – ARS §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 nine-member board of directors of which five are appointed by the Governor and approved by the Senate and two members each by the President of the Senate and the Speaker of the House. The directors serve terms of five years, and may be re-appointed for one full subsequent term, and can be removed only for cause.

Arizona Housing Finance Authority (the Authority) – ARS §41-3902 established the Authority to issue bonds for residential dwelling units and multifamily residential rental projects in rural areas. The Authority may also establish mortgage credit certificate programs to finance residential dwelling units in rural areas. The Authority 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.

State Compensation Fund (the Fund) – ARS §23-981 established the Fund to provide 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, and can be removed only for cause. Annually, the Governor appoints a chairman from among the board members.

Joint Ventures

As described in Note 9, the U of A participates in a joint venture. In accordance with U.S. GAAP, the financial activities of this joint venture 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 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 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 revenues include:

- 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 and business-type activities are presented as internal balances and are eliminated in the total column. Revenues and expenses associated with reciprocal transactions within governmental or within business-type activities have not been eliminated.

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The State reports the following major governmental funds:

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

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund - accounts for all financial transactions applicable to the general operations of the Arizona Department of Transportation (ADOT). The ADOT builds and maintains the State's highway system and the Grand Canyon Airport.

The 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.

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

The Industrial Commission Special Fund – accounts for deposits not to exceed 2.50% 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 (Commission) then pursues against the non-insured employer for reimbursement of all benefits paid, including assessed penalties.

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

Additionally, the State reports the following fund types:

Internal Service Funds - account for insurance coverage, employee benefits, automotive maintenance and operation, highway equipment rentals, and data processing and telecommunication services provided to State agencies on a cost-reimbursement basis. It is the policy of the State to classify immaterial proprietary fund activities in governmental funds. This policy helps to reduce the number of funds reported in the financial statements to the minimum amount needed. These funds allocate a fixed rate payroll processing charge among all agencies, allocate postage and mailing costs among all agencies, 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 ASRS, the PSPRS, the EORP, and the CORP, 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, and fiduciary fund 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.

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. Those revenues susceptible to accrual are federal reimbursements, highway user revenue tax, and state sales tax. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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 resources 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 Financial Accounting Standards Board (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 has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

D. DEPOSITS AND INVESTMENTS

1. Cash and Cash Equivalents

On the Statement of Cash Flows, the amount reported as "Cash and Cash Equivalents" is equal to the total of the amounts on the Statement of Net 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 Special Fund). 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.

- *Cash held by trustee* – consists of certificates of participation (COPs) proceeds that primarily are invested in government money market mutual funds to be used for capital projects.

- *Collateral investment pool* – consists of cash received as collateral on securities lending transactions and investments made with that cash. The State records the collateral received as an asset. A corresponding liability is also recorded for such securities lending transactions.

2. Investment Valuation

Investments maintained by the State Treasurer are reported at fair value using Bank of New York (BONY) prices, as determined by independent, industry leading data vendors whose values are either exchange provided or matrix based on similar securities. Equities are priced utilizing the primary market close price. In the absence of a closed price, the mid, bid or ask price will be utilized. All bonds are priced using an evaluated price, the closing exchange price or the most recent exchange or quoted bid. The official price is normally the last traded price. Short-term instruments such as certificates of deposit and commercial paper are based on an internal model which uses primarily a vendor price. Equity prices are compared to Bloomberg's Index Alert. Any differences in prices are researched and generally Bloomberg's end of day price is used over BONY's price. All investments with a remaining maturity of 90 days or less, that have no price available, are priced using amortized cost (amortizing premium/accreting discount on a straight-line to maturity method).

The ASRS investments are reported at fair value determined by the custodial agents, except for real estate and commercial mortgages. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. The fair value of real estate investments is based on independent appraisals or estimated value. 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 are considered by the ASRS 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, the ASRS, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk. Security transactions and any resulting gains or losses are accounted for on a trade date basis. Net investment income includes net appreciation (depreciation) in the 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, the EORP, and the CORP, investments are reported at fair value. Marketable securities (stocks and bonds), traded on public exchanges are priced by PSPRS's custodian Wells Fargo Bank N.A. using third party pricing services. Equity securities are valued at the last reported sales price. Fixed income securities are generally valued using the last reported sales price or thinly traded bonds are reported at fair value using estimates. Short term and alternative investments are reported at cost. Investment income is recognized as earned.

E. TAXES RECEIVABLE

Taxes receivable include amounts owed by taxpayers for the 2005 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, 2006. Sales and motor vehicle and fuel tax receivables represent amounts that are earned by the State in the fiscal period ended June 30, 2006, but not collected until the following month.

F. INVENTORIES

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

G. PROPERTY TAX CALENDAR

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

H. CAPITAL ASSETS

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

Most capital assets are depreciated over their useful life. However, the State utilizes an alternative accounting treatment for most infrastructure assets 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. The State has adopted a general policy for capitalization thresholds, depreciation, and estimated useful lives of capital assets. In addition, the State has approved alternative policies for some State agencies.

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

	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	$0-$100,000	10-50
Improvements other than buildings	$5,000	15	$5,000-$100,000	20-50
Equipment	$5,000	3-15	$0-$5,000	3-25
Infrastructure	All capitalized	Not depreciated	$0-$100,000	20-100

The State is trustee for approximately 9.3 million acres of land acquired through U.S. Government land grants in the early 1900's. The State acquired a substantial portion of this land at no cost and its fair market value at acquisition has not been reliably estimated. Accordingly, this land is not reported in the accompanying financial statements. 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 EARNINGS

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

J. SCHOLARSHIP ALLOWANCES

Student tuition and fee revenues, and certain other revenues earned by the three State Universities are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Fund Net 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 the GASB. In the governmental fund financial statements, liabilities for compensated absences are not accrued, because they are not considered due and payable.

In general, State employees accrue vested annual leave at a variable rate based on years of service. Except for 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 1,500 hours, upon retirement directly from State service (See Note 10.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 COPs are deferred and amortized over the life of the debt instrument using the straight-line method. Bonds and COPs are reported net of the applicable premium or discount. Bond issuance costs and deferred gains or losses on debt refundings are charged to expense in the period incurred unless those costs are deemed to be material to the State's financial statements by management, in which case, they are deferred and amortized using either the straight-line method or the effective interest method.

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

N. NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The requirements of this Statement are effective for periods beginning after December 15, 2004. The State has implemented the requirements of this standard, but they had no material effect on the financial statements.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans.* This Statement establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.* The requirements of this Statement for OPEB plan reporting are effective for periods beginning after December 15, 2005. The ASRS has early implemented the requirements of this standard, but they had no material effect on the financial statements.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement.* This Statement improves the understandability and usefulness of the information presented as supplementary information in the statistical section. The provisions of this Statement are effective for statistical sections prepared for periods beginning after June 15, 2005. The State has implemented the requirements of this standard.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34.* This Statement enhances the usefulness and compatibility of net asset information reported by clarifying the meaning of the phrase *legally enforceable* as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and financial reporting requirements for those restricted net assets. The requirements of this Statement are effective for periods beginning after June 15, 2005. The State has implemented the requirements of this standard, but did not have any restricted net assets that are covered by this statement.

GASB Statement No. 47, *Accounting for Termination Benefits.* This Statement provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits, without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits. This Statement is effective for periods beginning after June 15, 2005. The State has implemented the requirements of this standard, but did not have any current benefits that are covered by this statement.

NOTE 2. DEPOSITS AND INVESTMENTS

A. DEPOSITS AND INVESTMENT POLICIES

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

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

The State statutes and the State Treasurer's investment policies designed to administer these statutes restrict investments to obligations of the U.S. Government and its agencies, obligations or other evidence of indebtedness of the State and certain local government divisions, negotiable certificates of deposit, bonds, debentures and notes issued by U.S. corporations, commercial paper issued by entities organized and doing business in the United States, bankers acceptances, collateralized repurchase agreements,

money market mutual funds, domestic equities, and other securities. The State Treasurer is not allowed to invest in foreign investments.

The State Treasurer maintains external investment pools [the Local Government Investment Pool (LGIP), Local Government Investment Pool-Government, and the Central Arizona Water Conservation District]. 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.

State statutes 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.

The ASRS invests in U.S. government and government agency obligations, real estate, commercial mortgages, corporate bonds, and equity obligations. Per ARS §38-719, no more than 80.00% of the ASRS' total assets may be invested at any given time in corporate stocks or equity equivalents, based on cost value of the stocks or equity equivalents irrespective of capital appreciation. No more than 5.00% of the voting stock of any one corporation may be owned. No more than 20.00% of the ASRS' assets may be invested in foreign equity securities, and those investments shall be made only by investment managers with demonstrated expertise in such investments. No more than 10.00% of the ASRS' assets may be invested in bonds or other evidences of indebtedness of those multinational development banks in which the U.S. is a member nation, including the International Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank. No more than 1.00% of ASRS' assets may be invested in economic development projects authorized as eligible for such investment by the Arizona State Department of Commerce. The ASRS Board has not formally adopted more restrictive policies for the various types of risks.

Per ARS §38-848, the PSPRS, the EORP, and the CORP may not invest more than 70.00% in corporate stocks, based on cost value of such stocks irrespective of capital appreciation, and shall be restricted to stocks that, except for bank and insurance stocks, are either: 1) listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended, 2) designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the Securities Exchange Act of 1934, as amended, 3) listed or approved on issuance for listing on an exchange registered under the laws of this State or any other State, or 4) listed or approved on issuance for listing on an exchange registered of a foreign country with which the U.S. is maintaining diplomatic relations at the time of purchase, except that no more than 10.00% may be invested in foreign equity securities on these exchanges, based on the cost value of the stocks irrespective of capital appreciation. Not more than 5.00% of the voting stock of any one corporation shall be owned.

The Board of Regents governs the investment policies of the Universities. The Universities may invest operating funds and capital projects funds in collateralized certificates of deposits and repurchase agreements with commercial banks, U.S. Treasury securities and other Federal agency securities, or in the Local Government Investment Pool administered by the State Treasurer. For endowment investments, donor restrictions for these investments will be applied, if any. In addition, the Board of Regents has authorized the Universities to establish investment committees to make investment policies and investment decisions. The Board of Regents' policies guide the investment committees' decisions and constitute each University's investment policy.

Per ARS §23-1065, the Commission's investment committee is responsible for defining, developing, and implementing investment objectives, policies and restrictions and supervising the investment activities of the Commission. The Commission requires that their investment policy be responsive to the unpredictable nature of the incidence and severity of claims, the long periods over which losses may be paid, and the effect on both claims and losses of increases in treatment and rehabilitation costs. The investment committee may invest in any legal investment authorized under ARS §38-719.

B. CUSTODIAL CREDIT RISK – DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. The State Treasurer, the Retirement Systems, and the Universities' deposits with financial institutions are required by State statutes to be entirely covered by the Federal Depository Insurance

Corporation (FDIC) or, alternatively, collateralized for amounts in excess of the amount insured. The Commission's deposits are not required to be insured or collateralized. Surety collateral for the Universities, the ASRS, the PSPRS, the EORP, and the CORP must be equal to at least 100.00% of the bank balance required to be collateralized (102.00% for the State Treasurer). Beyond this requirement, these organizations do not have a formal policy specifically addressing custodial credit risk on deposits, except for the State Treasurer. The State statutes require surety collateral for the State Treasurer to consist of U.S. Government obligations, State obligations, and obligations of counties and municipalities within the State. As of June 30, 2006, $3.050 million was uncollateralized and uninsured and $2.408 million was collateralized with securities held by the pledging financial institution or its trust department/agent, but not in the State's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The State does not have a formal policy in regards to custodial credit risk for investments. As of June 30, 2006, the State had $58.442 million in securities that were uninsured, not registered in the State's name and held by a counterparty or a counterparty's trust department or agent but not in the State's name.

C. INTEREST RATE RISK

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

The State Treasurer manages interest rate risk by incorporating ARS §35-323, which states that the State Treasurer will invest public monies in securities with a maximum maturity of five years and operating fund monies shall not be invested for a duration of longer than three years, into their investment policy and setting forth various thresholds or parameters in accordance with each investment pool's portfolio structure. The State Treasurer's policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored monthly by measuring the weighted average maturity and/or duration.

The ASU manages interest rate risk by a policy for operating funds that limits the maximum maturity of any fixed rate issue to three years. The capital projects funds portfolio is not limited as to the overall maturity of its investments, with funds invested per the financing indentures to coincide with capital spending needs and debt service requirements, which are typically less than three years, with the additional limitation that certificates of deposit and commercial paper have maximum maturities of 360 days and 270 days, respectively.

The Commission manages interest rate risk by setting different goals of yield periods or duration of maturities for each individual investment segment within the Commission. Beyond this requirement, the Commission does not have a formal policy specifically addressing interest rate risk.

The following table presents the State Treasurer's, the ASU's, and the Commission's weighted average maturity in years by investment type (expressed in thousands):

Investment Type	Fair Value	Weighted Average Maturity (in years)
Bond mutual funds	$ 8,453	2.70
Certificate of deposit	4,932	1.09
Commercial mortgage – backed securities	2,881	29.77
Commercial paper	2,600,877	0.03
Corporate asset backed securities	7,094	5.72
Corporate collateralized mortgage obligations	70,835	20.51
Corporate notes & bonds	1,039,428	1.94
Government bonds	16,438	11.16
Government mortgage backed securities	11,767	19.04
Index linked government bonds	4,792	6.97
Money market mutual funds	78,915	0.30
Repurchase agreements	1,745,625	0.01
U.S. Agency Securities	2,914,780	0.76
U.S. Agency Mortgage Backed Securities	654,076	19.39
U.S. Treasury Securities	660,170	1.19
Other	6,803	6.55
Total Debt Securities	$ 9,827,866	2.03

The ASRS does not have a formal policy in regards to interest rate risk, but does manage interest rate risk using effective duration. Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions. The following table presents ASRS' effective duration by investment type (expressed in thousands):

Investment Type	Fair Value	Effective Duration
Domestic Fixed Income Securities		
Asset backed securities	$ 253,388	1.66
Bond funds	36,043	8.53
CMO's of government sponsored entities	423,889	3.86
Commercial mortgage backed securities	390,780	3.91
Commercial paper	157,443	0.03
Corporate bonds	1,043,042	4.27
Dollar denominated debt of foreign companies	55,906	6.86
Dollar denominated debt of foreign countries	45,329	6.54
Fixed income strips	37,434	7.88
GNMA pools	116,187	3.45
Government sponsored entity debt	311,866	4.21
Indexed linked government bond funds	1,092,671	0.00
Indexed linked treasury bonds	16,337	4.73
Municipal bonds	1,260	14.89
Non-government backed CMO's	168,515	2.36
Pools of government sponsored entities	1,414,300	4.11
Short term investments	1,697,024	0.08
U.S. Treasury Debt	630,702	4.20
Total Domestic Debt Securities	7,892,116	3.28
Foreign Debt Securities		
Corporate bonds	849	6.77
Government bonds	6,172	0.33
Provincial bonds	3,307	6.77
Margin accounts	1,605	0.08
Total Foreign Debt Securities	11,933	2.54
Total Debt Securities	$ 7,904,049	

The PSPRS, the EORP, the CORP, and the NAU do not have a formal policy in regards to interest rate risk. The U of A's investment policy limits its operating funds to having a portfolio comprised of a significant proportion of authorized securities with maturities of one year or less, and requires that a maximum maturity of any fixed rate issue may not exceed three years and the final maturity of any floating rate issue may not exceed five years. The U of A capital projects and endowment funds have no such limitations. The following table presents the interest rate risk for the PSPRS, the EORP, the CORP, the NAU, the U of A, and other State agencies utilizing the segmented time distribution (expressed in thousands):

		Investment Maturities (in years)					
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**11-15**	**16-20**	**More than 20**
Corporate bonds	$ 714,644	$ 17,872	$ 111,536	$ 135,240	$ 78,116	$ 59,377	$ 312,503
Corporate bond funds	1,368	-	855	384	129	-	-
Collateralized bond obligations (CBO's)	52,434	-	-	7,800	15,813	-	28,821
Collateralized debt obligations (CDO's)	4,120	-	-	-	-	-	4,120
Commercial paper	293,862	293,862	-	-	-	-	-
Indexed treasury bond fund	1,220	-	-	-	1,220	-	-
International fixed income fund	8,443	2,406	2,438	1,996	1,603	-	-
Money market mutual funds	140,185	140,185	-	-	-	-	-
Municipal bonds	1,679	-	149	311	1,219	-	-
Repurchase agreements	94,202	94,202	-	-	-	-	-
Securities lending pool	21,567	21,567	-	-	-	-	-
U.S. Agency Securities	635,721	143,611	32,700	187,126	135,294	47,795	89,195
U.S. Treasury Securities	459	-	83	65	311	-	-
Other investments	7,769	708	3,049	3,892	120	-	-
Total Debt Securities	$ 1,977,673	$ 714,413	$ 150,810	$ 336,814	$ 233,825	$ 107,172	$ 434,639

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

Interest Rate Terms	Corporate Bonds	U.S. Agency Securities	Total
U.S. LIBOR plus/minus fixed point variable monthly to semi-annually	$ 750,013	$ 180,360	$ 930,373
Mortgage backed securities - when interest rates fall, mortgages are refinanced and paid off early and the reduced stream of future interest payments diminish fair value.	-	673,863	673,863
Callable step-up notes - where on certain specified dates, the issuer can call the security. If the security is not called, the interest rate is increased by a specified amount. Prevailing interest rates may go up faster than this increase in the coupon interest rate.	-	127,307	127,307
Other securities with sensitivity to rate changes	-	128,200	128,200
Total	$ 750,013	$ 1,109,730	$ 1,859,743

D. CREDIT RISK

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

The State statutes and the State Treasurer's investment policy require that commercial paper must be rated P1 by Moody's Investor Service (Moody's) or A1 or better by Standard and Poor's Ratings Service (S & P). Corporate bonds, debentures, and notes must carry a minimum Baa or better rating of Moody's or a BBB or better rating of S & P. For investments not rated by Moody's, Fitch rating information is used. There is no statute or investment policy on ratings or credit quality for obligations issued by the U.S. Government or its agencies or repurchase agreements. The underlying securities for repurchase agreements must be explicitly guaranteed by the U.S. Government.

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

The PSPRS, the EORP, and the CORP's investment policy is specific as to permissible credit quality ranges, exposure levels within individuals' quality tiers, and the average credit quality of the overall portfolios. The fixed income portfolio must have a minimum weighted average quality rating of A3 by Moody's and A- by S & P. Fixed income investments must have a minimum quality rating of Baa3 by Moody's and BBB- by S & P at the time of purchase. Commercial paper must have a minimum quality rating of P1 by Moody's and A1 by S & P at the time of purchase. The portion of the bond portfolio in investments rated Baa3 through Baa1 by Moody's and BBB- through BBB+ by S & P must be 20.00% or less of the fair value of the fixed income portfolio.

The Universities each have a different policy regarding credit risk. The ASU's policy requires that certificates of deposit have a minimum credit rating of A1/P1, commercial paper have a minimum credit rating of A1+/P1 and money market funds have a credit rating of AAAm or better, all rated by S & P. The U of A's policy requires that for endowment funds, corporate bonds and notes should be rated Baa or higher by Moody's at the time of purchase. The NAU does not have a formal policy with respect to credit risk.

The Commission's investment policy requires that fixed income investments be rated Ba or better by Moody's or BB or better by S & P at the time of purchase. Fixed income managers hired to manage funds in a specialized manner (high yield) are exempted from this requirement. Purchases of high yield fixed income investments will consist of a diversified portfolio of holdings which will maintain in the aggregate a minimum credit rating of Ba3 by Moody's and BB by S & P.

The following table presents the State's investments which were rated by S & P and/or an equivalent national rating organization as of June 30, 2006. The ratings are presented using S & P's rating scale (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	A1	Not Rated
Alternative investments	$ 200,705	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 200,705
Asset backed securities	260,866	235,778	5,498	5,328	1,574	-	1,079	-	11,609
Bond funds	45,864	36,043	1,368	-	-	-	-	-	8,453
Certificates of deposit	4,932	-	4,932	-	-	-	-	-	-
CBO's	52,435	7,355	-	37,280	1,794	6,006	-	-	-
CDO's	77,823	73,703	-	-	4,120	-	-	-	-
CMO's of government sponsored entities	423,889	96,392	-	-	-	-	-	-	327,497
Commercial mortgage backed securities	393,661	351,449	1,121	277	-	-	-	-	40,814
Commercial paper	3,052,182	157,443	-	-	-	-	-	2,894,739	-
Corporate bonds	2,784,409	211,348	447,466	1,254,968	481,497	69,069	53,475	-	266,586
Dollar denominated debt of foreign companies	55,906	809	3,759	27,291	22,753	1,294	-	-	-
Dollar denominated debt of foreign countries	45,329	23,740	2,638	2,573	16,378	-	-	-	-
Fixed income strips incl US strips	37,434	37,434	-	-	-	-	-	-	-
Foreign corporate bonds	849	849	-	-	-	-	-	-	-
Foreign government bonds	6,172	5,894	-	-	278	-	-	-	-
Foreign margin accounts	1,605	-	-	-	-	-	-	-	1,605
Foreign provincial bonds	3,307	-	3,307	-	-	-	-	-	-
GNMA pools	116,187	116,187	-	-	-	-	-	-	-
Government bonds	22,175	22,175	-	-	-	-	-	-	-
Government mortgage backed securities	11,767	11,767	-	-	-	-	-	-	-
Government sponsored entity debt	311,866	291,446	20,420	-	-	-	-	-	-
Indexed linked government bond funds	1,092,671	-	-	-	-	-	-	-	1,092,671
Indexed linked treasury bonds	17,557	17,557	-	-	-	-	-	-	-
International fixed income fund	8,443	6,713	168	768	401	234	159	-	-
Money market mutual funds	219,099	126,078	-	-	-	-	-	-	93,021
Mortgages	10,599	10,599	-	-	-	-	-	-	-
Municipal bonds	2,939	1,369	1,570	-	-	-	-	-	-
Non-government backed CMO's	168,515	164,493	-	41	-	-	-	-	3,981
Pools of government sponsored entities	1,414,300	1,414,300	-	-	-	-	-	-	-
Securities lending pool	21,567	-	-	-	-	-	-	-	21,567
Short term money markets	1,697,024	-	-	-	-	-	-	-	1,697,024
U.S. Agency Securities	3,998,267	2,827,299	25,169	-	-	-	-	1,145,710	89
Other investments	13,440	-	-	-	-	-	-	-	13,440
Total	$ 16,573,784	$6,248,220	$517,416	$1,328,526	$528,795	$76,603	$54,713	$4,040,449	$3,779,062

E. CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State Treasurer's, the ASRS', the U of A's, and the Commission's investment policies state that no more than 5.00% of their investments may be invested in securities issued by any one institution, agency, or corporation, other than securities issued as direct obligations of or are fully guaranteed by the U.S. Government or mortgage backed securities and agency debentures issued by federal agencies. The PSPRS, the EORP, and the CORP's investment policy states that no more than 5.00% of their investments may be invested in securities issued by any one institution, agency, or corporation, other than securities issued as direct obligations of or are fully guaranteed by the U.S. Government. The ASU and the NAU have no formal policy in regards to the concentration of credit risk. At June 30, 2006, more than 5.00% of the Governmental Activities' total investments were held in the following single issuers (expressed in thousands):

Issuer Description	Fair Value	Percentage
Federal Home Loan Mortgage Corporation	$ 1,199,482	18.96%
Federal Home Loan Bank	862,745	13.64%
Federal National Mortgage Association	624,781	9.88%

At June 30, 2006, more than 5.00% of the Business-type Activities' total investments were held in the following single issuers (expressed in thousands):

Issuer Description	Fair Value	Percentage
Federal National Mortgage Association	$ 125,568	5.04%

F. FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit. The State does not have a policy regarding foreign currency risk. The ASRS is the primary State agency that has foreign currency risk. Per ARS §38-719, no more than 20.00% of the ASRS assets may be invested in foreign equity securities and those investments shall be made only by investment managers with demonstrated expertise in those investments. The ASRS Board has not adopted a formal policy that is more restrictive. The following table summarizes the State's foreign currency risk as of June 30, 2006 (expressed in thousands):

	Foreign Currency Risk by Investment Type at Fair Value				
Currency	Short Term	Fixed Income	Equities	Real Estate	Total
Australian Dollar	$ 628	$ -	$ 53,308	$ -	$ 53,936
British Pound Sterling	(938)	-	572,484	-	571,546
Canadian Dollar	106	-	16,131	-	16,237
Danish Krone	1,898	-	21,434	-	23,332
Euro Currency	6,346	5,894	1,071,646	45	1,083,931
Hong Kong Dollar	352	-	72,859	-	73,211
Indonesian Rupiah	-	-	4,284	-	4,284
Japanese Yen	17,091	-	688,921	-	706,012
New Mexican Peso	296	278	-	-	574
New Taiwan Dollar	-	-	21,650	-	21,650
New Zealand Dollar	488	3,307	10,947	-	14,742
Norwegian Krone	22	-	7,660	-	7,682
Singapore Dollar	135	-	65,094	19	65,248
South Korean Won	-	-	28,050	-	28,050
Swedish Krona	577	-	30,421	-	30,998
Swiss Franc	538	-	268,992	-	269,530
Thailand Baht	-	-	4,293	-	4,293
Other	3,252	9,434	52,094	-	64,780
Total	$ 30,791	$ 18,913	$2,990,268	$ 64	$3,040,036

G. UNEMPLOYMENT COMPENSATION

The 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 Enterprise Fund, has been established for this purpose.

H. SECURITIES LENDING

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

1. Industrial Commission

State statutes and the Commission's policies permit the Commission to enter into securities lending transactions with its custodial bank. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses to the securities lending agent. The custodial bank, 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, 2006. 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 102.00% of the market value of securities loaned plus accrued interest. International securities are loaned for collateral valued at 105.00% of the market value of securities loaned plus accrued interest. The market value at June 30, 2006 for loaned securities collateralized by cash and non-cash collateral was $48.935 million and $5.207 million, respectively. As part of the securities lending transactions, Northern Trust received cash and non-cash collateral valued at $49.750 million and $5.295 million, respectively at June 30, 2006. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Deposit and investment risk disclosures are only reported for collateral received on securities lent.

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the loans is 80 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 41 days as of June 30, 2006. 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, 2006, the Commission had $49.750 million outstanding as payable for securities lending.

2. Arizona State Retirement System

The ASRS is permitted by ARS §38-715(D) (3), to enter into securities lending transactions. The ASRS' custodial bank enters into agreements with counterparts to loan securities and have the same securities redelivered at a later date. All securities are eligible for loan (U.S. fixed income securities, U.S. equities, and 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 102.00% of the market value of the loaned securities and maintain collateral at no less than 100.00% 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. 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 maturities of the investments are closely matched to those of the security loans to avoid interest rate exposure. The ASRS receives a spread for its lending activities. Investments made with cash collateral 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, 2006, the ASRS had $2.3 billion outstanding as payable for securities on loan.

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

The EORP, the PSPRS, and the CORP are permitted by ARS Title 38, Chapter 5, Articles 3, 4, and 6, respectively, to enter into securities lending transactions. The PSPRS, the EORP, and the CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, the EORP, and the CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, the EORP, and the CORP require collateral of at least 102.00% 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, 2006, the fair values of securities on loan were (expressed in millions):

PSPRS	$ 891.375
EORP	70.380
CORP	134.101

4. University of Arizona

During the fiscal year, the U of A engaged in securities lending transactions within its endowment funds, as authorized by the Board of Regents. The U of A entered into an agreement with Wells Fargo, the U of A'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 U of A to receive as collateral at least 102.00% of the market value of the loaned securities and accrued interest, and maintain collateral at no less than 100.00% for the duration of the loan. At year-end, the U of A had no credit risk to borrowers because the U of A was holding more collateral than the amount of loaned securities outstanding.

The U of A records the collateral received as an asset, which is offset by an obligation recorded under securities lending. During the fiscal year ended June 30, 2006, there were no violations of legal or contractual provisions, and there were no borrower or lending agent default losses. Wells Fargo does indemnify the U of A against losses due to borrower defaults. Collateral can be received in the form of U.S. Government securities, letters of credit, or cash. As of June 30, 2006, the custodian has received only cash collateral. This collateral may be invested in U.S. Treasury and sponsored agency obligations, repurchase agreements, bankers' acceptances, commercial paper, mortgage backed securities, municipal securities, and corporate bonds or in a cash collateral investment pool, which invests in similar securities. At June 30, 2006, cash collateral received from borrowers was invested in the cash collateral investment pool and corporate bonds, which had a weighted average maturity of 3 days and 377 days, respectively, and represented 78.00% and 22.00% of cash collateral investments, respectively. The relationship between the maturities of the cash collateral investment pool and the U of A's securities loans is affected by the maturities of the securities loans made by other entities that use the custodial bank's pool, which the U of A cannot determine. However, the U of A or the borrower can terminate securities loans on demand. Other cash collateral investments are made such that their maturities will match those of the related securities loans. Such matching existed at year-end. At June 30, 2006, cash collateral investments totaled $27.916 million with a corresponding market value of securities on loan of $27.270 million. Securities lent for cash collateral included corporate stocks, corporate bonds, agency notes, agency bonds, government notes, and government bonds. The U of A cannot sell or pledge securities received as collateral unless the borrower defaults. The U of A earns a negotiated fee for participating in securities lending activities.

I. 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
Currency forward contracts	Hedge currency risk of investments denominated in foreign currencies.
Futures contracts	Reduce transaction costs; obtain market exposure; enhance returns.

Derivatives are reported at fair value. The fair value of currency forward contracts is determined by interpolating the spot rate and the forward rates based upon number of days to maturity. The interpolated rate is used to determine the unrealized gain/loss at the valuation date. The fair value of futures contracts is determined by calculating the difference between the closing Bloomberg market price on valuation date and the original futures trade price. Futures are settled daily.

Generally, derivatives are subject to both interest rate risk and credit risk. The derivatives utilized by ASRS internal investment managers typically have no greater interest rate risk than their physical counterparts, and in many cases are offset by exposure elsewhere in the portfolio. As of June 30, 2006, the ASRS had $1.2 billion in temporary investments held as collateral for equity and fixed income derivatives which may have a positive or negative notional 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.

J. 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, including the Investment Trust Funds. A copy of the State Treasurer's Office Annual Financial Report can be obtained from their office location 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, 2006 (expressed in thousands):

Type of Tax	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Unemployment Compensation Fund	Industrial Commission Special Fund	Non-Major Governmental Funds	Government-Wide Total
Sales	$ 400,429	$ -	$ -	$ -	$ 3,055	$ 403,484
Income – individual and corporate	132,015	-	-	-	-	132,015
Motor vehicle and fuel	-	70,212	-	-	-	70,212
Luxury	8,842	-	-	-	16,537	25,379
Unemployment	-	-	67,287	-	-	67,287
Other	-	-	-	4,658	-	4,658
Gross taxes receivable	541,286	70,212	67,287	4,658	19,592	703,035
Allowance for uncollectible taxes	(110,084)	-	-	-	-	(110,084)
Net Taxes Receivable	$ 431,202	$ 70,212	$ 67,287	$ 4,658	$ 19,592	$ 592,951

B. DEFERRED REVENUE

At June 30, 2006, the components of deferred revenue, in terms of revenue unavailable and unearned, were as follows (expressed in thousands):

Current Deferred Revenue for Governmental Funds:	**Unavailable**	**Unearned**	**Total Deferred Revenue**
General Fund:			
Delinquent sales tax	$ 94,113	$ -	$ 94,113
Delinquent income tax	72,212	-	72,212
Tobacco settlement	42,907	-	42,907
Child support administrative reimbursements	4,894	-	4,894
Advance insurance premiums	-	41,752	41,752
Advance land lease payments	-	291	291
Public assistance overpayments	1,601	-	1,601
Vaccine & commodity food supplement	-	9,272	9,272
Advanced county Medicaid payments	-	20,675	20,675
Federal grants	185,882	-	185,882
Tribal reimbursements	124	-	124
Transportation & Aviation Planning, Highway Maintenance & Safety Fund:			
Notes receivable for real estate mortgage loans	9,464	-	9,464
Land Endowments Fund:			
Land sales receivable	757,430	-	757,430
Land leases receivable	3,144	-	3,144
Advance land lease payments	-	31,621	31,621
Non-Major Funds:			
Public assistance overpayments	1,389	-	1,389
Advance payments for Hawaii/Arizona PMMIS Alliance	-	906	906
Other	-	53	53
Total Current Deferred Revenue for Governmental Funds	1,173,160	104,570	1,277,730
Noncurrent Deferred Revenue for Governmental Funds:			
General Fund:			
Advance land lease payments	-	6,006	6,006
Total Noncurrent Deferred Revenue for Governmental Funds	-	6,006	6,006
Total Current and Noncurrent Deferred Revenue for Governmental Funds	$ 1,173,160	$ 110,576	$ 1,283,736

Current Deferred Revenue for Proprietary Funds:	**Unearned**
Universities:	
Unexpended cash advances received	$ 31,138
Auxiliary sales and services	5,985
IBM lease related to acquisition of research park	4,900
Student tuition and fees	34,526
Other deferred revenue	3,759
Deposits	1,497
Non-Major Funds:	
Policyholders' advance premiums	8,097
Magazine subscriptions	3,592
Total Current Deferred Revenue for Proprietary Funds	$ 93,494
Noncurrent Deferred Revenue for Proprietary Funds:	
Universities:	
IBM lease related to acquisition of research park	34,770
Total Noncurrent Deferred Revenue for Proprietary Funds	$ 34,770

NOTE 4. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2006 were as follows (expressed in thousands):

	Primary Government				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Governmental Activities:					
Non-depreciable capital assets:					
Land	$ 1,980,978	$ 257,668	$ (10,864)	$ -	$ 2,227,782
Construction in progress	1,785,351	654,666	(389,869)	(13,954)	2,036,194
Infrastructure	8,863,628	516,176	(48)	(1)	9,379,755
Total Non-depreciable Capital Assets	12,629,957	1,428,510	(400,781)	(13,955)	13,643,731
Depreciable capital assets:					
Buildings	1,515,343	5,659	(434)	7,428	1,527,996
Improvements other than buildings	142,563	1,471	(12,733)	2,323	133,624
Equipment	666,417	63,273	(39,613)	6,042	696,119
Infrastructure	6,604	-	-	5	6,609
Total Depreciable Capital Assets	2,330,927	70,403	(52,780)	15,798	2,364,348
Less accumulated depreciation for:					
Buildings	(420,573)	(38,536)	47	689	(458,373)
Improvements other than buildings	(59,556)	(4,048)	-	55	(63,549)
Equipment	(463,763)	(65,836)	36,036	1,140	(492,423)
Infrastructure	(4,162)	(97)	-	-	(4,259)
Total Accumulated Depreciation	(948,054)	(108,517)	36,083	1,884	(1,018,604)
Total Depreciable Capital Assets, Net	1,382,873	(38,114)	(16,697)	17,682	1,345,744
Total Governmental Activities Capital Assets, Net	$ 14,012,830	$ 1,390,396	$ (417,478)	$ 3,727	$ 14,989,475

	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Business-type Activities:					
Non-depreciable capital assets:					
Land	$ 143,195	$ 4,187	$ (3,908)	$ 113	$ 143,587
Construction in progress	284,181	194,134	(112,103)	(203,182)	163,030
Collections	33,130	1,107	(78)	-	34,159
Total Non-depreciable Capital Assets	460,506	199,428	(116,089)	(203,069)	340,776
Depreciable capital assets:					
Buildings	2,709,694	208,084	(12,173)	195,826	3,101,431
Improvements other than buildings	3,600	-	-	1	3,601
Equipment	1,108,706	88,749	(30,578)	(1)	1,166,876
Infrastructure	289,215	10,332	(816)	7,244	305,975
Total Depreciable Capital Assets	4,111,215	307,165	(43,567)	203,070	4,577,883
Less accumulated depreciation for:					
Buildings	(1,035,505)	(92,120)	4,623	(44)	(1,123,046)
Improvements other than buildings	(2,092)	(170)	10	1	(2,251)
Equipment	(769,387)	(68,475)	25,768	(193)	(812,287)
Infrastructure	(86,935)	(9,728)	539	(1)	(96,125)
Total Accumulated Depreciation	(1,893,919)	(170,493)	30,940	(237)	(2,033,709)
Total Depreciable Capital Assets, Net	2,217,296	136,672	(12,627)	202,833	2,544,174
Total Business-type Activities Capital Assets, Net	$ 2,677,802	$ 336,100	$ (128,716)	$ (236)	$ 2,884,950

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

General government	$	26,762
Health and welfare		19,027
Inspection and regulation		1,575
Education		1,132
Protection and safety		37,557
Transportation		15,311
Natural resources		7,153
Total Governmental Activities	$	108,517

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

Lottery	$	215
Industrial Commission Special Fund		1,157
Universities		166,799
Other		2,322
Total Business-type Activities	$	170,493

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 ASRS, the PSPRS, the EORP, and the 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 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. In addition, the ASRS administers the Health Benefit Supplement Fund (HBS) and the Long-Term Disability Fund, which are benefit cost-sharing, multiple-employer post-employment benefit plans. Although the assets of the HBS plan are commingled with assets of the Retirement Fund, each plan's assets may be used only for the payment of benefits to the members of the plan, in accordance with terms of the plan.

The **PSPRS** is an agent, multiple-employer defined benefit pension plan that benefits public safety employees of 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 203 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 20 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
3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016
(602) 255-5575

The number of participating government employers as of June 30, 2006 is shown below:

Employer	ASRS	PSPRS	EORP	CORP
Cities and towns	74	130	19	-
Counties and county agencies	15	24	15	13
State	1	1	1	1
Special districts	81	48	-	-
School districts	235	-	-	-
Charter schools	180	-	-	-
Community college districts	10	-	-	-
Dispatchers	-	-	-	6

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.

Benefit and refund payments are recognized when due and payable in accordance with the terms of the retirement health benefit supplement and long-term disability plan.

C. 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, 2006, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 7.40% (6.90% retirement and 0.50% long-term disability) of the members' annual payroll. The State's contributions to ASRS for the years ended June 30, 2006, 2005, and 2004 were $128.575, $93.148, and $87.657 million, respectively, for the primary government which were equal to the required contributions for these years.

In addition, active EORP members were required by statute to contribute 7.00% 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 20.54% of the members' annual covered payroll, as determined by actuarial valuation. The State's contributions to EORP for the years ended June 30, 2006, 2005, and 2004 were $2.140 million, $1.010 million, and $987 thousand, respectively, which were equal to the required contributions for the year.

Agent plans – For the year ended June 30, 2006, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 7.52 – 28.99%. Active CORP members were required by statute to contribute 8.50% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 5.51 – 5.56%.

D. 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, 2006, is as follows (expressed in thousands):

	PSPRS	CORP
Contribution rates:		
State	7.52 – 28.99%	5.51 – 5.56%
Plan members	7.65%	8.50%
Annual pension cost	$15,878	$17,472
Contributions made	$15,878	$17,472
Actuarial valuation date	6/30/04	6/30/04
Actuarial cost method	entry age	entry age
Actuarial assumptions:		
Investment rate of return	8.75%	8.75%
Projected salary increases	6.25 – 9.25%	6.25 – 9.25%
includes inflation at	5.25%	5.25%
Cost-of-living adjustments	None	None
Amortization method	level percent open	level percent open
Remaining amortization	20 years	20 years
Asset valuation method	smoothed market value	smoothed market value

E. 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	6/30/06	$15,878	100%	$ 0
	6/30/05	6,442	100%	0
	6/30/04	6,299	100%	0
CORP	6/30/06	17,472	100%	0
	6/30/05	12,754	100%	0
	6/30/04	11,900	100%	0

F. UNIVERSITIES' RETIREMENT PLANS

Faculty, academic professional, and administrative officers at the three universities (the ASU, the NAU, and the U of A) 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 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 ABOR. In addition, the U of A employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. Eligible classified staff belong to the ASRS. 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, 2006, plan members and the three Universities were each required by statute to contribute an amount equal to 7.00% of an employee's compensation, except for an 8.13% contribution for the ASRS defined contribution plan.

Contributions to these plans for the year ended June 30, 2006, were as follows (expressed in thousands):

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	$ 27,572	$ 27,572	$ 55,144
VALIC	3,169	3,169	6,338
Fidelity	8,455	8,455	16,910
Aetna	209	209	418
Vanguard	1,139	1,139	2,278
ASRS	108	93	201

G. POST-EMPLOYMENT 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, University Optional Retirement Plans, the PSPRS, the EORP, and the CORP may participate if they are no longer eligible for health insurance benefits through their former employer. More than 48,000 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 who 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, the PSPRS, the CORP, and the EORP that is provided by the primary government of the State. The amount of the subsidy provided to 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 $470. The ASRS reimbursed approximately $80.800 million and $89.600 million towards the cost of group health insurance coverage for the years ended June 30, 2006 and June 30, 2005, 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 the annual required contribution rate to all participating employers includes an actuarial dollar amount of $904.119 million for fiscal year 2006 (3.20% 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 2006 was 6.40%. 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, 2006, is $969.746 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 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 $1.2 billion. During the year, Highway Revenue Bonds totaling $265.650 million were issued to (i) finance portions of the Transportation Board's Five Year Transportation Facilities Construction Program, (ii) pay interest on any bonds issued for highway purposes, (iii) pay costs of issuing the bonds, and (iv) refund portions of the Board's outstanding Senior Series 1999 Bonds ($13.985 million), Senior Series 2001 Bonds ($86.170 million), and Senior Series 2002 B Bonds ($48.595 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 restrict the total principal amount of Arizona Highway Revenue Bonds that may be outstanding at any time, 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 $80.375 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 Tax 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 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 non-cancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies terminated on July 1, 2005. The premiums on these insurance policies are recorded as expenditures in the year of payment. There are no Transportation Excise Tax Revenue Bonds outstanding as of June 30, 2006.

In prior fiscal years, the ADOT refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the ADOT at June 30, 2006 totaled $212.880 million.

ADOT advance-refunded a portion of the Highway Revenue Bonds Series 1999 Bonds ($13.985 million), a portion of the Highway Revenue Bonds Series 2001 Bonds ($86.170 million), and a portion of the Highway Revenue Bonds Series 2002B Bonds ($48.595 million) to reduce its total debt service payments by $7.833 million and to obtain an economic gain (difference between the present

values of the debt service payments on the old and new debt) of $5.848 million. The payment to the refunded bond escrow agent totaled $161.726 million, representing principal of $148.750 million and interest of $12.976 million.

2. School Facilities Board

On August 18, 2005, the Arizona School Facilities Board (SFB) issued State School Improvement Revenue Refunding Bonds, Series 2005 for $448.760 million. The 2005 Bonds include $448.760 million of serial bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2007 to 2021. The 2005 Bonds maturing on or after July 1, 2015, are subject to optional redemption prior to maturity without premium. The SFB realized net proceeds from the 2005 Bonds of $484.963 million after receipt of $37.304 million net reoffering premium and payment of $1.101 million for issuance costs. The SFB net proceeds were used to advance-refund a portion of School Improvement Revenue Bonds Series 2001, 2002, and 2003 with a total outstanding principal balance of $446.680 million. The advance-refunding resulted in a debt service savings of $24.494 million and a net present value benefit of $14.907 million (difference between the present values of the old debt and new debt service payments) for the SFB. The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $21.398 million. The loss on refunding is being amortized using the straight line method as a charge to interest expense. The refunded Bonds Series 2001, 2002, and 2003 will be paid by investments held in an irrevocable trust with a fair value of $484.963 million. As a result, the refunded debt is considered to be defeased and is not included in the State's financial statements. Refunded Bonds for the SFB at June 30, 2006 totaled $446.680 million.

Business-Type Activities

3. Universities

a. University of Arizona

The U of A'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. Payment of principal and interest on bonds is secured by a pledge of tuition and fees, sales and services, auxiliary enterprises, and other charges.

On September 13, 2005, the U of A sold System Revenue Bonds Series 2005A (2005A Bonds) for $35.570 million dated September 1, 2005. The 2005A Bonds include $25.255 million of serial bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2007 to 2025. The 2005A Bonds also include two term bonds consisting of $4.785 million with an interest rate of 5.00% due June 1, 2028, and $5.530 million with an interest rate of 5.00% due June 1, 2031. The 2005A Bonds with maturity on or after June 1, 2016, are subject to optional redemption without premium. The 2005A Bonds with maturity on June 1, 2028 and June 1, 2031, are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2005A Bonds sold at a premium of $1.372 million and had accrued interest of $119 thousand. The U of A realized net proceeds of $36.647 million after payment of $414 thousand for issuance costs, underwriter discounts, and bond insurance. The net proceeds were used to finance the Architecture Building Expansion Project, the Poetry Center Project, the Residence Life Building Renewal Phase II Project, the Deferred Renovation - Building Renewal and Infrastructure Project, and to pay the December 1, 2005 interest payments on the U of A's System Revenue Bonds Series 1992A, 1998, 2002, 2003, 2004A, and 2004B. The interest payments from the net proceeds provided budget relief to assist the U of A with implementing a budget stabilization plan.

On May 9, 2006, the U of A sold System Revenue Bonds Series 2006A (2006A Bonds) for $17.645 million dated May 1, 2006. The 2006A Bonds include $17.645 million of serial bonds with an interest rate of 5.00% and maturity dates ranging from 2016 to 2020. The 2006A Bonds with maturity on or after June 1, 2017, are subject to optional redemption without premium. The 2006A Bonds sold at a premium of $993 thousand. The U of A realized net proceeds of $18.477 million after payment of $303 thousand for issuance costs, underwriter discounts, and bond insurance and a U of A Contribution of $142 thousand. The net proceeds were used to pay the June 1, 2006 principal and interest payments on the U of A's System Revenue Bonds Series 1992A, 1998, 2002, 2003, 2004A, and 2004B. This provided budget relief to assist the U of A with implementing a budget stabilization plan.

In fiscal year 2003, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2000A. At June 30, 2006, the outstanding principal balance of the refunded bonds was $4.330 million, which will be paid by investments held in an irrevocable trust with a fair value of $4.364 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the U of A's financial statements.

In fiscal year 2005, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 1998 and the remaining portion of System Revenue Bonds Series 2000A. At June 30, 2006, the total outstanding principal balance of the refunded bonds was $28.285 million, which will be paid by investments held in an irrevocable trust with a total fair value of $29.859 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the U of A's financial statements.

b. Northern Arizona University

On October 19, 2005, the NAU sold System Revenue Bonds Series 2005 for $15.255 million dated November 1, 2005. The 2005 Bonds include $6.280 million of serial bonds with interest rates ranging from 3.00% to 4.50% and maturity dates ranging from June 1, 2007 to June 1, 2026. The 2005 Bonds also include $8.975 million of term bonds, with interest rates ranging from 4.60% to 5.125% and maturing on June 1, 2030, 2035, and 2040. The 2005 Bonds were sold with net original issue discount of $11 thousand. NAU realized net proceeds of $15.000 million after payment of $244 thousand for issuance costs, underwriter discounts, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The net proceeds of $15.000 million are being used to finance a new parking garage and enclosed pedestrian bridge on the NAU's Mountain Campus.

In prior years, the NAU 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 NAU's financial statements. At June 30, 2006, $25.425 million of such bonds outstanding are considered defeased.

c. Arizona State University

At June 30, 2006, the ASU held a combination of fixed and variable rate bonds. The ASU's fixed rate bonded debt consists of various issues of system revenue bonds that are generally callable at a prescribed date with interest payable semi-annually. In prior years, certain system revenue bonds of the ASU were defeased through advance-refunding by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, the liabilities for these defeased bonds are not included in the ASU's financial statement. The principal amount of all such bonds outstanding June 30, 2006 was $46.900 million.

The ASU had outstanding two series of variable rate demand system revenue bonds, Series 2003A and 2003B, totaling $103.000 million, with final maturities of July 1, 2034. Both series of bonds continue to bear interest at a weekly rate not to exceed 12.00% per annum based upon prevailing market conditions, as determined by the respective remarketing agents. The bonds are subject to conversion, at the option of the Arizona Board of Regents on behalf of the ASU, to a different or alternate adjustable rate mode, or a fixed rate pursuant to the bond indenture. The interest rate in effect at June 30, 2006 was 3.95% for the Series 2003A bonds and Series 2003B bonds.

The variable rate bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the remarketing agents. If the remarketing agents are unable to resell the bonds, the ASU has a Standby Purchase Agreement with Bank of America, N.A. to extend credit through the purchase of the unremarketed bonds. Assuming all of the $51.500 million Series 2003A bonds and $51.500 million Series 2003B bonds are not resold within 90 days, the ASU would be responsible to make annual installment principal payments of $20.600 million over a five year period, plus interest to be calculated as established in the Standby Purchase Agreement. The ASU has agreed to pay Bank of America, N.A. an annual commitment fee of 0.18% on the outstanding principal for the Standby Purchase Agreement. The Standby Purchase Agreement is valid through October 15, 2008.

Securities and cash restricted for bond debt service held by the trustee at June 30, 2006 totaled $26.500 million.

Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2006 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2006
Governmental Activities:				
Department of Transportation	1992-2006	2007-2025	3.40-6.00%	$1,223,425
School Facilities Board	2001-2006	2007-2021	.14-5.75%	883,275
Proprietary Funds:				
University Revenue Bonds	1969-2006	2007-2040	2.50-7.13%	802,600

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2006 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
2007	$ 102,860	$ 105,615	$ 208,475	$ 42,435	$ 37,731	$ 80,166
2008	108,925	100,895	209,820	47,215	35,665	82,880
2009	114,715	95,301	210,016	44,255	33,463	77,718
2010	121,080	89,683	210,763	46,335	31,203	77,538
2011	127,520	83,171	210,691	48,425	28,869	77,294
2012-2016	683,110	314,651	997,761	213,950	111,319	325,269
2017-2021	691,865	128,726	820,591	140,810	65,254	206,064
2022-2026	156,625	14,900	171,525	95,660	38,993	134,653
2027-2031	-	-	-	74,460	18,949	93,409
2032-2036	-	-	-	45,875	4,595	50,470
2037-2040	-	-	-	3,180	417	3,597
Total	$ 2,106,700	$ 932,942	$ 3,039,642	$ 802,600	$ 406,458	$ 1,209,058

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 in prior years and outstanding at the start of the fiscal year was $363.970 million.

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

Grant Anticipation Notes Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2006
Governmental Activities:				
Department of Transportation	2000-2005	2007-2016	2.50-5.25%	$ 325,430

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
2007	$ 42,570	$ 14,578	$ 57,148
2008	36,565	13,300	49,865
2009	29,990	11,832	41,822
2010	31,350	10,468	41,818
2011	32,785	9,034	41,819
2012-2016	152,170	20,075	172,245
Total	$ 325,430	$ 79,287	$ 404,717

C. CERTIFICATES OF PARTICIPATION

Governmental Activities

1. Department of Administration

The State has issued 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 leases will terminate and there can be no assurance that the proceeds for the re-leasing or sale of the projects will be sufficient to pay principal and interest with respect to the then outstanding COPs. The scheduled payments of principal and interest with respect to the COPs are guaranteed under certificate insurance policies. The State's obligation to make lease payments does not constitute a debt or liability of the State within the meaning of any constitutional or statutory limitation. Neither the full faith and credit nor the general taxing power of the State is pledged to make payments of principal or interest due with respect to the COPs. Such payments will be made solely from amounts derived under the terms of the lease, including lease payments, and amounts from time to time on deposit under the terms of the declaration of trust.

2. School Facilities Board

In prior fiscal years, the SFB refinanced various COPs through advance-refunding arrangements. Under the terms of the refundings, sufficient assets to pay all principal, redemption premiums, if any, and interest on the refunded COPs have been placed in irrevocable trust accounts at commercial banks and invested in U.S. securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased COPs are not reflected in the accompanying financial statements. Refunded COPs for the SFB at June 30, 2006 totaled $311.130 million.

Business-Type Activities

3. University of Arizona

On November 16, 2005, the U of A issued Refunding COPs Series 2005D, 2005E, 2005F, 2005G, 2005H, 2005I (2005D-I) for $6.655 million, $3.555 million, $14.915 million, $2.245 million, $770 thousand, and $1.320 million, respectively, dated November 1, 2005 at a net premium of $202 thousand. The 2005D-I COPs include $29.460 million of serial certificates with interest rates ranging from 3.25% to 5.00% and maturity dates ranging from 2006 to 2025. The 2005D-I Certificates maturing on or after June 1, 2016, are subject to optional redemption prior to maturity without premium and there are also extraordinary redemption dates pursuant to the debt documents.

The U of A realized net proceeds from the 2005D-I COPs of $29.147 million after payment of $515 thousand for issuance costs, underwriters discount, and bond insurance. These net proceeds were used for the following:

- Pay the December 1, 2005 debt service interest payments on the COPs Series 1999A, 1999B, 1999, 2000A, 2001A, 2001B, 2002A, 2002B, 2003A, 2003B, and 2004A, which provided budget relief to assist the U of A with implementing a budget stabilization plan.

- Current-refund a $14.070 million principal portion of a variable rate COPs Series 2000A. At the time of the refunding, the effective rate of the refunded 2000A variable rate COPs was 3.05% and the maximum annual interest rate could not exceed 12.00%. Depending on what the future changes might have been in the variable rates of the refunded 2000A COPs, the difference in debt service payments resulting from changes in variable interest rates compared to the 2005F Certificates' average fixed interest rate of 4.30% over the next 19 years is ($2.130 million) to $15.417 million. The difference between the present value of the old and new debt service payments results in a range of an economic loss of $135 thousand to an economic gain of $974 thousand. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $209 thousand. This difference, reported in the accompanying financial statements as a deduction of long-term debt, is being amortized to interest expense through the year 2025 using the straight-line method.

- Refund in advance of maturity a $6.555 million principal portion of the COPs Series 1999A and the $3.290 million principal balance of the Series 1999. The advance-refunding generated a combined net present value economic gain of $437 thousand (difference between the present values of the old debt and new debt service payments) for the U of A. The advance-refunding decreases the U of A's debt service by $260 thousand in year one, $43 thousand in year two, and by an average $27 thousand in years three through nine when the annual debt service increase by an average of $4 thousand from years ten through fifteen. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $654 thousand. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being amortized to interest expense through the year 2020 using the straight-line method. The refunded COPs Series 1999A and 1999 will be paid by investments held in an irrevocable trust with a combined fair value of $9.969 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the U of A's financial statements.

On May 9, 2006, the U of A issued Refunding COPs Series 2006A, 2006B, 2006C, 2006D, and 2006E (2006A-E) for $35.785 million, $12.395 million, $6.100 million, $1.285 million, and $3.085 million, respectively, dated May 1, 2006, at a net premium of $996 thousand. The 2006A-E COPs include $58.650 million of serial certificates with interest rates ranging from 3.60% to 5.00% and maturity dates ranging from 2007 to 2025. The 2006A-E COPs maturing on or after June 1, 2017, are subject to optional redemption prior to maturity without premium, and there are also extraordinary redemption dates pursuant to the debt documents.

The U of A realized net proceeds from the 2006A-E COPs of $58.824 million after payment of $913 thousand for issuance costs, underwriters discount, and bond insurance and the U of A contribution of $91 thousand. The net proceeds were used for the following:

- Pay the June 1, 2006 debt service principal and interest payments on the COPs Series 1999A, 2000A, 2001A, 2001B, 2002A, 2002B, 2003A, 2003B, and 2004A.

- Current-refund the variable rate COPs Series 1999B and the remaining portion of the variable rate COPs Series 2000A, with outstanding principal balances of $36.500 million and $11.530 million, respectively. At the time of the refunding, the effective rate of the refunded 1999B and 2000A variable rate COPs was 3.60% and the maximum annual interest rate could not exceed 12.00%. Depending on what the future changes might have been in the variable rates of the refunded 1999B and 2000A COPs, the difference in the combined debt service payments resulting from changes in variable interest rates compared to the 2006A Certificates' average fixed interest rate of 4.90% over the next 18 years is ($7.290 million) to $45.871 million. The difference between the present values of the old and new debt service payments results in a range of an economic loss of $486 thousand to an economic gain of $3.058 million. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $629 thousand. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being amortized to interest expense through the year 2025 using the straight-line method.

On June 6, 2006, the U of A issued COPs Series 2006 for $18.240 million at a discount of $104 thousand dated June 1, 2006. The 2006 COPs include two term certificates consisting of $3.780 million with an interest rate of 4.50% due June 1, 2028, and $6.320 million with an interest rate of 4.50% due June 1, 2031. The 2006 COPs with maturity on or after June 1, 2017, are subject to optional redemption without premium. The 2006 COPs with maturity on June 1, 2028 and June 1, 2031, are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. There are also extraordinary redemption dates pursuant to the debt documents. The U of A realized net proceeds of $17.807 million after payment of $329 thousand for issuance costs,

underwriter discounts, and bond insurance. The net proceeds were used to finance the Arizona Biomedical Research Collaborative Building construction project.

The U of A has outstanding at June 30, 2006, variable rate COPs, Series 2004B, totaling $41.400 million. These certificates bear interest at a weekly rate, determined by J.P. Morgan Securities as remarketing agents, with a final maturity date of June 1, 2031. 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 2004B COPs will bear interest at a weekly rate not to exceed 12.00% per annum determined under prevailing market conditions by the remarketing agent. The variable rate COPs are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the remarketing agents. If the remarketing agents are unable to resell the demand certificates, the U of A has Standby Purchase Agreements with Bayerische Landesbank to extend credit through the purchase of the un-marketed certificates. Assuming all of the $41.400 million COPs are not resold within 90 days, the U of A would be responsible to make annual installment principal payments of $8.280 million over a five year period, plus interest to be calculated as established in the Standby Purchase Agreements. Bayerische Landesbank charges the U of A an annual Standby Purchase Agreement commitment fee on the outstanding principal for the COPs for the Series 2004B. The fee is 0.19%. The Standby Purchase Agreement is valid through November 30, 2015.

In fiscal year 2003, the U of A refunded, in advance of maturity, a portion of outstanding COPs Series 2001B. At June 30, 2006, the outstanding principal balance for the COPs Series 2001B was $5.465 million, which will be paid by investments held in an irrevocable trust with a fair market value of $5.437 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the U of A's financial statements.

In fiscal year 2005, the U of A refunded, in advance of maturity, a portion of outstanding COPs Series 1999A, 1999, and 2001A. At June 30, 2006, the total outstanding principal balance for the COPs Series 1999A, 1999, and 2001A was $41.935 million, which will be paid by investments held in an irrevocable trust with a fair value of $43.283 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the U of A's financial statements.

4. Arizona State University

During fiscal year 2006, the ASU issued $15.810 million in certificates of participation to fund the Arizona Biomedical Research Collaborative Building in cooperation with the U of A and to provide additional funding for Biodesign Institute Building B. The 2006 COPs were issued in June 2006 at an average interest rate of 4.52%. The annual debt service for the 2004, 2005A, and 2006 COPs will be funded by state appropriations in the amount of $14.500 million annually beginning in fiscal 2008.

Securities and cash restricted for COP debt service held by the trustee at June 30, 2006 totaled $21.800 million.

5. Northern Arizona University

On July 27, 2005, the NAU issued COPs Series 2005 for $40.255 million dated August 1, 2005. The Series 2005 COPs included $31.455 million of serial certificates with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2008 to 2029. The 2005 COPs also included $8.800 million of term certificates with interest rates ranging from 4.75% to 5.00% and maturing on September 1, 2020 and September 1, 2030. The 2005 COPs were issued at a premium of $1.158 million. NAU realized net proceeds of $40.763 million after payment of $650 thousand for issuance costs, underwriters discount, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The net proceeds are being used to finance the Laboratory Facility building and the North Campus Research Infrastructure project.

On June 7, 2006, the NAU issued COPs Series 2006 for $12.445 million dated June 1, 2006. The Series 2006 COPs included $9.390 million of serial certificates with interest rates ranging from 4.00% to 4.40% and maturity dates ranging from 2008 to 2027. The 2006 COPs also included a $3.055 million term certificate with an interest rate of 4.50% and maturing on September 1, 2030. The 2006 COPs were issued at a net discount of $169 thousand. NAU realized net proceeds of $12.004 million after payment of $272 thousand for issuance costs, underwriters discount, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The net proceeds are being used to finance the Arizona Western NAU Yuma Research Facility project and the Utility Infrastructure project.

A summary of the COPs issued as of June 30, 2006, is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Amount Authorized And Issued	Outstanding Balance	Interest Rates
Governmental Activities:					
Refunding Certificates of 92A, 92C, & 1091	2001	2011	$ 57,930	$ 34,700	4.00 – 5.25
Health Lab/HRIS	2002	2023	63,270	52,655	3.50 – 5.50
Refunding Certificates of 92B	2002	2011	75,295	62,765	2.90 – 5.50
School Facilities Board 2003A	2003	2018	372,730	154,270	2.50 – 5.00
School Facilities Board 2003B	2004	2019	194,610	115,170	2.25 – 5.25
School Facilities Board 2004A	2004	2019	47,160	44,405	2.00 – 5.00
ADOA Refunding Certificates of 93B	2004	2012	16,725	13,620	3.00 – 5.00
ADOA Series 2004B	2004	2019	31,965	30,260	3.00 – 5.25
School Facilities Board 2004B	2005	2020	190,040	131,155	3.50 – 5.25
School Facilities Board 2004C	2005	2020	47,585	47,585	3.00 – 5.00
SFB Refunding Certificates of 2003A	2005	2018	201,125	201,125	2.50 – 5.00
SFB Refunding Certificates of 2003B	2005	2019	80,055	80,055	2.50 – 5.00
SFB Refunding Certificates of 2004B	2005	2020	53,045	53,045	2.50 – 5.00
Total Governmental Activities:			$ 1,431,535	$ 1,020,810	
Business-Type Activities:					
Arizona State University:					
Towers Project	1991	2011	$ 4,500	$ 1,815	6.89
Downtown Center – 1999A	1999	2025	5,620	4,935	5.75
Downtown Center – 1999B	1999	2025	5,165	4,690	8.00
2002 Certificates of Participation	2002	2027	103,800	95,460	4.75
2004 West Campus – Refunding	2004	2010	22,495	22,495	2.36
2004 Certificates of Participation	2005	2031	80,275	80,275	4.89
2005A Certificates of Participation	2005	2031	110,115	110,115	4.36
2006 Certificates of Participation	2006	2031	15,810	15,810	4.52
University of Arizona:					
Fixed Student Union A	1999	2020	21,607	3,601	5.13 – 5.30
Parking Garage/Residence Hall	1999	2009	18,635	505	4.85 – 5.00
Park Student Union/Ln Svcs/6th St Gar	2001	2025	31,695	15,165	3.88 – 5.50
Gittings Bldg. Highland Infra. Life Sci.	2001	2022	21,425	13,385	4.00 – 5.13
Student Housing, Health Bldg., UA North	2002	2022	76,965	64,400	4.13 – 5.50
Meinel Bldg & Refund COPS 1994B	2002	2023	29,845	28,845	3.00 – 5.13
Refund COPS 1997 & Portion of Series 2001B	2003	2022	10,615	10,615	3.50 – 5.00
Med. Resh. Bldg./Biomed Sci./Tech. Infstr.	2004	2031	153,960	152,360	2.00 – 5.25
Chem.Bldg./Res.Life/Pkg.Garage/Rfnd.COPS	2004	2029	42,020	40,895	3.50 – 5.25
Chemical Building Expansion	2004	2031	41,400	41,400	Variable not to exceed 12
Refund COPS 1999A	2005	2024	12,660	12,660	4.00 – 5.00
Refund COPS 1999	2005	2024	14,825	14,825	5.00
Refund COPS 2001A	2005	2022	16,330	16,330	4.13 – 5.00
Refund COPS 1999, 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	29,460	29,010	3.25 – 5.00
Refund COPS 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	58,650	58,650	3.60 – 5.00
Biomed Rsch Collab Bldg Project	2006	2031	18,240	18,240	4.00 – 5.00
Northern Arizona University:					
2004 Certificates of Participation	2005	2030	37,585	37,585	2.50 – 5.13
2005 Certificates of Participation	2006	2031	40,255	40,255	3.00 – 5.00
2006 Certificates of Participation	2006	2031	12,445	12,445	4.00- 4.50
Total Business-Type Activities:			$ 1,036,397	$ 946,766	
Total Certificates of Participation			$ 2,467,932	$ 1,967,576	

Principal and interest debt service requirements on COPs outstanding at June 30, 2006, 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
2007	$ 60,945	$ 47,664	$ 108,609	$ 16,805	$ 43,755	$ 60,560
2008	63,215	45,202	108,417	30,160	43,139	73,299
2009	65,805	42,417	108,222	31,155	42,043	73,198
2010	68,580	39,425	108,005	32,120	40,715	72,835
2011	71,680	36,120	107,800	28,255	39,623	67,878
2012-2016	414,055	122,826	536,881	189,885	177,004	366,889
2017-2021	272,090	21,998	294,088	251,126	123,432	374,558
2022-2026	4,440	229	4,669	205,145	62,924	268,069
2027-2031	-	-	-	162,115	19,958	182,073
Total	$ 1,020,810	$ 355,881	$ 1,376,691	$ 946,766	$ 592,593	$ 1,539,359

D. LEASES AND INSTALLMENT PURCHASES

1. Leases

The total operating lease expenditures for the fiscal year ended June 30, 2006, were $32.576 million for governmental activities and $20.422 million for business-type activities. The future minimum lease payments for long-term operating leases as of June 30, 2006, are summarized below (expressed in thousands):

Fiscal Year	Governmental Activities	Business-type Activities	Total
2007	$ 24,926	$ 3,022	$ 27,948
2008	17,468	2,343	19,811
2009	13,462	919	14,381
2010	7,121	462	7,583
2011	2,051	227	2,278
2012-2016	794	-	794
Total Minimum Lease Payments	$ 65,822	$ 6,973	$ 72,795

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. Capital lease assets and liabilities are reported on the government-wide Statement of Net Assets. A lease is reported as a capital lease if one or more of the following criteria are 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 75.00% or more of the useful life of the leased asset. (This criteria does not apply if the beginning lease term falls within the last 25.00% 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 90.00% of the fair market value of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25.00% of the total useful life of the asset.)

The future minimum lease payments for long-term capital leases as of June 30, 2006 are summarized below (expressed in thousands):

	Annual Debt Service	
Fiscal Year	Governmental Activities	Business-type Activities
2007	$ 14,963	$ 9,209
2008	15,217	9,521
2009	15,348	9,842
2010	14,323	8,907
2011	12,433	8,292
2012-2016	64,468	36,253
2017-2021	70,638	30,656
2022-2026	76,375	30,072
2027-2031	20,435	30,414
2032-2036	-	15,543
Total minimum lease payments	304,200	188,709
Less: amount representing interest	(76,254)	(75,321)
Less: amount representing executory costs	(98,138)	-
Obligations under capital leases	$ 129,808	$ 113,388

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 as of June 30, 2006, are summarized below (expressed in thousands):

	Annual Debt Service	
Fiscal Year	Governmental Activities	Business-type Activities
2007	$ 2,530	$ 2,637
2008	2,270	2,255
2009	1,625	2,034
2010	754	1,600
2011	-	1,600
2012-2016	-	1,676
2017-2021	-	135
Total future minimum payments	7,179	11,937
Less: amount representing interest	(364)	(1,658)
Obligations under installment purchases	$ 6,815	$ 10,279

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 COPs (expressed in thousands):

	Governmental Activities	Business-type Activities
Land	$ 6,078	$ -
Construction in progress	24,747	-
Buildings	302,427	1,067,487
Improvements other than buildings	3,653	-
Equipment	64,308	56
	401,213	1,067,543
Less: Accumulated Depreciation	(118,486)	(72,218)
Carrying Value	$ 282,727	$ 995,325

E. LITIGATION

The amounts shown for the *Ladewig vs. Arizona Department of Revenue* and the *Kerr vs. Killian* settlements are further discussed in Note 10.B – *Litigation*. The State has typically paid for litigation from the General Fund.

F. 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 2006, the State paid for compensated absences as follows: 85.00% from the General Fund, 9.00% from other funds, and 6.00% from other major funds.

G. CHANGES IN LONG-TERM OBLIGATIONS

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

	Balance July 1, 2005	Increases	Decreases	Reclassifications	Balance June 30, 2006	Due Within One Year	Due Thereafter
Governmental Activities:							
Long-term Debt:							
Revenue bonds	$ 2,170,845	$ 714,410	$ (778,555)	$	$ 2,106,700	$ 102,860	$ 2,003,840
Grant anticipation notes	363,970	-	(38,540)		325,430	42,570	282,860
Certificates of participation	1,054,677	-	(33,867)		1,020,810	60,945	959,865
Capital leases	126,676	8,752	(5,620)		129,808	5,699	124,109
Installment purchase contracts	6,926	2,091	(2,202)		6,815	2,342	4,473
Premiums and discounts on debt	197,479	59,711	(37,232)		219,958	19,947	200,011
Deferred amounts on refundings	-	(21,398)	3,566		(17,832)	(3,566)	(14,266)
Total Long-term Debt	3,920,573	763,566	(892,450)	-	3,791,689	230,797	3,560,892
Other Long-term Liabilities:							
Compensated absences	153,235	214,909	(233,798)		134,346	127,749	6,597
Ladewig vs. Arizona Department of Revenue Settlement	150,905	-	(74,789)		76,116	76,116	-
Kerr vs. Killian Settlement	-	15,000	-		15,000	15,000	-
Total Other Long-term Liabilities	304,140	229,909	(308,587)	-	225,462	218,865	6,597
Total Long-term Obligations	$ 4,224,713	$ 993,475	$ (1,201,037)	$ -	$ 4,017,151	$ 449,662	$ 3,567,489
Business-type Activities:							
Long-term Debt:							
Revenue bonds	$ 768,000	$ 68,470	$ (33,870)	$	$ 802,600	$ 42,435	$ 760,165
Certificates of participation	860,759	175,027	(89,020)		946,766	16,805	929,961
Capital leases	120,361	-	(6,973)		113,388	4,057	109,331
Installment purchase contracts	7,276	4,764	(1,761)		10,279	2,180	8,099
Notes payable	30	-	(30)		-	-	-
Premiums and discounts on debt	36,133	4,534	(3,723)	1,387	38,331	1,633	36,698
Deferred amounts on refundings	(20,821)	(1,492)	2,094	(1,387)	(21,606)	(1,688)	(19,918)
Total Long-term Debt	1,771,738	251,303	(133,283)	-	1,889,758	65,422	1,824,336
Other Long-term Liabilities:							
Compensated absences	55,819	72,134	(65,118)		62,835	10,622	52,213
Total Other Long-term Liabilities	55,819	72,134	(65,118)	-	62,835	10,622	52,213
Total Long-term Obligations	$ 1,827,557	$ 323,437	$ (198,401)	$ -	$ 1,952,593	$ 76,044	$ 1,876,549

The above long-term obligations relating to governmental activities include Internal Service Funds. Amounts for capital leases and compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets because $11.130 million of capital leases and $12.346 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, 2006 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	$ -	$ -	$ 392	$ 42,695	$ 3	$ 1,694	$ 44,784
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	66,822	-	-	2,861	131,307	-	200,990
Land Endowments Fund	2,247	-	-	10,859	-	1	13,107
Non-Major Governmental Funds	26,809	-	-	1,451	-	681	28,941
Unemployment Compensation Fund	3	-	-	755	-	-	758
Lottery Fund	16,135	-	-	1,041	-	-	17,176
Non-Major Enterprise Funds	150,559	20,000	-	-	-	1	170,560
Internal Service Funds	1,025	-	-	3	-	1,090	2,118
Total Due From	$ 263,600	$ 20,000	$ 392	$ 59,665	$ 131,310	$ 3,467	$ 478,434

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.

The following interfund balances are not expected to be repaid within one year (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
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	$ 64,518	$ -	$ -	$ -	$ 98,900	$ -	$ 163,418
Non-Major Enterprise Funds	150,494	-	-	-	-	-	150,494
Total Due From	$ 215,012	$ -	$ -	$ -	$ 98,900	$ -	$ 313,912

Interfund Transfers

Transfers for the year ended June 30, 2006 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 Fund	Industrial Commission Special Fund	Non-Major Enterprise Funds	Total Transfers Out
General Fund	$ -	$ 859	$ 131	$ 65,198	$ 851,304	$ -	$ -	$ 917,492
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	32,383	-	-	425,474	-	-	-	457,857
Land Endowments Fund	1,524	-	-	47	-	-	-	1,571
Non-Major Governmental Funds	177,086	3,067	-	9,571	-	19,000	110	208,834
Unemployment Compensation Fund	17	-	-	2,550	-	-	-	2,567
Lottery Fund	65,193	-	-	27,174	-	-	-	92,367
Non-Major Enterprise Funds	988	-	-	-	-	-	-	988
Internal Service Funds	791	-	-	30	-	-	-	821
Total Transfers In	$ 277,982	$ 3,926	$ 131	$ 530,044	$ 851,304	$ 19,000	$ 110	$ 1,682,497

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. FUND DEFICIT

A. INDUSTRIAL COMMISSION SPECIAL FUND

The Industrial Commission Special Fund deficit decreased in the amount of $83.116 million from $192.766 million to $109.650 million during fiscal year 2006. The main contributor to the Special Fund deficit continues to be the insolvent carrier liability, which was $263.212 million at June 30, 2006. The Special Fund is responsible for paying all current and future Arizona workers' compensation claims of insolvent insurance carriers and self-insured plans. Some of the claims expense will be recovered over a period of years as the Special Fund receives liquidation distributions from the insolvent companies. The 2006 calendar year assessments percentage for the State Compensation Fund and privately owned insurance companies that provide workers' compensation insurance is 2.50%, the largest amount currently authorized in Arizona law. In 2005, ARS §23-1081(B) was amended to permit surplus in the Industrial Commission Administrative Fund to be transferred to the Special Fund when the Special Fund is not actuarially sound. During fiscal year 2006, $19.000 million was transferred from the Administrative Fund to the Special Fund.

B. HEALTHCARE GROUP

The Healthcare Group (HCG) incurred an operating loss of $6.137 million in 2006 and $4.844 million in 2005 and at June 30, 2006 had a fund deficit of $3.696 million. Additionally, current liabilities exceeded current assets by $1.723 million at June 30, 2006.

Three factors were the primary contributors to the decrease in net assets in fiscal year 2006. The most significant were the $8.629 million stop-loss coverage reconciliation costs for the HMO model insurance contractors that are $4.000 million in excess of the premium revenue set aside for the HMO benefit plans' stabilization reserve. The second was PPO model benefit claims that have been incurred but not yet received or paid in excess of the premium based reserves collected for the purpose of paying medical claims. The third factor contributing to the decrease in net assets was a continuation from fiscal year 2005 of the startup costs associated with the introduction of the new PPO product.

In response to the decreases in net assets and liquidity concerns described above, HCG has started the following intensive initiatives:

- HCG will conduct an organization-wide review of operating expenditures and will implement a plan which could include elimination of personnel and reengineering of job assignments and duties.
- Premium increases were implemented in July, 2006 for new HMO members and in September, 2006 for renewing members. Analysis of fiscal year 2006 claims experience indicates that groups with 1 employee consume disproportionately more healthcare services than the larger groups. Therefore, HCG's pricing strategy includes the implementation of actuarially determined premium rates for groups with 1 employee which are designed to cover the costs of their disproportionate consumption of services. HCG began implementing this strategy for PPO "groups of 1" in Maricopa County in July, 2006. A second increase will be implemented in January, 2007 at which time the "group of 1" rate will be implemented across the State in both the HMO and the PPO.
- Beginning in January, 2007, co-payments associated with primary care, ambulatory care, and hospitalization will be increased.
- Amend the contracted health plan contracts, effective July 1, 2006 to include PPO and HCG HMO program administrative costs and PPO claim costs as authorized allocations from the HMO stabilization reserve monies on an as needed basis.
- In March, 2007, HCG will introduce a Point-of-Service plan and begin tiering its hospital network. When a member requires inpatient or outpatient care from a hospital provider, their co-insurance payment will be dependent upon the level or "tier" of the hospital they choose. Hospitals will be classified into tiers based on the discounts that they offer to HCG. Members will incur less out of pocket costs if they choose a Tier 1 hospital vs. a Tier 2 or Tier 3 hospital.

The HCG management represents that successful implementation of these operating improvements will provide sufficient cash to fund operating expenses. However, there can be no assurance that these operating improvements will occur or will provide sufficient cash to fund operating expenses. Additionally, if enrollment growth and across-the-board premium increases are not sufficient to fund the reserves for past losses and future stop-loss and claims experience costs, then the HCG will be required to scale back administrative expenditures to the level supported by actual enrollment and/or require a subsidy from the State General Fund to cover these operating costs. There can be no assurances that the Legislature will approve such a subsidy from the State General Fund. Accordingly, the accompanying financial statements have been prepared assuming that the HCG will continue as a going concern. The matters discussed above raise substantial doubt about the HCG's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the HCG be unable to continue as a going concern.

C. RISK MANAGEMENT FUND

Risk Management Fund (RMF) - The RMF deficit of $330.819 million is primarily due to the RMF receiving annual funding only for expected paid claims (self-insured and excess insurance expenditures, legal and other claim related expenditures, and administrative expenditures), and not being funded for non-current accrued insurance losses. Accrued insurance losses of the RMF are not considered when determining funding for each fiscal year.

D. RETIREE ACCUMULATED SICK LEAVE FUND

The Retiree Accumulated Sick Leave pays retirees their accumulated sick leave upon retirement from State service when they meet certain criteria. When a retiree submits an application to receive their sick leave benefits, the entire liability is recorded in the fund. The retirees receiving benefits are paid in three equal annual installments; however, State agencies pay for only one year based on a .40% charge on gross payroll. The $3.263 million fund deficit is primarily due to the above funding mechanism.

NOTE 9. JOINT VENTURE

The U of A is a participant in the Large Binocular Telescope Corporation (LBT). The LBT was formally incorporated as a nonprofit corporation in August 1992, pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the U of A and the Arcetri Astrophysical Observatory in Florence, Italy (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 U of A, Arcetri Research Corporation, Ohio State University and the LBT Beteiligungsgesellschaft.

The U of A has committed resources equivalent to 25.00% of the project's construction costs and the LBT's annual operating costs. As of June 30, 2006, the U of A has made cash contributions of $18.159 million toward the project's construction costs. The U of A's financial interest represents its future viewing/observation rights. Upon completion of construction, these 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, 2005, assets, liabilities, revenues, and expenses totaled $109.000 million, $2.000 million, $10.000 million, and $3.000 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.

NOTE 10. 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 Special Fund 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 Commission encompass losses against uninsured or underinsured employers and insolvent insurance carriers and would include payments for vocational rehabilitation, medical conditions incurred

prior to 1973, apportionment claims for pre-existing industrial and non-industrial related physical impairments, and compensation for loss of earnings associated with the disability. The Commission is totally self-insured.

The State records claims liability when the reported loss is probable and reasonably estimated. On an annual basis, independent actuarial firms are engaged to estimate the State's total year-end outstanding claims liability, which takes into account recorded claims and related allocated claims adjustment expenditures, loss development factors, and an estimate for incurred but not reported claims.

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 Special Fund (Enterprise Fund). As discussed in the above 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 and assessments on gross premium revenues currently fund the Commission Special Fund. To provide funding for workers' compensation claims, the Commission may 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. Beginning in calendar year 2004, a 1.50% assessment was levied under ARS §23-1065(A) because of a deficit net assets balance resulting from an increase in accrued insurance losses due to defunct insurance carriers.

The major reason for the decrease in insolvent carrier liabilities from July 1, 2005 through June 30, 2006 was the additional 12 months of workers' compensation case development without a significant number of new cases being assigned to the State Compensation Fund under ARS §23-966(A). The total of all three assessments for the Industrial Commission Special fund in 2006 is 2.50%. This includes the 1.50% assessment under ARS §23-1065(A), .50% assessment under ARS §23-966(D), based on the insolvent carrier losses, and .50% assessment under ARS §23-1065(F) based on the total apportionment liability. The Commission has filed pending proof of claim requests with ancillary receivers, liquidators holding deposits and surety bonds of several insolvent companies. Since the actual amount that will ultimately be received cannot be determined, the 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 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. 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, 2005 and June 30, 2006 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2005	$ 243,128	$ 127,775	$ 69,303	$ 301,600
2006	301,600	135,364	69,764	367,200
Industrial Commission Special Fund:				
2005	384,936	101,395	24,733	461,598
2006	461,598	(36,513)	14,842	410,243

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 50.00% 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. The remaining issues concern the administration of the settlement. The Department moved to correct claim errors that were caused by computer and clerical mistakes and resulted in millions of dollars in overpayments on the first installment to approximately 3,250 class members. The Tax Court ruled in November 2005 that the Department could not recover amounts previously paid to class members, but could offset the overpayments against the amounts due for the remaining two installments. Accordingly, the State has recorded a liability in its financial statements in the amount of $76.116 million.

In *Kerr vs. Killian,* federal employees claimed an income tax refund on taxes paid on federal employee contributions. Prior to 1990, the Arizona statutes allowed state employees to deduct mandatory employee pension contributions, but did not provide a similar deduction for federal employees. After 1990, Arizona amended the statutes to just adopt federal adjusted gross income. Contributions that are deductible at the federal level are also deductible for Arizona tax purposes. The Arizona Supreme Court held that Arizona's tax statutes after 1990 did not discriminate against federal employees based on the source of income. The United States Supreme Court denied review. The Arizona Court of Appeals remanded the case for the earlier years to take a fresh look at the class certification issue. The parties then entered into a settlement agreement which the tax court has approved. Accordingly, the State has recorded a liability in its financial statements in the amount of $15.000 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 judgment 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 under funding. 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 filed a petition for review in the Arizona Supreme Court, which was denied. The matter was remanded to the Superior Court. In 2006, the parties completed discovery and the State filed a Motion for Summary Judgment in mid-2006. One of the grounds for the Motion for Summary Judgment was the plaintiff school districts' failure to apply for funding under the Emergency Deficiencies Correction Fund (ARS §15-2022). The matter was set for trial in late October, 2006, but the Superior Court granted summary judgment in favor of the State based on the failure of the plaintiff districts to apply for emergency deficiency monies. However, because one of the plaintiffs had applied for emergency funding for some of its projects in July, 2006, and because another of the three plaintiffs submitted a request for emergency funding after the summary judgment ruling, the Superior Court has stayed the case pending the outcome of the emergency requests, and has indicated that the claims may be reinstated if the emergency requests are denied and the plaintiffs have used all their available state funding. 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 $88.000 million. However, at this time, the plaintiffs have suggested that they are only seeking a declaration that the Students FIRST legislation is unconstitutional as applied.

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 $90.000 million. However, at this time, the plaintiffs have suggested that they are only seeking a declaration that the Students FIRST legislation is unconstitutional as applied.

In *Smith vs. Winkelman* the plaintiffs have filed an action in Maricopa County Superior Court seeking an accounting, declaratory relief, and damages for breach of trust. Damages are for the value of land disposed of by the State Land Department between 1929 and 1967 for approximately 900 rights of way that were issued to governmental entities without appraisal or auction, and without the payment of any compensation. In January 2007, the court granted motions to dismiss on the ground that the

plaintiffs' claims were barred by laches. Plaintiffs have announced their intention to appeal. One claim by the State against one grantee (the Flood Control District of Maricopa County) was settled in September 2006, and a separate action seeking approval of that settlement is pending. The lands at issue in that settlement comprise approximately one third of the total lands affected by the challenged right of way. Approval of the settlement is expected to significantly reduce the State's exposure to risk of damages. The State previously moved to dismiss on statute of limitations and for lack of standing and justiciability, but that motion was denied and the Court of Appeals declined to review the statute of limitations issue on a petition for special action. The State joined in the motions leading to the dismissal order. The State will probably defend that appeal and cross-appeal the denial of the previous motions to dismiss. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, it is possible that the State would have to pay the Land Endowments Fund between $500.000 million and $1.0 billion.

In *Liquid Titan vs. Arizona Department of Weights and Measures, et al.,* the plaintiff alleges defamation against the Arizona Department of Weights and Measures (ADWM), the former director, and the current director. The complaint arises from a press release issued by the ADWM relating to fuel quality and record violations. The complaint has been served with discovery. The State is preparing its answer and has met with the ADWM to address answering the complaint and responding to discovery. The State's anticipated response is to admit the press release and deny allegations of wrongful intent and lack of basis for assertions in the press release. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, the State could incur losses ranging from $9.200 million to $15.000 million.

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

C. ACCUMULATED SICK LEAVE

State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours upon retirement directly from State service. The benefit value is calculated by taking the State 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 25.00% for 500 hours to a maximum of 50.00% for 1,500 hours. The maximum benefit value is $30 thousand. 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.

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 ARS §46-731, unclaimed utility deposits are deposited in the Utility Assistance Fund to help low income 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. Also, per Senate Bill 1524, 47th Legislature, 1st Regular Session, notwithstanding ARS §44-313, the Department of Revenue shall deposit any unclaimed property for fiscal year 2006 that is associated with the case of *Ladewig v. State of Arizona* in the General Fund. Ladewig unclaimed property in the amount of $3.705 million was deposited into the General Fund during fiscal year 2006. In addition, for fiscal year 2006, $856 thousand was deposited in the Utility Assistance Fund, $26.005 million was deposited in the Housing Fund, $9.456 million was deposited in the Racing Fund and $10.256 million was deposited in the General Fund. A total of approximately $417.074 million has been remitted since inception of the fund. The State is also holding securities valued at $47.951 million, and mutual funds of $4.791 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 GASB requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. This liability is reported in the General Fund because it is the fund to which the property

ultimately escheats in Arizona. At June 30, 2006, this amount, reported as Due to Others in the General Fund, is $102.208 million.

E. CONSTRUCTION COMMITMENTS

The ADOT had outstanding commitments under construction contracts of approximately $692.381 million at June 30, 2006.

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 $159.038 million at June 30, 2006. Approximately $118.072 million of the total aggregate future payments at June 30, 2006 relate to annuities purchased from five separate insurance companies, of which approximately $45.942 million relates to a single insurance company.

NOTE 11. TOBACCO SETTLEMENT

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

The State recorded tobacco settlement revenue of $86.231 million and $84.333 million in the fund statements and the government-wide statements in fiscal year 2006, respectively. Future settlement payments are subject to several adjustments, but the amounts are not presently determinable. These adjustments include a volume adjustment, which could reflect any decreasing cigarette production under a formula that also takes into account increased operating income from sales. Other factors that might affect the amounts of future payments include ongoing and future litigation against the tobacco industry and the future financial health of the tobacco manufacturers. Because the net realizable value of the future settlement payments is not measurable and there is no obligation for the tobacco companies to make settlement payments until cigarettes are shipped, the State did not record a receivable for the future payments related to cigarette sales after June 30, 2006.

NOTE 12. PUBLIC-PRIVATE PARTNERSHIP

The State 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 85.00% 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, 2006, the State has paid Accenture $106.525 million towards the $136.673 million contract cost. Included in the $136.673 million contract cost is capitalized interest charges of $7.000 million and application support charges of $30.138 million.

NOTE 13. CONDUIT DEBT

During the year ended June 30, 2006, the Greater Arizona Development Authority (GADA) issued $64.100 million Infrastructure Revenue Bonds, Series 2005B for public infrastructure projects in the communities of the Town of Queen Creek, the City of Williams, the Drexel Heights Fire District, the City of Lake Havasu, and the Town of Superior. During the year ended June 30, 2006, the GADA issued $52.060 million Infrastructure Revenue Bonds, Series 2006A for public infrastructure projects in the communities of the Town of Queen Creek, the Town of Buckeye, the City of Stafford, and the Town of Sahuarita. The 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.

In previous years, the State appropriated a total of $20.000 million to the GADA for the express purpose of securing bonds issued by the GADA. As of June 30, 2006, the remaining balance in the appropriations account was $17.302 million. The Series 2005B

and 2006A bonds were issued by the GADA to make loans to the participants listed above and constitute special and limited obligations of the 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 respective participants in the Series 2005B and 2006A bond issues. The principal of and interest premium, if any, on the Series 2005B and 2006A bonds shall not constitute or give rise to a pecuniary liability on the part of the directors and officers of the GADA. The Series 2005B and 2006A bonds do not constitute a legal debt of the State and are not enforceable against the State. At June 30, 2006, the total outstanding face value of all bonds issued by the GADA was $233.785 million.

NOTE 14. SUBSEQUENT EVENTS

On September 21, 2006, House Bill 2206 became effective and eliminated the restriction that limited the principal amount of Highway Revenue Bonds for the ADOT that could be outstanding at one time to $1.3 billion. On September 26, 2006, the ADOT issued $325.000 million in Highway Revenue Bonds, Series 2006 to (i) finance portions of the ADOT's Five-Year Capital Program and (ii) pay costs of issuing the Series 2006 Bonds. The 2006 Bonds are due July 1, 2012 through July 1, 2026. Net proceeds totaled $350.727 million (after receipt of $26.201 million reoffering premium and payment of $967 thousand in underwriting fees and costs of issuance). Also on September 26, Standard & Poor's Ratings Services upgraded the rating on the ADOT's outstanding subordinate lien Highway Revenue Bonds from AA+ to AAA.

In November 2006, the GADA issued the infrastructure Revenue Bond Series 2006B. The principal amount of original issue was $36.520 million with interest rates of 4.00% to 5.00%. Maturity dates are from February 1, 2017 through February 1, 2037. Interest payment dates are February 1 and August 1 of each year. The GADA's contribution to the bond issuance costs are $200 thousand. In addition, the GADA will reclassify from unrestricted net assets to its restricted net assets the amount of $8.055 million for the pledged collateral reserve fund. The participants in this bond issue are the cities of Show Low and Somerton, Maricopa Fire District, Drexel Heights Fire District, the Town of Quartzite, and the Apache Fire Department in the amounts of $8.370 million, $6.885 million, $3.200 million, $1.350 million, $7.215 million, and $9.500 million, respectively.

NOTE 15. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – COMPONENT UNITS

The accounting policies of the State's component units conform to U.S. GAAP applicable to governmental units adopted by the GASB, except for those component units affiliated with the State's Universities. Because the component units affiliated with the Universities are not governmental entities, they follow FASB statements for not-for-profit organizations for financial reporting purposes. Each component unit has a June 30 year-end with the exception of the Law College Association, which has a May 31 year-end.

A. FINANCIAL REPORTING POLICIES

1. Measurement Focus and Basis of Accounting

The State's component units and component units affiliated with the Universities are presented using the economic resources measurement focus and the accrual basis of accounting. The State's component units 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 has chosen the option not to follow FASB Statements and interpretations issued after November 30, 1989, except for UMC, which has elected to apply the provisions of all relevant pronouncements of the FASB, including those issued after November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

2. Net Assets

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

- *Unrestricted net assets* include assets and contributions that are not restricted by donors or for which such restrictions have expired.

- *Temporarily restricted net assets* include contributions for which donor imposed restrictions have not been met (either by the passage of time or by actions of the Foundations), charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. Donor-restricted contributions are classified as temporarily restricted if the restrictions are satisfied in the same reporting period in which the contributions are received, except for the Foundations associated with ASU, which classify such contributions as unrestricted.

- *Permanently restricted net assets* include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity and only the board-approved payout be made available for program operations in accordance with donor restrictions.

3. Cash and Cash Equivalents

Cash and cash equivalents includes monies held in certificates of deposit, overnight money market accounts, and money market funds. Cash and cash equivalents are stated at cost, which approximates fair value.

4. Investments

Investments are recorded in accordance with Statements of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, entities are required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities at fair value. Equities, fixed income, and mutual funds are stated at fair market value based on quoted market prices. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses in the Statement of Activities.

5. Income Taxes

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

6. Annuities Payable and Other Trust Liabilities

Annuities payable and other trust liabilities for the U of A Foundation are stated at the actuarially computed present value of future payments to the annuitants. The excess of the fair values of assets received (classified according to their nature in the Statement of Financial Position) pursuant to annuity agreements over the actuarially computed annuities payable (using market rates in effect on the contribution date) is recorded as contributions in the year received.

7. Contributions

Contributions are recorded in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the

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

8. Net Assets Released from Restriction

Expenses are not incurred in the temporarily restricted or permanently restricted net asset categories. As the restrictions on these net assets are met, the assets are reclassified to unrestricted net assets. The total assets reclassified are reported as net assets released from restriction in the accompanying Statement of Activities.

9. Use of Estimates

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

B. DEPOSITS AND INVESTMENTS

1. Component Units

A. Deposits and Investment Policies

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

B. Custodial Credit Risk - Deposits

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from the outside party. The UMC holds deposits in excess of FDIC limits. At June 30, 2006, uninsured, uncollateralized deposits included in cash and cash equivalents were approximately $14.296 million.

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The WIFA does not have a formal policy regarding interest rate risk. The following table presents the interest rate risk for the WIFA utilizing the segmented time distribution method as of June 30, 2006 (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Commercial paper	$ 49,206	$ 49,206	$ -	$ -	$ -
Corporate asset backed securities	384	-	384	-	-
Corporate collateralized mortgage obligations	2,868	-	-	-	2,868
Corporate notes	14,934	14,934	-	-	-
Guaranteed investment contracts	80,896	-	13,577	67,319	-
Money market mutual funds	126,700	126,700	-	-	-
U.S. Agency Securities	57,104	57,104	-	-	-
U.S. Agency Mortgage Backed Securities	8,020	-	-	-	8,020
U.S. Treasury Securities	1,016	1,016	-	-	-
Total	$ 341,128	$ 248,960	$ 13,961	$ 67,319	$ 10,888

The UMC's investment policy limits the portfolio duration related to debt securities to the Lehman Brothers Intermediate Government/Credit Index. This is an index based on all publicly issued intermediate government and corporate debt securities with average maturities of four to five years. The following table presents the estimated maturities of the UMC's investments, utilizing the segmented time distribution method as of June 30, 2006 (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Commercial paper	$ 15,521	$ -	$ -	$ -	$ 15,521
Corporate bonds	5,900	-	5,900	-	-
Corporate fixed income	25,315	25,315	-	-	-
Guaranteed investment contracts	4,243	-	-	-	4,243
Managed futures	3,558	3,558	-	-	-
Money market mutual funds	14,582	14,582	-	-	-
U.S. Treasury Securities	127,987	7,663	120,324	-	-
Other	19,924	-	19,638	286	-
Total	$ 217,030	$ 51,118	$ 145,862	$ 286	$ 19,764

D. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. The WIFA does not have a formal policy regarding credit risk. The following table presents the WIFA's investments which were rated by S & P's and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2006 (expressed in thousands):

Investment Type	**Fair Value**	**AAA**	**AA**	**A**	**BB**	**A1**	**Not Rated**
Commercial paper	$ 49,206	$ -	$ -	$ -	$ -	$ 49,206	$ -
Corporate securities	18,186	5,045	2,811	8,622	1,708	-	-
Guaranteed investment contracts	80,896	80,896	-	-	-	-	-
Money market mutual funds	126,700	-	-	-	-	-	126,700
U.S. Agency Securities	65,124	49,738	-	-	-	15,386	-
Total	$ 340,112	$ 135,679	$ 2,811	$ 8,622	$ 1,708	$ 64,592	$ 126,700

The UMC's investment policy establishes ranges which limit the level of investments held in domestic and international equities, fixed income securities, and alternative investment strategies. Investment in fixed income securities is limited to investment grade securities with a credit rating of BBB, or equivalent, or better. The portfolio must maintain an average rating of A or better at all times. The following table presents the UMC's investments which were rated by S & P's and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2006 (expressed in thousands):

Security Description	**Fair Value**	**AAA**	**AA**	**A**	**Not Rated**
Commercial paper	$ 15,521	$ 15,521	$ -	$ -	$ -
Corporate bonds	5,900	-	-	-	5,900
Corporate fixed income	25,316	19,354	23	39	5,900
Federal agencies	43	43	-	-	-
Managed futures	3,558	-	-	-	3,558
Other	19,924	-	-	-	19,924
Totals	$ 70,262	$ 34,918	$ 23	$ 39	$ 35,282

E. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The WIFA's investment policy contains no limitations on the amount that can be invested in any one issuer. As of June 30, 2006, an investment in Bayerische Landesbank (fair value of $40.586 million) was approximately 11.90% of the WIFA's total investments

and an investment in AIG Matched Funding Corp. (fair value of $25.153 million) was approximately 7.37% of the WIFA's total investments.

F. Foreign Currency Risk

The UMC's investment policy permits it to invest a portion of its holdings in international equities and both international alternative and managed future investments. The UMC's current holdings in international securities totaled approximately $12.000 million or 4.99% of total investments. There is no one foreign currency that comprises a material amount of these holdings. The following table summarizes the UMC's foreign currency risk as of June 30, 2006 (expressed in thousands):

Foreign Currency Risk by Investment Type at Fair Value (Expressed in Thousands)

Currency	Fixed Income	Equities	Total
Argentina Peso	$ -	$ 154	$ 154
Australian Dollar	2	295	297
Brazil Real	8	2,993	3,001
British Pound Sterling	95	466	561
Canadian Dollar	81	2,867	2,948
Chilean Peso	1	109	110
Chinese Yuan	-	395	395
Czech Koruna	-	51	51
Euro	215	486	701
Hong Kong Dollar	-	327	327
Indonesia Rupiah	1	84	85
Israel Shekel	1	99	100
Japanese Yen	84	230	314
Mexican Peso	3	479	482
Norwegian Krone	17	234	251
Peruvian Nuevo Sol	-	161	161
Russian Ruble	6	75	81
South African Rand	4	893	897
South Korean Won	-	279	279
Thailand Baht	1	654	655
Other	64	86	150
Total	$ 583	$ 11,417	$ 12,000

2. Universities-Affiliated Component Units

A. Investment Summary

Investments of the Universities-affiliated component units are comprised of the following amounts at June 30, 2006. All investments are stated at fair value (expressed in thousands):

	ASU Foundation	ACFFC	U of A Foundation	NAU Foundation
Money market funds and cash equivalents	$ 21,781	$ 75,038	$ -	$ -
U.S. Government/Agency Obligations and Mutual Funds	-	-	69,428	12,732
Domestic/international equity securities and mutual funds	275,332	-	137,966	30,756
Fixed income	109,078	-	9,992	-
Corporate bonds	-	-	-	5,523
REIT fund, real estate and timber partnerships	-	-	14,818	-
Absolute return limited partnerships	-	-	64,628	-
Other investments	58,539	2,700	6,806	525
Total Investments	$ 464,730	$ 77,738	$ 303,638	$ 49,536

B. Endowment Trust Agreement

In March 2003, the ASU Foundation and the ASU entered into a trust agreement, appointing the ASU Foundation the trustee of selected ASU endowments. In accordance with the trust agreement, the ASU Foundation receives a management fee for providing these services. Unrealized and realized gains and losses, and interest and dividends, if any, are added to or subtracted from the recorded value of the invested trust assets managed by the ASU Foundation. The invested trust assets are separate from ASU Foundation investments, and a corresponding liability is presented for the fair value of the invested trust assets managed for the ASU.

C. PROGRAM LOANS

The WIFA has made loans to local governments and others in Arizona to finance various projects pursuant to the requirements of the Clean Water and Safe Drinking Water Acts. The loans are generally payable in semi-annual installments due January 1 and July 1 of each year, including interest. However, several loans are payable monthly or quarterly. Changes in the program loans during fiscal year 2006 are as follows (expressed in thousands):

	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**
Clean Water Fund	$ 349,094	$ 89,222	$ (22,728)	$ 415,588
Drinking Water Fund	139,978	27,950	(8,581)	159,347
Total	$ 489,072	$ 117,172	$ (31,309)	$ 574,935

Repayment of these loans will be made from pledged property taxes, net revenues from the systems, transaction privilege taxes, or from special assessments. Most loans have a .30 to 4.00% annual administrative fee.

Some program loans require a monthly or quarterly payment into a debt service reserve to assure payments of the loans. The debt service reserve is a liability of the WIFA to the borrowers and interest on the reserve accrues to the borrowers.

D. PLEDGES RECEIVABLE

Unconditional promises to give are included in the accompanying financial statements as pledges receivable and revenue of the appropriate net asset category. Unconditional promises to give are recorded at their net realizable value using various yields as determined by the university foundations. The following summarizes unconditional promises as of June 30, 2006 (expressed in thousands):

	Universities-Affiliated Component Units Net Pledges Receivable
ASU Foundation	$ 64,907
U of A Foundation	29,230
Law Association	29,445

E. DIRECT FINANCING LEASE AGREEMENT

1. ASU Foundation

ASU Foundation leases a portion of the Fulton Center building (ASU Foundation's headquarters) to ASU under a direct financing lease. At the end of the lease, ASU Foundation and Affiliates will gift their portion of the building to ASU and ASU will receive title to the building.

The entire amount of the minimum Fulton Center lease payments receivable balance of $54.200 million will be used by ASU Foundation and Affiliates to service the principal and interest payments required for the Series 2003 Bonds. Accordingly, unearned interest will be amortized to lease revenue by the interest method using interest rates which correspond to the stated interest rates of the Series 2003 Bonds. Unearned interest at June 30, 2006 was $29.600 million. ASU Foundation's net investment in this direct financing lease is $24.600 million and is presented in the Component Unit's Statement of Financial Position.

2. ACFFC

Pursuant to a Sub-Lease Agreement, Nanotechnology Research, LLC, a wholly owned subsidiary of ACFFC, leases its interest in the Research Park to ASU, which will pay rent at times and in amounts sufficient to pay all principal and interest (after utilization of amounts held in the Capitalized Interest Accounts) on the Series 2004 Bonds, as well as all fees and expenses related to the Series 2004 Bonds. The Sublease Agreement is a net lease, and Nanotechnology is entitled to receive the rents and all other sums payable pursuant to the Sublease Agreement free from all taxes, charges, fees, and expenses, all of which will be paid by ASU.

The Sublease Agreement commenced on April 7, 2004, and continued until June 30, 2005, with successive automatic annual renewals for the period July 1 through June 30 of each year without action on the part of Nanotechnology or ASU, through the period ending March 31, 2034. The Sublease Agreement is subject to early termination by Nanotechnology or ASU upon payment in full of the Series 2004 Bonds.

Upon termination of or expiration of the Sublease Agreement, Nanotechnology's interest in the premises, including all buildings and improvements on the leased premises, transfers to ASU without further consideration. Therefore, the lease is classified as a direct financing capital lease.

Lease payments are based on a variable interest rate currently determined on a weekly basis. The average interest rate approximates 4.66% at June 30, 2006. Lease payments commence once the Capitalized Interest Accounts are fully utilized, which at present interest rates is expected to be in 2007. ACFFC's net investment in this direct financing lease is $35.000 million.

F. CAPITAL ASSETS

Capital asset activity for the UMC for the fiscal year ended June 30, 2006 was as follows (expressed in thousands):

	University Medical Center				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Non-depreciable capital assets:					
Land	$ 6,001	$ -	$ -	$ -	$ 6,001
Construction in progress	7,235	23,771	(160)	(775)	30,071
Total Non-depreciable Capital Assets	13,236	23,771	(160)	(775)	36,072
Depreciable capital assets:					
Buildings	149,885	550	(186)	470	150,719
Improvements other than buildings	881	-	-	(91)	790
Equipment	163,981	11,390	(56,153)	396	119,614
Total Depreciable Capital Assets	314,747	11,940	(56,339)	775	271,123
Less accumulated depreciation for:					
Buildings	(90,943)	(6,638)	161	(1)	(97,421)
Improvements other than buildings	(364)	-	13	-	(351)
Equipment	(131,521)	(11,938)	55,894	1	(87,564)
Total Accumulated Depreciation	(222,828)	(18,576)	56,068	-	(185,336)
Total Depreciable Capital Assets, Net	91,919	(6,636)	(271)	775	85,787
Total UMC Capital Assets, Net	$ 105,155	$ 17,135	$ (431)	$ -	$ 121,859

The capital asset summary for the Universities-affiliated component units for the fiscal year ended June 30, 2006 was as follows (expressed in thousands):

	ASU Foundation	ACFFC	CRC	NACFFC
Buildings and improvements	$ 17,183	$ 73,664	$ 12,571	$ -
Furniture, fixtures, and equipment	2,127	36,199	627	-
Construction in progress	-	91,384	-	17,201
Other property and equipment	-	509	-	-
Total cost or donated value	19,310	201,756	13,198	17,201
Less: Accumulated Depreciation	(1,247)	(9,789)	(1,820)	-
Property and Equipment, Net	$ 18,063	$ 191,967	$ 11,378	$ 17,201

G. LONG-TERM OBLIGATIONS

1. Component Units

A. Arizona Power Authority

In prior years, the APA defeased various issues of bonds by purchasing U.S. 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.

B. University Medical Center

In November 2005, the UMC issued $140.000 million of Hospital Revenue Bonds (the “Series 2005 Bonds”). The Series 2005 Bonds were issued at a discount to yield an effective interest rate of 5.01% and are to be used for the construction of a new six-story bed tower, expansion of the emergency department, construction of a clinical decision unit, and to finance other capital needs of the UMC.

The UMC is subject to certain financial covenants under the Master Trust Indenture (the Indenture), with which the UMC is in compliance as of and for the year ended June 30, 2006. 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 as a bond reserve fund on outstanding bonds payable. These funds totaled $19.706 million at June 30, 2006 which are held by the trustee and are reflected as restricted investments held by trustee in the accompanying financial statements.

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

C. Water Infrastructure Finance Authority

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

In fiscal year 2006, the WIFA issued Water Quality Revenue Bonds, Series 2006A for $205.400 million, with interest rates ranging from 3.75% to 5.00% and maturity dates ranging from 2007 to 2026. The WIFA realized net proceeds of $215.156 million, after receipt of a reoffering premium of $11.094 million, and payment of underwriters' discount and issuance costs totaling $1.338 million. The net proceeds will be used to fund certain loans made by the WIFA to finance water quality projects.

In prior fiscal years, the WIFA refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. The amount outstanding on the refunded bonds for the WIFA at June 30, 2006 totaled $106.210 million.

The $8.034 million deferred amount on retirement of bonds is being amortized over the lives of the defeased bonds on a straight-line basis. Annual amortization is $401 thousand and $173 thousand for Clean Water Revolving and Drinking Water Revolving Funds, respectively. Amortization has been offset against interest expense.

Bond premiums are being amortized over the life of the bonds. The amortization for the year ended June 30, 2006, is $1.819 million. Further, bond issuance costs are amortized over the life of the bond and offset to interest expense. The amortization for the ended June 30, 2006, is $190 thousand.

Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2006 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2006
Component Units:				
Arizona Power Authority	2001-2004	2007-2018	5.00-5.25%	$ 54,960
University Medical Center	1993-2006	2007-2036	4.82-5.53%	232,965
Water Infrastructure Finance Authority	1992-2006	2007-2027	2.00-6.10%	582,560

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2006 are as follows (expressed in thousands):

	Annual Debt Service		
	Arizona Power Authority		
Fiscal Year	Principal	Interest	Total
2007	$ 2,825	$ 2,760	$ 5,585
2008	3,120	2,611	5,731
2009	3,450	2,447	5,897
2010	3,815	2,265	6,080
2011	4,220	2,064	6,284
2012-2016	25,405	6,647	32,052
2017-2021	12,125	645	12,770
Total	$ 54,960	$ 19,439	$ 74,399

	Annual Debt Service		
	University Medical Center		
Fiscal Year	Principal	Interest	Total
2007	$ 3,835	$ 11,689	$ 15,524
2008	4,040	11,491	15,531
2009	4,145	11,289	15,434
2010	4,295	11,082	15,377
2011	4,515	10,863	15,378
2012-2016	26,280	50,617	76,897
2017-2021	33,630	43,265	76,895
2022-2026	42,915	33,974	76,889
2027-2031	54,780	22,116	76,896
2032-2035	54,530	6,983	61,513
Total	$ 232,965	$ 213,369	$ 446,334

	Annual Debt Service		
	Water Infrastructure Finance Authority		
Fiscal Year	Principal	Interest	Total
2007	$ 25,110	$ 27,251	$ 52,361
2008	25,900	26,172	52,072
2009	27,420	25,007	52,427
2010	26,845	23,820	50,665
2011	28,020	22,579	50,599
2012-2016	157,895	90,454	248,349
2017-2021	155,520	51,694	207,214
2022-2026	119,100	16,274	135,374
2027-2031	16,750	367	17,117
Total	$ 582,560	$ 283,618	$ 866,178

D. Changes in Long-Term Obligations

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

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Due Within One Year	Due Thereafter
Arizona Power Authority:						
Long-term Debt:						
Revenue bonds	$ 57,520	$ -	$ (2,560)	$ 54,960	$ 2,825	$ 52,135
Revenue bond premium and discounts	2,853	-	(379)	2,474	-	2,474
Deferred amounts, Net	(1,946)	-	258	(1,688)	-	(1,688)
Total Long-term Debt	58,427	-	(2,681)	55,746	2,825	52,921
Other Long-term Liabilities:						
Compensated absences	64	68	(64)	68	68	-
Total Other Long-term Liabilities	64	68	(64)	68	68	-
Total Long-term Obligations	$ 58,491	$ 68	$ (2,745)	$ 55,814	$ 2,893	$ 52,921
University Medical Center:						
Long-term Debt:						
Revenue bonds	$ 97,245	$ 140,000	$ (4,280)	$ 232,965	$ 3,835	$ 229,130
Revenue bond premium and discounts	(807)	(197)	(122)	(1,126)	-	(1,126)
Total Long-term Debt	96,438	139,803	(4,402)	231,839	3,835	228,004
Other Long-term Liabilities:						
Compensated absences	9,463	3,251	(1,838)	10,876	4,751	6,125
Other	4,423	-	(1,409)	3,014	-	3,014
Total Other Long-term Liabilities	13,886	3,251	(3,247)	13,890	4,751	9,139
Total Long-term Obligations	$ 110,324	$ 143,054	$ (7,649)	$ 245,729	$ 8,586	$ 237,143
Water Infrastructure Finance Authority:						
Long-term Debt:						
Revenue bonds	$ 405,675	$ 205,400	$ (28,515)	$ 582,560	$ 25,110	$ 557,450
Revenue bond premium	28,206	11,093	(1,820)	37,479	-	37,479
Deferred amounts, Net	(8,608)	-	574	(8,034)	-	(8,034)
Total Long-term Debt	425,273	216,493	(29,761)	612,005	25,110	586,895
Other Long-term Liabilities:						
Compensated absences	26	48	(15)	59	59	-
Total Other Long-term Liabilities	26	48	(15)	59	59	-
Total Long-term Obligations	$ 425,299	$ 216,541	$ (29,776)	$ 612,064	$ 25,169	$ 586,895

2. Universities-Affiliated Component Units

In August 2005, McAllister Academic Village, LLC, a wholly owned subsidiary of ACFFC issued Variable Rate Revenue Bonds, Series 2005A and 2005B in the aggregate original principal amount of $96.700 million, and $48.300 million, respectively, dated August 3, 2005, due at various intervals through July 2045. The interest is payable initially in monthly installments. The principal is payable in annual installments commencing July 1, 2008 and July 1, 2009 for the Series 2005A and 2005B Variable Bonds, respectively. Variable interest rate for the Series 2005A and 2005B Bonds was 3.97% and 3.95%, respectively at June 30, 2006. These bonds are secured by leasehold deeds of trust, assignment of leases and rents, security agreements, and fixture filings.

Bonds payable as of June 30, 2006 are summarized as follows (expressed in thousands):

	Final Maturity	Amount
ASU Foundation:		
Series 2003 Lease Revenue Term Bonds	2023	$ 20,400
Series 2003 Lease Revenue Term Bonds	2028	10,575
Series 2003 Lease Revenue Term Bonds	2034	16,625
Series 2004A Variable Rate Revenue Bonds	2034	22,420
Series 2004B Variable Rate Revenue Bonds	2022	11,690
ACFFC:		
Series 2005A Variable Rate Demand Revenue Bonds	2045	96,700
Series 2005B Variable Rate Demand Revenue Bonds	2045	48,345
Series 2005 Tax – Exempt Bonds	2035	16,005
Series 2004 Variable Rate Demand Revenue Bonds	2030	51,605
Series 2004A Variable Rate Demand Lease Revenue Bonds	2034	20,175
Series 2004B Variable Rate Demand Lease Revenue Bonds	2034	14,825
Series 2003 Serial and Term Bonds	2035	13,395
Series 2002 Bonds	2018	29,805
Series 2000 Serial and Term Bonds	2032	10,615
Unamortized bond premium		1,276
NACFFC:		
Variable Rate Demand Revenue Bonds, Series 2005	2033	35,805

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

Fiscal Year	ASU Foundation	ACFFC	NACFFC
2007	$ 415	$ 1,830	$ 460
2008	1,020	1,945	355
2009	1,070	3,060	400
2010	1,120	5,410	455
2011	1,170	6,025	510
Thereafter	76,915	284,476	33,625
Total	$ 81,710	$ 302,746	$ 35,805

H. RELATED PARTY TRANSACTIONS

The UMC and the U of A both provide and receive services from each other under various contracts. Payments to the U of A by the UMC include program support, resident and intern salaries, utilities, ground maintenance, mailroom operations, and various administrative functions. Amounts paid to the U of A for these services were approximately $21.618 million for the year ended June 30, 2006.

The UMC has entered into contractual agreements with the U of A to provide support for the academic mission of the U of A. Charges to the U of A for such services and facilities provided by the UMC were approximately $9.700 million for the year ended June 30, 2006. These amounts are included in other operating revenue in the accompanying combined financial statements.

University Physicians Healthcare (UPH) is a not-for-profit corporation whose members are physicians employed by the U of A and who practice at the UMC. The UMC has agreements with the UPH whereby the UPH provides physician, medical directorship, and other services to the UMC. The UMC and the UPH share certain services and facilities within the hospital. Examples include information systems, medical records, and patient scheduling. The UPH reimburses the UMC for these services pursuant to written agreements between the parties at amounts that approximate actual costs. Charges to the UPH for the above services provided by the UMC were approximately $2.900 million for the year ended June 30, 2006. These amounts are included in other operating revenue in the accompanying combined financial statements.

The UMC also has an agreement to provide healthcare services to members of an AHCCCS health plan owned by the UPH called University Familicare (UFC). The UFC, an AHCCCS funded HMO, manages approximately 15,000 members. The UMC provides healthcare services to the UFC members in the normal course of business. The UMC operates under a contract with the UFC at rates that are substantially the same as rates received from other unaffiliated AHCCCS HMOs. Such rates are generally at or below the maximum rates established by the AHCCCS. Net patient service revenue includes $8.636 million in 2006 from this payor, based on negotiated rates.

Effective July 1, 2003, the UMC became the region's sole Level I Trauma Center and entered into an arrangement with the UPH to pay trauma physician call pay. Funding for the physician call pay was derived primarily from funds designated by the State to cover trauma readiness costs. During 2006, amounts incurred for these services totaled $3.631 million. As of June 30, 2006, accrued expenses include approximately $300 thousand payable to the UPH for these services.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
GENERAL FUND			
General Accounting Office			
Capital Outlay - Cochise	$ 965,600	$ 965,600	$ 965,600
Capital Outlay - Coconino	383,000	383,000	383,000
Capital Outlay - Gila	61,100	61,100	61,100
Capital Outlay - Graham	535,700	535,700	535,700
Capital Outlay - Maricopa	10,977,900	10,977,900	10,977,900
Capital Outlay - Mohave	491,000	491,000	491,000
Capital Outlay - Navajo	576,900	576,900	576,900
Capital Outlay - Pima	3,268,000	3,268,000	3,268,000
Capital Outlay - Pinal	768,200	768,200	768,200
Capital Outlay - Yavapai	686,900	686,900	686,900
Capital Outlay - Yuma/La Paz	865,400	865,400	865,400
Equalization Aid - Cochise	3,441,800	3,441,800	3,441,800
Equalization Aid - Graham	10,417,100	10,417,100	10,417,100
Equalization Aid - Navajo	2,735,700	2,735,700	2,735,700
Equalization Aid - Yuma/La Paz	848,800	848,800	848,800
General Relief	0	309,383	309,383
Nursing Education Demonstration Project	0	4,000,000	4,000,000
Operating State Aid - Cochise	7,828,500	7,828,500	7,828,500
Operating State Aid - Coconino	3,147,700	3,147,700	3,147,700
Operating State Aid - Gila	274,600	274,600	274,600
Operating State Aid - Graham	5,370,400	5,370,400	5,370,400
Operating State Aid - Maricopa	54,863,300	54,863,300	54,863,300
Operating State Aid - Mohave	3,710,000	3,710,000	3,710,000
Operating State Aid - Navajo	4,412,300	4,412,300	4,412,300
Operating State Aid - Pima	19,593,500	19,593,500	19,593,500
Operating State Aid - Pinal	5,915,800	5,915,800	5,915,800
Operating State Aid - Yavapai	4,738,700	4,738,700	4,738,700
Operating State Aid - Yuma/La Paz	5,447,800	5,447,800	5,447,800
Salary Adjustment	0	500,900	0
Transfer To Tourism Fund	0	13,203,475	13,203,475
Woolsey Flood District	0	66,975	66,975
Department of Administration			
Administrative Adjustments	0	219,132	219,132
Administrative Adjustments	0	135,459	135,459
Administrative Adjustments	0	2,649	2,649
Administrative Adjustments	0	118,818	118,818
Annual Reversion per ARS 41-764C	0	328,486	328,486
Arizona Financial Information System	939,800	939,800	890,519
Building Renewal FY00 - 01	38,044	35,200	25,014
Building Renewal FY01 - 02	2,154	0	0
Building Renewal FY02 - 03	8,303	4,971	4,971
Building Renewal FY03 - 04	716,190	716,519	715,597
Building Renewal FY04 - 05	1,563,458	1,112,198	954,031
Building Renewal FY05 - 06	3,400,000	3,109,077	1,092,406
Building Renewal FY97 - 98	2,103	0	0
Building Renewal FY98 - 99	2,345	2,345	2,345
Classification Pilot Program	122,454	122,454	0
ENSCO	5,310,300	5,310,300	5,310,300
General Fund HITF Transfer	0	10,000,000	10,000,000
HB1464 Personnel Reform	273,045	273,045	0

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
HRIS Certificate of Participation	2,838,600	2,838,600	2,838,600
Operating Lump Sum Appropriation	18,319,400	18,782,700	18,178,987
Operating Lump Sum Appropriation	12,054,500	12,346,600	12,095,270
Operating Lump Sum Appropriation	1,150,155	1,172,155	1,046,433
Operating Lump Sum Appropriation	394,245	403,045	63,145
Operating Lump Sum Appropriation FY04 - 05	852,736	852,736	36,707
Operating Lump Sum Appropriation FY05 - 06	5,191,800	5,287,200	4,773,316
PLTO 1 Backfill Agency Relocations FY01 - 02	4	4	0
PLTO 1 Backfill Agency Relocations FY02 - 03	244,766	244,766	1,313
PLTO 1 Backfill Space Renovations	106,402	106,402	0
PLTO 1 Backfill Space Renovations FY01 - 02	847	847	0
PLTO 1 Backfill Space Renovations FY02 - 03	348,161	348,161	0
PLTO 1 Project Management FY01 - 02	1	1	0
PLTO 1 Project Management FY02 - 03	55,659	55,659	0
PLTO 1 Project Management FY03 - 04	144,694	144,694	0
Relocation FY00 - 01	60,000	60,000	0
Relocation FY01 - 02	59,866	59,866	0
Relocation FY02 - 03	59,775	59,775	0
Relocation FY03 - 04	25,133	25,133	372
Relocation FY04 - 05	60,000	60,000	0
Relocation FY05 - 06	60,000	60,000	0
Relocation FY99 - 00	46,526	46,526	0
State Boards Lump Sum Appropriation	176,000	179,100	155,779
State Surplus Property Sales Proceeds	3,000,000	3,000,000	1,552,647
Utilities FY04 - 05	459,572	459,572	85,029
Utilities FY05 - 06	5,733,800	5,733,800	5,687,895
Zuni Indian Tribe Water Right Settlement	800,000	800,000	800,000
Radiation Regulatory Agency			
Administrative Adjustments	0	3,534	3,534
Off-Site Nuclear Emergency Response Plan	0	509,974	509,974
Operating Lump Sum Appropriation	1,131,100	1,174,400	1,140,392
Office of Equal Opportunity			
Administrative Adjustments	0	6	6
Operating Lump Sum Appropriation	224,600	230,800	227,426
Attorney General			
Administrative Adjustments	0	17,459	17,459
Administrative Adjustments	0	17,540	17,540
Crane Elementary School Case	33,422	33,422	3,774
Military Installation/Planning FY04 - 05	28,694	28,694	28,694
Military Installation/Planning FY05 - 06	0	100,000	64,825
Operating Lump Sum Appropriation	23,837,700	25,085,200	24,985,418
Operating Lump Sum Appropriation	10,691,100	11,430,400	11,188,547
Property Tax Supplemental	301	301	0
State Grand Jury	160,100	160,100	159,511
Department of Agriculture			
Administrative Adjustments	0	46,176	46,176
Agricultural Employment Relations Board	23,300	23,300	20,801
Animal Damage Control	65,000	65,000	65,000
Operating Lump Sum Appropriation	10,327,600	10,613,600	10,606,037
Red Imported Fire Ant	23,200	23,200	23,200
Arizona State University			
East Campus - Operating Lump Sum Appropriation	15,040,900	15,811,700	15,811,700

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Main Campus - Operating Lump Sum Appropriation	293,631,300	306,911,900	306,911,900
Phoenix Medical Campus	0	1,000,000	1,000,000
West Campus - Operating Lump Sum Appropriation	43,279,800	44,844,300	44,844,300
Auditor General			
Operating Lump Sum Appropriation FY00 - 01	365,493	365,493	365,493
Operating Lump Sum Appropriation FY01 - 02	233,944	233,944	0
Operating Lump Sum Appropriation FY02 - 03	293,330	293,330	0
Operating Lump Sum Appropriation FY03 - 04	375,664	375,664	0
Operating Lump Sum Appropriation FY04 - 05	405,887	405,887	60
Operating Lump Sum Appropriation FY05 - 06	12,781,700	13,135,600	12,551,042
Department of Financial Institutions			
Administrative Adjustments	0	2,699	2,699
Operating Lump Sum Appropriation	3,219,800	3,316,000	3,309,490
State Board of Nursing			
CNA Fingerprinting	162,100	163,500	163,449
Fingerprinting Nursing Assistants	90,198	90,198	0
Arizona Board of Regents			
Administrative Adjustments	0	1,249,140	1,249,140
Arizona Teachers Incentive Program	90,000	90,000	90,000
AZ Transfer Articulation Support System	213,700	213,700	213,700
Operating Lump Sum Appropriation	2,165,900	2,224,300	0
Student Financial Assistance	2,161,200	2,161,200	2,161,200
Western Interstate Commission Office	103,000	108,000	108,000
WICHE Student Subsidies	2,908,100	2,903,100	2,895,599
Corporation Commission			
Administrative Adjustments	0	4,501	4,501
Operating Lump Sum Appropriation	5,071,700	5,216,200	5,212,920
Operating Lump Sum Appropriation	43,500	45,000	43,982
Railroad Warning Systems	47,510	47,510	0
Court of Appeals Division I			
Administrative Adjustments	0	4,306	4,306
Division I - Operating Lump Sum Appropriation	8,236,900	8,411,300	8,364,217
State Board for Charter Schools			
Administrative Adjustments	0	4,527	4,527
Operating Lump Sum Appropriation	726,000	743,600	707,996
Court of Appeals Division II			
Division II - Operating Lump Sum Appropriation	3,755,700	3,817,800	3,817,211
Department of Corrections			
Administrative Adjustments	0	2,000,000	2,000,000
Administrative Adjustments	0	4,284,120	4,284,120
Administrative Adjustments	0	184,475	184,475
All Other Operating Expenditures	351,400	351,400	70,196
All Other Operating Expenditures	95,500	95,500	52,378
Employee Related Expenditures	250,400	253,800	251,790
Employee Related Expenditures	133,073,800	121,127,000	120,455,040
Operating Lump Sum Appropriation	150,966,500	185,846,700	180,344,162
Overtime Compensatory Time	18,136,900	40,655,500	40,605,657
Personal Services	335,007,700	344,905,400	343,367,021
Personal Services	1,159,900	1,196,400	1,080,360
Private Prison Per Diem	45,444,100	24,044,100	22,943,541
Department of Economic Security			
ADM Attorney General Legal Services	320,700	402,600	402,600

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADM Attorney General Legal Services	147,600	152,100	91,652
ADM Attorney General Legal Services	15,400	15,700	15,591
ADM Finger Imaging	452,300	454,700	454,700
ADM Finger Imaging	272,800	123,900	50,033
ADM High Performance Bonus	27,859	27,859	3,583
ADM Lease Purchase Equipment	1,138,000	1,138,000	1,138,000
ADM Lease Purchase Equipment	661,000	661,000	380,141
ADM Operating Lump Sum Appropriation	27,808,900	29,703,400	29,703,400
ADM Operating Lump Sum Appropriation	4,597,700	4,644,800	4,644,256
ADM Operating Lump Sum Appropriation	1,087,200	1,096,900	1,043,070
ADM Public Assistance Collections	235,500	240,300	135,515
ADM Statewide Cost Allocation Plan	1,000,000	1,000,000	0
ADM Triagency Disaster Recovery	271,500	271,500	0
ADM Workforce Investment Act Operating Lump Sum	0	300,000	0
Administrative Adjustments	0	6,359,587	6,359,587
Administrative Adjustments	0	6,559,318	6,559,318
Administrative Adjustments	0	26,924,753	26,924,753
Administrative Adjustments	0	361,216	361,216
Administrative Adjustments	0	445,072	444,929
Administrative Adjustments	0	9,589,821	9,589,821
Central Payment Processing	444,700	374,700	374,700
Coolidge Environmental Impact Study	4,948	4,948	0
DACS Adult Services	11,599,300	11,599,300	10,940,279
DACS Community and Emergency Services	5,424,900	5,424,900	4,078,423
DACS Coordinated Homeless Program	1,155,400	1,155,400	1,136,214
DACS Coordinated Homeless Program	1,649,500	1,649,500	1,401,471
DACS Coordinated Hunger Program	1,286,600	1,286,600	1,235,794
DACS Coordinated Hunger Program	500,000	500,000	413,066
DACS Domestic Violence Prevention	2,507,900	2,507,900	2,229,144
DACS Domestic Violence Prevention	6,620,700	6,620,700	5,278,976
DACS Hopi Senior Center - Kykotsmovi	22,097	22,097	0
DACS Marriage & Communication Skills	1,200,000	1,200,000	1,200,000
DACS Marriage & Communication Skills	30,473	30,473	9,490
DACS Marriage Handbook	725	725	176
DACS Marriage Skills Training	10,248	10,248	947
DACS Navajo Senior Center Services	25,000	25,000	25,000
DACS Navajo Senior Centers - Birdsprings	65,000	65,000	0
DACS Navajo Senior Centers - Chilchenbento	45,000	45,000	0
DACS Navajo Senior Centers - Chinle	10,000	10,000	10,000
DACS Navajo Senior Centers - Dilcon	30,000	30,000	0
DACS Navajo Senior Centers - Fort Defiance	9,007	9,007	9,007
DACS Navajo Senior Centers - St Michael's	1,961	1,961	0
DACS Navajo Senior Centers - White Cone	30,000	30,000	0
DACS Operating Lump Sum Appropriation	5,012,100	5,028,900	5,028,900
DACS TANF Operating Lump Sum Appropriation	220,100	226,400	159,016
DACS TANF Short-Term Crisis Services FY00 - 01	47,817	47,817	47,817
DACS TANF Short-Term Crisis Services FY99 - 00	2	2	0
DACS Tribal Senior Centers - Navajo	0	0	135,997
DBME General Assistance FY05 - 06	4,260,800	3,060,800	2,816,023
DBME Operating Lump Sum Appropriation	22,829,700	26,965,400	26,961,300
DBME Operating Lump Sum Appropriation	9,037,300	12,467,900	9,317,900
DBME TANF Cash Benefits	56,308,200	47,308,200	47,288,363

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DBME TANF Cash Benefits	96,550,900	92,050,900	91,959,007
DBME TANF FLSA Supplemental	508,900	508,900	441,578
DBME Tribal Pass-Thru Funding	4,288,700	4,288,700	4,288,700
DBME Tuberculosis Control	32,200	32,200	30,665
DCSE Attorney General Legal Services	492,100	683,600	683,600
DCSE Attorney General Legal Services	7,898,100	8,664,800	7,245,700
DCSE Central Payment Processing	3,275,700	2,805,700	1,983,701
DCSE County Participation	6,845,200	6,845,200	5,285,804
DCSE Genetic Testing	72,400	42,400	42,400
DCSE Genetic Testing	723,600	393,600	221,983
DCSE Operating Lump Sum Appropriation	4,233,700	4,404,700	4,404,700
DCSE Operating Lump Sum Appropriation	37,807,900	39,643,300	34,236,843
DCYF Adoption Services	23,560,700	24,660,700	24,660,700
DCYF Adoption Services	10,686,100	10,686,100	10,686,100
DCYF Adoption Services - Family Preservation Projects	1,000,000	1,000,000	0
DCYF Attorney General Legal Services	8,518,000	8,746,900	8,746,900
DCYF Attorney General Legal Services	47,100	48,400	48,400
DCYF Children Support Services	29,316,600	34,916,600	34,916,600
DCYF Children Support Services	6,757,400	8,257,400	6,588,218
DCYF Children Support Services - SSBG	5,371,700	5,371,700	5,371,700
DCYF Comprehensive Medical and Dental Program	2,057,000	2,057,000	2,057,000
DCYF CPS Appeals	650,800	669,500	669,500
DCYF CPS Substance Abuse Treatment	224,500	224,500	224,500
DCYF Emergency Placement	3,685,800	5,085,800	5,085,800
DCYF Emergency Placement	1,872,700	472,700	357,057
DCYF Emergency Placement - SSBG	2,333,700	2,333,700	2,333,700
DCYF Family Builders Program	5,200,000	5,200,000	4,208,126
DCYF Foster Care Placement	6,004,400	8,304,400	8,304,400
DCYF Foster Care Placement	1,148,700	848,700	750,527
DCYF Foster Care Placement - SSBG	5,074,400	5,074,400	4,664,594
DCYF Healthy Families	8,715,800	5,715,800	5,715,800
DCYF Healthy Families	5,034,200	5,034,200	5,034,000
DCYF Homeless Youth Intervention	400,000	400,000	379,700
DCYF Intensive Family Services	1,985,600	1,985,600	1,985,600
DCYF Joint Substance Abuse Treatment	3,000,000	3,400,000	3,057,694
DCYF Operating Lump Sum Appropriation	47,403,900	43,872,800	43,872,800
DCYF Operating Lump Sum Appropriation	26,998,800	31,686,700	27,620,936
DCYF Permanent Guardianship Subsidy	3,337,200	4,337,200	3,684,803
DCYF Permanent Guardianship Subsidy	859,300	859,300	859,300
DCYF Residential Drug Treatment	0	75,000	0
DCYF Residential Drug Treatment	250,000	0	0
DCYF Residential Placement	7,788,000	10,088,000	10,088,000
DCYF Residential Placement	4,133,300	1,833,300	1,509,273
DCYF Residential Placement - SSBG	9,833,300	9,833,300	9,305,584
DCYF TANF Deposit to Joint Substance Abuse Treatment Fund	2,000,000	2,000,000	1,699,707
DDD Arizona Training Program At Coolidge	3,101,600	1,755,300	640,435
DDD Case Management	3,995,700	4,315,900	4,315,900
DDD Home and Community Based Services	33,148,400	33,219,000	29,068,410
DDD Home and Community Based Services	848,100	848,100	0
DDD Institutional Services	294,900	294,900	117,588
DDD Operating Lump Sum Appropriation	3,694,300	3,796,500	3,796,500
DDD State Funded Long Term Care Services	21,038,200	21,041,300	19,169,597

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DDD State Funded LTC Services	762,900	762,900	739,662
DDD Training Program at Coolidge	2,515,700	0	0
DERS Child Care Sliding Fee Scales	1,076,118	1,076,118	0
DERS Day Care Subsidy	73,066,900	69,066,900	63,019,497
DERS Day Care Subsidy	8,020,300	8,020,300	5,384,069
DERS Daycare Subsidy	67,632,900	67,632,900	66,982,660
DERS Independent Living Rehabilitation Services	784,200	784,200	638,386
DERS Job Search Stipends	1,823,500	1,823,500	1,823,500
DERS Jobs	2,000,000	2,000,000	826,096
DERS Jobs	17,618,800	17,618,800	17,618,756
DERS Operating Lump Sum Appropriation	7,982,200	8,084,000	8,084,000
DERS Operating Lump Sum Appropriation	5,140,300	5,310,100	5,309,268
DERS Operating Lump Sum Appropriation	8,979,900	9,264,300	9,264,300
DERS Transitional Child Care	32,911,900	36,911,900	33,534,708
DERS Vocational Rehabilitation Services	3,285,100	3,285,100	3,285,100
DERS Workforce Investment Act Discretionary	3,614,000	3,614,000	2,711,773
DERS Workforce Investment Act Operating Lump Sum	2,029,500	2,081,500	0
DERS Workforce Investment Act Programs	48,040,600	47,740,600	36,458,548
DES Property Conveyance	0	150,000	0
LTC Arizona Training Program at Coolidge	3,926,000	5,279,900	5,279,900
LTC Arizona Training Program at Coolidge	11,967,700	16,228,200	13,975,809
LTC Case Management	10,305,000	10,382,100	10,268,600
LTC Case Management	31,143,300	30,879,800	26,367,932
LTC Home and Community Based Services	152,268,500	152,300,100	152,300,100
LTC Home and Community Based Services	461,024,800	461,167,600	386,341,646
LTC Institutional Services	5,411,700	5,434,800	5,434,800
LTC Institutional Services	16,477,000	14,585,200	12,464,273
LTC Medical Services	28,213,100	28,226,600	28,226,600
LTC Medical Services	87,725,500	91,087,700	84,402,059
LTC Operating Lump Sum Appropriation	9,385,800	9,500,200	9,500,200
LTC Operating Lump Sum Appropriation	28,524,500	28,971,300	27,158,719
Statewide Building Renewal FY04 - 05	0	84,000	64,000
Statewide Building Renewal FY05 - 06	0	112,000	112,000
Statewide Building Renewal FY92 - 93	20	20	0
Summer Youth Program FY00 - 01	32,446	32,446	0
Department of Juvenile Corrections			
Administrative Adjustments	0	338,431	338,431
Ams Health Facility Upgrades	0	0	(13,041)
Building Renewal FY91 - 92	39	39	0
Building Renewal FY94 - 95	3,794	3,794	0
DOA Building Renewal - Restore Fire Pump FY04 - 05	34,763	34,763	407
DOA Building Renewal - Restore Fire Pump FY05 - 06	0	32,175	0
Operating Lump Sum Appropriation	68,330,100	70,925,200	70,562,322
Operating Lump Sum Appropriation	2,265,900	2,301,500	2,301,500
Department of Transportation			
Operating Lump Sum Appropriation	73,800	76,400	76,400
Department of Education			
Accountability Measures FY00 - 01	50	50	0
Achievement Testing FY04 - 05	5,301,295	5,301,295	0
Achievement Testing FY05 - 06	4,827,600	6,231,800	6,231,800
Additional State Aid To Schools	297,213,200	294,126,200	294,126,200
Administrative Adjustments	0	18,727,811	18,727,811

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Adult Education Assistance	4,447,900	4,454,786	4,454,786
Aims Intervention; Dropout Prevention	5,550,000	5,550,000	5,358,844
Arizona Teacher Evaluation	202,800	205,706	203,122
Assistance to Schools - Child of State Employee	99,500	99,500	87,445
Basic Aid and Additional State Aid Entitlement	0	191,293,800	191,293,800
Basic State Aid Entitlement	2,714,552,500	2,731,970,600	2,726,699,133
Certificates of Educational Convenience	269,900	852,000	533,465
Chemical Abuse	803,700	809,146	790,289
English Learner FTE FY02 - 03	2,389	2,389	0
English Learner FTE FY03 - 04	2,634	2,634	0
English Learner FTE FY04 - 05	262,971	262,971	156,732
English Learner Instruction FY02 - 03	272,587	272,587	(10,953)
English Learner Instruction FY03 - 04	4,146	4,146	(4,122)
English Learner Instruction FY04 - 05	1,043,785	1,043,785	56,145
English Learner Materials & Supplies FY02 - 03	0	0	(70)
English Learner Materials & Supplies FY03 - 04	108,925	108,925	(108,884)
English Learner Materials & Supplies FY04 - 05	394,641	394,641	165,295
English Learner Monitoring	328,000	337,415	336,967
English Learner Pilot FY03 - 04	0	0	(342)
English Learner Pilot FY04 - 05	13,510	13,510	1,997
English Learner Teacher FY02 - 03	4,500,000	4,500,000	3,395,844
English Learner Teacher FY03 - 04	4,499,709	4,499,709	0
English Learner Teacher FY04 - 05	4,500,291	4,500,291	253,593
Extended School Year	500,000	500,000	500,000
Family Literacy Program FY05 - 06	1,004,300	1,005,782	1,005,782
Family Literacy Program FY98 - 99	1,373	1,373	0
Full-Day Kindergarten	0	38,050,000	38,050,000
Gifted Support	1,306,500	1,311,075	1,283,841
Operating Lump Sum Appropriation	619,200	632,619	546,473
Operating Lump Sum Appropriation	8,272,600	8,482,990	8,472,091
Optional Performance Incentive Programs	120,000	0	0
Parental Choice For Reading Success	1,000,000	1,000,000	965,050
Residential Placement	10,000	10,000	2,640
School Report Cards	446,700	449,400	438,757
School Safety Program	6,707,700	6,712,429	5,060,532
School Safety Program FY00 - 01	2,044	2,044	0
School Safety Program FY01 - 02	2,810	2,810	2,810
School Safety Program FY02 - 03	67,484	67,484	0
School Safety Program FY03 - 04	85,167	85,167	85,167
School Safety Program FY04 - 05	2,288,436	2,288,436	2,242,983
Small Pass-Through Programs	581,600	581,600	581,600
Special Education Audit	296,800	301,354	248,490
Special Education Fund	33,129,700	33,130,500	33,130,500
State Block Grant For Early Childhood Education	19,420,500	19,428,873	19,428,873
State Block Grant For Vocational Education	11,232,200	11,287,266	11,287,263
Teacher Certification	1,422,500	1,458,159	1,429,724
Vocational Education Extended Year	600,000	600,000	356,148
Department of Commerce			
Administrative Adjustments	0	43,190	43,190
Agriculture Preservation District	32,514	32,514	5,767
Apprenticeship Services Office	162,500	167,400	135,390
International Trade Offices	347,300	357,500	335,719

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Military Installation Gf Transfer	0	4,825,000	4,825,000
Military Installation Operating FY04 - 05	24,830	24,830	0
Military Installation Operating FY05 - 06	0	75,000	68,828
Motion Picture Development	304,100	313,600	248,790
NAFTA Agreement Projects FY95 - 96	37,777	37,777	0
NAFTA Projects - Initial Phase FY95 - 96	19,874	19,874	0
Operating Lump Sum Appropriation	2,820,800	2,894,100	2,663,538
Operating Lump Sum Appropriation	129,700	132,600	108,697
Rural Economic Development	300,500	308,300	281,887
State Board of Equalization			
Designing & Programming Computer System	0	323,200	0
Operating Lump Sum Appropriation	577,300	591,700	574,574
Department of Environmental Quality			
Administrative Adjustments	0	913	913
Administrative Adjustments	0	51,542	51,542
Aquifer Protection Permit Program	761,900	778,600	771,259
Operating Lump Sum Appropriation	9,989,800	10,286,600	10,277,933
Operating Lump Sum Appropriation	12,013,600	12,213,200	3,090,097
Water Infrastructure Finance Authority	2,445,100	2,445,100	2,445,100
Arizona Geological Survey			
Operating Lump Sum Appropriation	807,100	827,000	825,132
Government Information Technology Agency			
Operating Lump Sum Appropriation	2,578,600	2,636,300	2,393,965
Governor's Office			
Administrative Adjustments	0	388	388
Arizona - Sonora Study	5,200	5,200	0
Border Volunteer Corps FY94 - 95	34,705	34,705	0
Border Volunteer Corps FY95 - 96	65,374	65,374	0
Governor's Telecommunication	504	504	0
Office of Sonora	7,783	7,783	0
Operating Lump Sum Appropriation - OSPB	2,051,800	2,103,900	2,096,543
Operating Lump Sum Appropriation FY00 - 01	1	1	0
Operating Lump Sum Appropriation FY01 - 02	33,017	33,017	30,496
Operating Lump Sum Appropriation FY02 - 03	196,358	196,358	115,359
Operating Lump Sum Appropriation FY03 - 04	101,011	101,011	3,121
Operating Lump Sum Appropriation FY04 - 05	86,206	86,206	61,626
Operating Lump Sum Appropriation FY05 - 06	6,218,200	6,360,600	6,101,561
Arizona Health Care Cost Containment System			
Administrative Adjustments	0	36,384,222	36,384,222
Administrative Adjustments	0	41,634,198	41,634,198
Administrative Adjustments	0	31,107,921	31,107,921
Board of Nursing	209,700	339,200	339,200
Breast and Cervical Cancer	565,100	565,100	426,816
Breast and Cervical Cancer FY01 - 02	73	73	0
Breast and Cervical Cancer FY05 - 06	167,200	137,166	127,166
Breast and Cervical Cancer Treatment Fed Administration	52,730	52,730	0
Breast and Cervical Cancer Treatment Fed Program	745,860	745,860	0
Capitation	433,284,800	419,593,300	419,489,644
Capitation	1,200,554,600	1,200,554,600	1,200,366,124
Chip - Parents	8,035,700	8,935,700	8,877,956
Chip - Services	18,246,900	18,937,500	18,833,560
Critical Access Hospitals	559,300	561,340	561,266

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Critical Access Hospitals	1,140,700	1,140,700	1,138,509
DES Eligibility	22,091,600	26,563,700	26,007,217
DES Eligibility	24,655,300	25,973,500	23,198,917
DES Title XIX Pass Through	137,200	139,900	124,353
DES Title XIX Pass Through	182,100	185,900	146,455
Disproportionate Share Payments	40,347,600	45,684,623	37,050,652
Disproportionate Share Payments	81,843,900	92,669,778	75,156,048
DOA Data Center Charges	1,724,700	2,623,300	2,328,561
DOA Data Center Charges	3,992,800	5,110,800	4,675,908
Fee For Service	89,975,500	88,843,000	84,046,184
Fee For Service	346,364,900	346,364,900	319,379,128
Graduate Medical Education	7,179,300	7,204,964	7,204,964
Graduate Medical Education	14,640,700	14,615,036	14,615,036
Indian Advisory Council	104,800	107,600	80,082
Indian Advisory Council	104,500	107,300	70,851
Kidscare Administration	1,880,600	2,008,100	1,973,233
Medicare Clawback Payments	0	13,013,377	13,013,377
Medicare Premiums	20,512,700	22,883,784	22,879,098
Medicare Premiums	50,037,200	56,557,110	56,551,225
Mental Health - Adults FY91 - 92	45,368	45,368	0
Office of Administrative Hearings	199,500	246,400	220,946
Operating Lump Sum Appropriation	25,249,900	27,951,500	27,795,641
Operating Lump Sum Appropriation	107,156,600	106,238,036	106,238,036
Operating Lump Sum Appropriation	37,132,700	37,437,000	35,928,575
Operating Lump Sum Appropriation	892,290,800	887,701,100	818,592,584
Proposition 204 - Administration	5,029,000	5,906,700	5,691,378
Proposition 204 - Capitation	170,347,100	139,920,696	138,163,726
Proposition 204 - Capitation	29,872,800	29,872,800	29,872,800
Proposition 204 - Capitation	683,316,300	635,866,600	635,866,600
Proposition 204 - Capitation	89,553,200	89,553,200	86,364,790
Proposition 204 - Fee-for-Service	2,000,000	7,867,700	465,714
Proposition 204 - Fee-for-Service	28,765,200	28,765,200	28,711,689
Proposition 204 - Fee-for-Service	108,394,900	124,394,900	101,639,032
Proposition 204 - Medicare Premiums	15,972,200	16,097,200	15,961,866
Proposition 204 - Pass Through Administration	14,046,300	14,887,100	12,458,000
Proposition 204 - Pass-Through Administration	2,395,400	2,395,400	0
Proposition 204 - Reinsurance	26,198,300	39,393,846	26,054,236
Proposition 204 - Reinsurance	54,156,000	69,866,000	53,103,163
Proposition 204 AHCCCS Administration	5,088,900	4,438,100	4,405,425
Proposition 204 Pass Through Administration	17,486,200	14,388,200	14,388,200
Reinsurance	30,685,700	37,740,668	27,934,490
Reinsurance	62,573,700	68,089,476	57,065,654
Rural Hospital Reimbursement	4,000,000	4,000,000	4,000,000
Rural Hospital Reimbursement	8,158,100	8,158,100	8,158,100
Ticket To Work	1,670,700	1,688,600	1,687,857
Ticket to Work	3,405,200	3,620,200	3,453,468
Office of Administrative Hearings			
Operating Lump Sum Appropriation	1,124,000	1,151,800	1,151,800
Operating Lump Sum Appropriation	0	100	100
Operating Lump Sum Appropriation	14,000	14,100	14,100
Historical Society			
Administrative Adjustments	0	643	643
Field Services and Grants	80,000	80,000	80,000

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation	2,046,450	2,111,550	2,111,550
Papago Park Museum	1,902,950	1,923,050	1,923,050
Papago Park Museum	193,700	193,700	193,700
House of Representatives			
Operating Lump Sum Appropriation FY00 - 01	853,257	853,257	(184)
Operating Lump Sum Appropriation FY01 - 02	425,012	425,012	(301)
Operating Lump Sum Appropriation FY02 - 03	841,747	841,747	(307)
Operating Lump Sum Appropriation FY03 - 04	593,397	593,397	(279)
Operating Lump Sum Appropriation FY04 - 05	1,038,121	1,038,121	25,535
Operating Lump Sum Appropriation FY05 - 06	12,262,100	12,592,400	10,690,094
Operating Lump Sum Appropriation FY99 - 00	360,028	360,028	360,028
Department of Health Services			
Abstinence Funding	1,000,000	1,000,000	638,026
ADM Assurance and Licensure	742,600	760,900	727,227
Administrative Adjustments	0	3,224,416	3,224,416
Administrative Adjustments	0	50,289	50,289
Administrative Adjustments	0	44,364	44,364
Administrative Adjustments	0	371,317	371,317
Adult Cystic Fibrosis	105,200	105,200	105,200
Adult Sickle Cell Anemia	33,000	33,000	33,000
AHCCCS Children's Rehabilitative Services	17,745,900	17,745,900	17,745,900
AHCCCS Children's Rehabilitative Services	36,189,000	36,189,000	0
Aids Reporting and Surveillance	1,125,000	1,125,000	1,061,804
Alzheimer Disease Research	1,000,000	1,000,000	1,000,000
Arizona State Hospital Accreditation	3,140	3,140	0
Arnold v. Sarn	27,500,000	27,500,000	27,500,000
Arnold v. Sarn	10,196,400	10,196,400	0
ASH Condensate Receiver	4,700	4,700	0
Assurance and Licensure	7,636,700	7,884,259	7,802,578
Assurance and Licensure	299,000	307,800	152,083
Assurance and Licensure	636,900	655,954	0
Attorney General Legal Services	362,800	394,900	394,900
AZ Statewide Immunization Information System	467,600	478,247	472,453
Breast and Cervical Cancer Screening	1,090,600	1,092,644	909,873
Building Renewal - Tucson FY00 - 01	6,109	6,109	0
Building Renewal - Tucson FY98 - 99	2,221	2,221	0
Building Renewal - Tucson FY99 - 00	37,168	37,168	0
Building Renewal FY91 - 92	3,548	3,548	0
Building Renewal FY96 - 97	30	30	0
Children's Behavioral Health - Tobacco Settlement Account	260,641	260,641	101,002
Children's Behavioral Health Services	9,351,800	9,351,800	9,351,800
Children's Behavioral State Match for Title XIX	87,498,400	87,498,400	87,498,400
Children's Behavioral Health State Match for Title XIX	178,433,800	178,433,800	0
Children's Rehabilitative Services	3,587,000	3,587,000	3,587,000
Cholla - Sexual Predator	11,655	11,655	0
Community Health Centers	10,420,800	10,433,316	10,243,350
Community Placement Treatment	5,574,100	5,574,100	5,574,100
Community Placement Treatment	1,130,700	1,130,700	1,130,700
Corrective Action Plan FY04 - 05	398,060	398,060	0
Corrective Action Plan FY05 - 06	3,564,600	3,564,600	651,176
County Nutrition Services	330,300	330,300	316,566
County Prenatal Services Grant	1,148,500	1,148,500	938,807

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
County Public Health	200,000	200,000	200,000
County Tuberculosis Provider Care & Control	1,010,500	1,010,500	816,400
Court Monitoring	197,500	338,767	338,767
Diabetes Prevention and Control	100,000	100,000	80,073
Direct Grants	460,300	460,300	460,300
Environmental Assess Phoenix FY91 - 92	8,849	8,849	0
Health Start	226,600	226,600	226,467
Hearing and Speech Professionals Regulation	62,243	62,243	0
Hepatitis C Surveillance	366,900	375,556	303,854
High Risk Prenatal Services	3,180,600	3,180,600	2,685,739
Indirect Cost Fund	7,250,900	7,379,200	6,635,401
Indirect Costs AHCCCS - Children's Rehabilitative Services	350,000	350,000	244,502
Kidney Program	50,500	50,500	50,500
Laboratory Services	3,097,600	3,206,530	3,054,811
Laboratory Services Operating	0	175,000	18,228
Medicaid Special Exemption Payments	387,200	387,200	387,200
Medicaid Special Exemption Payments	789,700	789,700	0
Medicaid Special Exemption Payments Behavioral Health	5,215,200	5,215,200	5,215,200
Medicaid Special Exemption Payments	10,635,100	10,635,100	0
Medicare Clawback Payments	0	3,715,200	2,812,910
Mental Health and Substance Abuse State Match Title XIX	26,598,200	26,598,200	26,598,200
Mental Health and Substance Abuse State Match Title XIX	54,241,100	54,241,100	0
Mental Health Non-Title XIX	2,447,300	2,447,300	2,374,020
Nonrenal Disease Management Program	0	50,000	0
Operating Lump Sum Appropriation	14,090,100	14,472,844	14,249,746
Operating Lump Sum Appropriation	37,832,600	38,839,533	38,277,639
Operating Lump Sum Appropriation	4,232,900	4,190,064	4,167,215
Operating Lump Sum Appropriation	4,555,600	4,636,483	0
Operating Lump Sum Appropriation	3,357,700	3,496,953	3,207,277
Operating Lump Sum Appropriation	1,966,300	2,009,788	0
Operating Lump Sum Appropriation	5,030,900	5,228,010	5,174,770
Operating Lump Sum Appropriation	6,469,300	6,469,300	5,844,657
Operating Lump Sum Appropriation FY04 - 05	41,807	41,807	41,796
Operating Lump Sum Appropriation FY05 - 06	1,576,100	1,576,100	1,406,232
Poison Control Center Funding	0	175,000	175,000
Proposition 204 Administration	2,012,700	2,054,994	2,054,994
Proposition 204 - Administration Title XIX Match	4,161,700	4,235,775	0
Proposition 204 Children's Behavioral Health Services	1,035,400	706,375	706,375
Proposition 204 - CBH Title XIX Match	2,111,500	2,111,500	0
Proposition 204 MH/SA Title XIX	24,871,900	24,082,240	24,082,240
Proposition 204 - MH/SA Title XIX Match	50,720,600	50,720,600	0
Proposition 204 Seriously Mentally Ill Services	52,252,900	53,371,585	53,371,585
Proposition 204 - SMI Title XIX Match	106,558,600	106,558,600	0
Reimbursement To Counties	67,900	67,900	67,900
Renal & Non-Renal Disease Management	468,000	468,000	429,493
Rural Modular Dental Buildings	0	200,000	200,000
Scorpion Antivenom	150,000	150,000	111,835
Seriously Emotionally Handicapped Child	500,000	500,000	0
Seriously Mentally Ill Non-Title XIX	30,691,900	30,691,900	30,326,765
Seriously Mentally Ill State Match for Title XIX	53,013,200	53,013,200	53,013,200
Seriously Mentally Ill State Match for Title XIX	108,108,800	108,108,800	0
Sexually Violent Persons	10,178,500	10,365,483	9,919,242

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Standard Control Subventions	26,300	26,300	24,936
Substance Abuse Non-Title XIX	12,135,400	12,135,400	12,135,400
TANF Prenatal Services FY99 - 00	46,969	46,969	(301)
Telemedicine	260,000	260,000	221,479
Title XIX Behavioral Health Support	0	2,500,000	0
Title XIX Behavioral Health Support	7,600,000	7,600,000	0
U of A Poison Center Funding	0	175,000	175,000
Vaccines	3,784,300	3,784,300	3,782,911
Vital Records	25,526	25,526	1,741
Arizona Commission on the Arts			
Arts Endowment Fund	2,000,000	2,000,000	2,000,000
Community Service Projects	1,263,100	1,263,100	1,263,100
Operating Lump Sum Appropriation	565,900	584,600	584,600
Arizona Commission of Indian Affairs			
Administrative Adjustments	0	1,630	1,630
Operating Lump Sum Appropriation	207,600	212,900	204,065
Occupational Safety & Health Review Board			
Employee Related Expenditures FY91 - 92	75	75	0
Operating Lump Sum Appropriation FY00 - 01	1,000	1,000	0
Operating Lump Sum Appropriation FY01 - 02	6,947	6,947	0
Operating Lump Sum Appropriation FY02 - 03	4,800	4,800	0
Operating Lump Sum Appropriation FY03 - 04	4,800	4,800	0
Operating Lump Sum Appropriation FY04 - 05	4,800	4,800	0
Operating Lump Sum Appropriation FY98 - 99	6,023	6,023	2,669
Operating Lump Sum Appropriation FY99 - 00	1,000	1,000	0
Personal Services FY91 - 92	53	53	0
Department of Insurance			
Managed Care and Dental Plan Oversight	525,600	533,800	533,800
NCOIL Participation	25,000	25,000	25,000
Operating Lump Sum Appropriation	5,948,400	6,130,100	6,101,534
Arizona Criminal Justice Commission			
Administrative Adjustments	0	162,722	162,722
Operating Lump Sum Appropriation	994,200	994,200	810,187
Rural State Aid To County Attorneys	157,700	157,700	157,700
Rural State Aid To Indigent Defense	150,100	150,100	150,100
Joint Legislative Budget Committee			
Operating Lump Sum Appropriation FY04 - 05	1,523,281	1,523,281	1,523,281
Operating Lump Sum Appropriation FY05 - 06	2,743,300	2,811,300	1,152,926
Department of Library, Archives and Public Records			
Grants-In-Aid FY01 - 02	1,343	1,343	1,343
Grants-In-Aid FY02 - 03	4,400	4,400	4,400
Grants-In-Aid FY03 - 04	66,381	66,381	57,644
Grants-In-Aid FY04 - 05	115,400	115,400	60,000
Grants-In-Aid FY05 - 06	651,400	651,400	560,829
Operating Lump Sum Appropriation FY00 - 01	38,021	38,021	38,021
Operating Lump Sum Appropriation FY01 - 02	72,917	72,917	15,732
Operating Lump Sum Appropriation FY03 - 04	9,487	9,487	5,103
Operating Lump Sum Appropriation FY04 - 05	56,842	56,842	29,220
Operating Lump Sum Appropriation FY04 - 05	137,011	137,011	111,809
Operating Lump Sum Appropriation FY05 - 06	6,227,800	6,411,200	6,406,800
Operating Lump Sum Appropriation FY05 - 06	620,500	634,200	634,200
Statewide Radio Reading Svc For Blind	97,000	97,000	97,000

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Legislative Council			
Juvenile Study FY97 - 98	19,520	19,520	0
Ombudsman Citizens Aid Office FY04 - 05	16,159	16,159	16,159
Ombudsman Citizens Aid Office FY05 - 06	371,700	371,700	344,290
Ombudsman Citizens Aid Office FY93 - 94	43,000	43,000	0
Ombudsman Citizens Aid Office FY94 - 95	95,169	95,169	0
Operating Lump Sum Appropriation FY00 - 01	158,981	158,981	0
Operating Lump Sum Appropriation FY04 - 05	325,116	325,116	135,199
Operating Lump Sum Appropriation FY05 - 06	4,720,700	4,824,000	4,649,733
Operating Lump Sum Appropriation FY99 - 00	886,420	886,420	0
State Archives and History Building	15,000,000	15,000,000	0
Land Department			
Administrative Adjustments	0	56,555	56,555
Administrative Adjustments	0	51,081	51,081
Cap User Fees	1,859,300	1,859,300	1,859,300
Environmental County Grants	125,000	125,000	125,000
In/Out of State Fire Costs	0	3,000,000	3,000,000
Inmate Fire Crews	1,156,400	1,191,600	1,191,501
Natural Resource Conservation Districts	180,000	180,000	180,000
New Fire Suppression Services	0	2,200,000	2,200,000
Operating Lump Sum Appropriation	16,339,400	16,663,400	16,650,796
Operating Lump Sum Appropriation	319,600	319,600	318,600
Outstanding Fire Suppression Expenses	0	4,000,000	4,000,000
Department of Liquor Licenses and Control			
Improvement of Data Processing System	0	1,250,000	0
Operating Lump Sum Appropriation	2,851,400	2,924,000	2,923,880
Law Enforcement Merit System Council			
Administrative Adjustments	0	0	0
Operating Lump Sum Appropriation	70,400	72,600	70,805
Division of Emergency Management & Military Affairs			
Apache Cnty River Reservoir Dam Emerg	57,141	1,306	1,306
Aspen Fire Emergency	745,010	745,010	24,770
AZ Pre-Suppression Wildfire Resources	0	200,000	162,997
AZ/Mexico International Border Security	0	1,500,000	863,238
Bellemont/Prescott Boilers	8,724	8,724	0
Brins Wildfire Emergency	0	25,000	1,292
Civil Air Patrol	54,200	54,200	54,200
Clifton Flash Flood Emergency	0	41,965	41,965
EUZ701 Search & Rescue	0	125,000	113,652
EUZ701 Search & Rescue	50,996	50,996	50,996
EUZHAZ - Hazard Material Contingency	11,485	11,485	5,940
February 2005 Winter Storms & Flooding	0	450,000	0
February 2005 Winter Storms & Flooding	1,059,934	1,059,934	676,869
Forest Heath Emergency-Pine Bark Beetle	452,696	452,696	406,817
Forest Heath Emergency-Pine Bark Beetle	264,480	264,480	251,857
Glassy-Winged Sharpshooter Emergency	0	200,000	0
Hazard Materials Contingency	48,319	48,319	33,725
Kinishba Fire Emergency	0	(30,603)	(30,603)
La Paz County Summer Monsoon Emergency	0	350,000	50,670
La Paz/Maricopa Counties Storm Emergency	105,785	105,785	449
La Paz/Maricopa Counties Storm Emergency	61,593	61,593	1,920
La Paz/Maricopa Counties Storm Emergency	21	21	21

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Mediterranean Fruit Fly Emergency	3,541	962	962
Mitigation Projects 2004 Emergency Funds	923,542	923,542	578,048
Navajo County Severe Weather Emergency	69,942	5,493	5,493
Navajo, Gila & Coconino Cts Rodeo Fire	333,254	333,254	2,476
Navajo, Gila & Coconino Cts Rodeo Fire	3	3	3
Nogales and 52nd Street Building Renewal	12,032	12,032	0
Northern Arizona Winter Storm Emergency	464,271	464,271	252,461
Northern Arizona Winter Storm Emergency	0	508,035	0
Nuclear Emergency Management Fund	0	305,043	305,043
Nuclear Emergency Mgmt Fund - Buckeye	0	53,907	53,907
Nuclear Emergency Mgmt Fund - Maricopa	0	299,626	299,626
Nuttall Complex and Willow Fire Emergency	352,031	73,329	73,329
Off Site Nuclear Emergency FY89 - 90	1,708	1,708	0
Operating Lump Sum - Administration	1,846,252	1,881,234	1,880,527
Operating Lump Sum - DEMA	835,741	860,633	858,890
Operating Lump Sum - Military Affairs	3,092,581	3,143,340	2,954,910
Operation Good Neighbor	0	250,000	167,633
Pima County Flash Flood Emergency	0	350,000	81,122
Project Challenge Construction	0	500,000	0
Project Challenge Program	2,076,126	1,614,393	1,606,221
Queen Valley Flash Flood Emergency	99,105	58,640	58,640
Replace Cooling Tower at Roosevelt	0	50,000	0
Re-Roofing Mesa Armory	1,325	1,325	0
Safford and Sunnyslope Building Renewal	141	0	0
September Terrorism Incident Emergency	107,024	107,024	47
Service Contracts - FY04 - 05	246,488	246,488	246,488
Service Contracts - FY05 - 06	1,215,000	1,215,000	813,644
Mine Inspector			
Operating Lump Sum Appropriation	1,137,500	1,162,400	1,161,930
Department of Building and Fire Safety			
Administrative Adjustments	0	250	250
Operating Lump Sum Appropriation	3,335,000	3,421,700	3,187,444
Mines and Mineral Resources			
Administrative Adjustments	0	2,939	2,939
Operating Lump Sum Appropriation	801,500	814,300	798,827
Medical Student Loans Board			
Medical Student Loans	13,200	13,200	9,256
Medical Student Scholarships	0	1,500,000	323,148
Northern Arizona University			
Main Campus - Operating Lump Sum Appropriation	118,166,400	122,314,100	122,314,100
Yuma Campus - Operating Lump Sum Appropriation	2,192,300	2,192,300	2,192,300
Navigable Streams Adjudication Commission			
Administrative Adjustments	0	9,332	9,332
Operating Lump Sum Appropriation	50,000	50,000	0
Operating Lump Sum Appropriation	163,200	166,700	164,930
Personnel Board			
Administrative Adjustments	0	50	50
Operating Lump Sum Appropriation	341,600	346,700	301,897
Commission for Postsecondary Education			
Leveraging Educational Assistance Prtshp	1,220,800	1,220,800	1,220,800
Private Postsecondary Education Student Financial Assistance	170,700	171,000	170,500

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Prescott Historical Society			
Administrative Adjustments	0	10,236	10,236
Building Renewal - Sharlot Hall Reroof	19	19	0
Operating Lump Sum Appropriation	655,200	678,000	652,773
Board of Executive Clemency			
Operating Lump Sum Appropriation	974,400	1,000,100	919,252
State Parks Board			
Acquisition and Development	107,100	107,100	0
Administrative Adjustments	0	8,398	8,398
Administrative Adjustments	0	7,256	7,256
Growing Smarter Transfer to Land Conservation Fund	0	20,000,000	20,000,000
Kartchner Caverns	1,719,400	1,747,500	1,444,298
Operating Lump Sum Appropriation	2,421,500	2,662,100	2,526,610
Operating Lump Sum Appropriation	9,019,500	9,121,100	8,952,918
Tonto Lodge Roof Replacement	0	100,000	34
Department of Public Safety			
Administrative Adjustments	0	4,034	4,034
Building Renewal FY00 - 01	0	2,844	2,844
Building Renewal FY01 - 02	77	77	77
Building Renewal FY03 - 04	10	10	10
Building Renewal FY03 - 04	221	221	221
Building Renewal FY04 - 05	2	2	0
Building Renewal FY04 - 05	924	26,924	21,121
Building Renewal FY04 - 05	0	9,000	5,682
Building Renewal FY05 - 06	0	96,748	45,399
GITEM	4,988,600	5,055,900	5,052,499
GITEM Supplemental	0	3,897,000	1,373,880
Operating Lump Sum Appropriation	30,888,800	31,901,200	31,901,200
Operating Lump Sum Appropriation	296,200	296,200	209,988
Operating Lump Sum Appropriation	205,000	205,000	153,750
Operating Lump Sum Appropriation	354,500	355,500	85,000
Safety Equipment	0	3,000,000	2,802,245
Statewide Interoperability - Phase II	3,000,000	3,000,000	12,500
Statewide Interoperability Design	1,249,300	1,258,100	621,331
Department of Racing			
Operating Lump Sum Appropriation	2,538,100	2,606,800	2,606,784
Independent Redistricting Commission			
Operating Lump Sum Appropriation FY03 - 04	2,021,370	2,021,370	423,404
Real Estate Department			
Operating Lump Sum Appropriation	3,610,900	3,718,800	3,694,436
Ranger's Pension			
Operating Lump Sum Appropriation	12,800	12,800	12,800
Department of Revenue			
Administrative Adjustments	0	42,857	42,857
Administrative Adjustments	0	275	275
Administrative Adjustments	0	0	0
Kerr v. State of Arizona Lawsuit	0	975,000	342,621
Ladewig v. AZ - Administrative Costs	1,424,700	1,424,700	807,697
Operating Lump Sum Appropriation	57,053,500	65,576,600	65,191,447
Operating Lump Sum Appropriation	1,513,100	1,677,500	1,564,478
Operating Lump Sum Appropriation	390,300	398,000	316,285
Revenue Generating Program	6,788,900	0	0

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Schools for the Deaf and the Blind			
Administrative Adjustments	0	959,141	959,141
Capital and Building Renewal Projects	2,000,000	2,000,000	1,890,527
Operating Lump Sum Appropriation - Administration	5,356,446	5,533,172	5,278,499
Operating Lump Sum Appropriation - Phoenix	2,143,357	2,332,528	2,049,387
Operating Lump Sum Appropriation - Tucson	8,496,697	8,836,800	8,479,581
Schools Facilities Board			
Full Day Kindergarten Capital Grants	1,315,352	1,315,352	591,980
New School Facilities Debt Service	50,940,100	50,940,100	50,757,370
Operating Lump Sum Appropriation	1,623,800	1,666,000	1,643,660
Senate			
Operating Lump Sum Appropriation FY04 - 05	500,486	500,486	62,393
Operating Lump Sum Appropriation FY05 - 06	8,023,600	8,224,600	7,619,985
Supreme Court			
4th Floor Chiller	2,528	2,528	0
Administrative Adjustments	0	25,888	25,888
Adult Intensive Probation	10,289,100	11,113,047	11,080,148
Adult Standard Probation	11,599,900	12,249,253	12,220,466
Automation	4,969,000	4,992,700	3,313,730
Automation	9,886,100	9,893,800	8,288,931
Commission on Judicial Conduct	355,300	365,800	362,545
Community Punishment	424,000	480,600	477,517
County Reimbursements	246,000	634,700	507,799
Domestic Relations	720,500	731,000	701,774
Foster Care Review Board	1,938,400	1,997,600	1,995,373
HVAC Piping and Pump - Courts Building	329	0	0
HVAC Storage Tank	1,211	1,211	0
Interstate Compact	578,800	625,400	622,472
Judges Compensation	15,813,100	15,213,100	15,107,698
Judicial Nomination and Performance Review	288,900	297,300	287,879
Juvenile Family Counseling	660,400	660,400	622,078
Juvenile Intensive Probation	13,360,000	13,697,500	13,570,505
Juvenile Standard Probation	7,734,600	7,998,800	7,981,526
Juvenile Treatment Services	22,141,900	22,239,400	22,085,024
Operating Lump Sum Appropriation	8,456,900	8,660,600	8,299,242
Operating Lump Sum Appropriation	759,500	770,500	529,667
Operating Lump Sum Appropriation	4,893,600	4,900,700	4,269,124
Progressively Increasing Consequences	9,465,300	9,674,900	9,674,900
Repair/Rehab Cooling Tower - Courts Building	195,078	427,338	316,851
Rural State Aid to the Courts	418,500	418,500	418,500
Special Water Master	20,000	20,000	20,000
State Aid	84,700	84,700	21,560
Secretary of State			
Administrative Adjustments	0	8,450	8,450
Election Services	794,100	809,600	796,336
Help America Vote Act	697,317	697,317	277,792
Help America Vote Act - Federal Funds	40,000,000	40,000,000	9,588,662
Operating Lump Sum Appropriation	2,245,700	2,306,000	2,230,055
State Treasurer			
Administrative Adjustments	0	143,201	143,201
Community College Reimbursement	0	3,063,541	3,063,541
Corporate Income Tax Transfer	0	11,000,000	11,000,000

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Justice of the Peace Salaries	2,775,500	2,775,500	2,361,979
Operating Lump Sum Appropriation	2,584,300	2,650,400	2,615,180
Tax Appeals Board			
Administrative Adjustments	0	314	314
Operating Lump Sum Appropriation	281,900	289,900	276,088
University of Arizona			
Agriculture	40,787,700	41,436,700	41,436,700
Clinical Rural Rotation	471,100	489,900	489,900
Clinical Teaching Support	9,573,100	9,733,000	9,733,000
Liver Research Institute	501,200	517,400	517,400
Main Campus - Operating Lump Sum Appropriation	239,671,100	249,967,300	249,967,300
Operating Lump Sum Appropriation	44,428,200	46,314,800	46,314,800
Phoenix Medical Campus	0	6,006,900	6,006,900
Sierra Vista Campus	2,335,100	2,381,200	2,381,200
Telemedicine Network	1,185,400	1,199,300	1,199,300
Uniform State Law Commission			
Operating Lump Sum Appropriation	52,300	52,300	44,784
Department of Veterans' Services			
Administrative Adjustments	0	77	77
Nursing Home Project FY91 - 92	3,605	3,605	0
Nursing Home Project FY91 - 92	13,284	13,284	0
Nursing Home Project FY91 - 92	18,934	18,934	0
Operating Lump Sum Appropriation	2,142,500	2,214,752	2,201,313
Southern Arizona Cemetery	134,700	141,448	141,447
Veterans' Organizations Contracts	29,200	29,200	29,200
Water Resources Department			
Operating Lump Sum Appropriation	16,722,200	17,085,800	17,007,372
Rural Water Studies	1,900,000	1,900,000	1,891,539
Weights & Measures Department			
Administrative Adjustments	0	12,843	12,843
Operating Lump Sum Appropriation	1,556,200	1,595,200	1,590,146
Total General Fund Budgetary Expenditures before Adjustments	13,210,557,642	13,867,632,771	12,747,104,700
Less:			
Department of Health Services appropriations for Children's Rehabilitative Services, Arnold v. Sarn, Assurance and Licensure, Title XIX State Match, and Medicaid Special Exemption that were duplicate expenditure authorizations	(576,905,100)	(577,122,600)	0
Total General Fund Budgetary Expenditures after Adjustments	$ 12,633,652,542	$ 13,290,510,171	$ 12,747,104,700

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

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
TRANSPORTATION AND AVIATION PLANNING,
HIGHWAY MAINTENANCE AND SAFETY FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND			
Department of Transportation			
Airport Planning and Development FY04 - 05	$ 7,221,852	$ 7,221,852	$ 7,221,852
Airport Planning and Development FY05 - 06	16,956,000	16,956,000	14,645,980
Alternate Truck Route - Douglas Chino Road	250,000	250,000	0
Arizona-Mexico Border Points FY97 - 98	569	569	0
Asbestos and Lead Inspections FY01 - 02	211,173	211,173	82,994
Asbestos and Lead Inspections FY02 - 03	598,039	598,039	8,574
Building Renewal FY03 - 04	26,502	26,502	26,502
Building Renewal FY04 - 05	65,900	65,900	65,900
Building Renewal FY04 - 05	4,969	4,969	4,969
Building Renewal FY04 - 05	1,769,796	1,769,796	1,294,073
Building Renewal FY05 - 06	75,800	75,800	33,887
Building Renewal FY05 - 06	3,627,100	3,627,100	553,536
Certified Ignition Interlock Devices	0	444,600	309,425
De-Icer Buildings	1,089,000	1,089,000	364,076
Douglas Maintenance Yard Admin Adjustment FY90 - 91	2,000	2,000	0
Douglas Weigh Station	178,000	178,000	0
East Valley Maintenance Yard FY02 - 03	351,456	351,456	39,685
Fee Accounting and Revenue Management System	2,902	2,902	2,902
Grants - Sm Comm Air Service and Airport Upgrade	0	500,000	500,000
Highway Construction FY04 - 05	66,310,936	66,310,936	66,310,936
Highway Construction FY05 - 06	275,000,000	275,000,000	211,685,690
Highway Maintenance	109,263,500	110,818,700	107,975,542
Integrated Inventory System	50	50	50
Lump Sum Appropriation - Highway Maintenance	558,700	558,700	558,507
Lump Sum Appropriation - Highway Maintenance FY04 - 05	1	2	0
Lump Sum Appropriation - Highway Maintenance FY04 - 05	3,214,512	3,214,512	3,159,335
Modular Trailer Operating Expenses	7,519	7,519	0
Motor Carrier Towing Regulation	11,108	11,108	0
Motor Vehicle - Electronic Certificate of Title System FY01 - 02	4,852	4,852	0
Motor Vehicle - Electronic Certificate of Title System FY02 - 03	13,488	13,488	0
Motor Vehicle - Nogales Port Facility FY00 - 01	5,481	5,481	5,481
Motor Vehicle - Nogales Port Facility FY99 - 00	3,338	3,338	3,338
Motor Vehicle - One-Time Trailer Fees Implementation	43,724	43,724	0
Motor Vehicle - Security Enhancement Issues FY01 - 02	1,151	1,151	1,150
Motor Vehicle - Security Enhancement Issues FY02 - 03	1,539,584	1,539,584	456,013
Nogales Cyber Port Study	300,000	300,000	0
Nogales Port of Entry FY98 - 99	2	2	0
Oil Storage Tanks	637,600	637,600	76
On-Line Verification of Social Security Numbers	797	797	0
Operating Lump Sum Appropriation	2,014,200	2,057,800	2,056,235
Operating Lump Sum Appropriation	60,800	62,800	62,800
Operating Lump Sum Appropriation - Administration	41,360,100	42,887,800	42,874,701
Operating Lump Sum Appropriation - Highway	120,578,700	122,952,400	122,368,429
Operating Lump Sum Appropriation - Motor Vehicle	88,955,100	91,267,800	91,042,771
Operating Lump Sum Appropriation - Motor Vehicle	1,575,200	1,604,400	1,240,749
Operating Lump Sum Appropriation - Motor Vehicle	1,935,500	1,980,200	1,233,978
Operating Lump Sum Appropriation - Motor Vehicle	383,300	383,300	383,192
Operating Lump Sum Appropriation - Motor Vehicle	1,456,000	1,487,700	1,208,549

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
TRANSPORTATION AND AVIATION PLANNING,
HIGHWAY MAINTENANCE AND SAFETY FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Payson Equipment Shop	1,536,500	1,536,500	653,963
Payson MVD Service Center	915,900	915,900	19,425
Safety, Security, Traffic Management, and Control	18,000	18,000	0
San Luis Poe Connector Road	200,000	200,000	0
Site Improvement - Nogales Inspection Station	54,000	54,000	0
Special Projects FY98 - 99	30,868	30,868	0
Sprinklers and Fire Alarms	1,265,000	1,265,000	61,200
Third Party for Driver License Exams	0	254,600	254,600
Traffic Safety Improvement Agreements	600,000	600,000	400,000
Transfer to Department of Public Safety	41,187,500	42,197,600	42,197,600
Transfer to Department of Public Safety	1,333,600	1,372,000	1,372,000
Transfer to Department of Public Safety	62,617,300	63,999,300	63,999,300
Vehicles and Heavy Equipment Fuel Surcharge	1,000,000	1,000,000	1,000,000
Total Transportation and Aviation Planning, Highway Maintenance and Safety Fund Budgetary Expenditures	$ 858,424,969	$ 869,975,170	$ 787,739,965

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

A. RECONCILIATION OF BUDGETARY TO GAAP EXPENDITURES

The accompanying Budgetary Comparison Schedules for the General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund present comparisons of the legally adopted budget with actual expenditure data on the budgetary basis. The original budget represents any appropriation bills passed by June 30, 2005 that affect available appropriations during fiscal year 2006. The final budget represents any appropriation bills passed during fiscal year 2006 for fiscal year 2006 plus the original budget. Appropriation bills passed after the end of fiscal year 2006 for fiscal year 2006 would also be included in the final budget.

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

	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund
Uses/outflows of resources		
Actual expenditure amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 12,747,105	$ 787,740
Differences - budget to GAAP:		
Increase in unpaid incurred expenditures from fiscal year end 2005 to fiscal year end 2006.	30,152	411,470
Increase in unpaid payroll expenditures from fiscal year end 2005 to fiscal year end 2006. For budgetary reporting, final June 2006 payroll expenditures were charged to fiscal year 2007 budget.	5,180	-
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	1,045,702	-
Distribution to counties and cities for Urban Revenue Sharing, derived from the State's income tax collections, is recognized as an expenditure on the modified accrual basis, but has no effect on budgetary expenditures.	425,229	-
Capital leases and installment purchase contracts initiated during the fiscal year, which are not reported in budgetary expenditures.	2,729	-
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2006.	3,646,467	1,553,788
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(917,492)	(457,857)
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	$ 16,985,072	$ 2,295,141

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

B. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

The State budgets on both an annual and biennial basis. Laws 1997, Chapter 210 required appropriated biennial budgets for all state agencies. In biennial budgets, an agency receives a separate appropriation for each of two fiscal years. For "small" regulatory agencies, comprised of five to ten people, whose budgets were merely amended for technical adjustments in Laws 2002, Chapter 327, the first year appropriations do not lapse until the end of the second year. Except where specifically noted by the appropriation bills, the appropriations for all other agencies lapse at the end of each fiscal year. For the "large" seventeen state agencies, Laws 2002, Chapter 210 returned their budgets to a "one" year cycle beginning with the 2003 Legislative Session (fiscal year 2004 budget request). In prior years the "large" agencies have accounted for approximately ninety percent or more of the appropriations for the General Fund.

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

Lump Sum – The appropriation of an agency for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs and subprograms without further Legislative or Executive Branch review. Within this format, any programs or Special Line Items may be listed separately.

Modified Lump Sum – The appropriation of an agency for each fiscal year consists of at least three lines: Personal Services, Employee Related Expenditures, and All Other Operating Expenditures. Any Special Line Items would be listed separately. Under this format, pursuant to ARS §35-173, an agency must seek approval of the Joint Legislative Budget Committee before moving any funding into or out of the Personal Services and Employee Related Expenditures line items. Any other funding transfers would require approval by the Arizona Department of Administration (ADOA), but not the Joint Legislative Budget Committee.

Detailed Line Item – The agency appropriation for each fiscal year consists of each line item listed in the Appropriations Report including Professional and Outside Services, Travel, Other Operating Expenditures, Equipment, Food, and any Special Line Items. The same rules govern Personal Services and Employee Related Expenditures funding transfers as noted in the Modified Lump Sum description. This appropriation format requires an agency to seek ADOA approval before initiating funding transfers between all other line items.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES

JUNE 30, 2006

During the fiscal year, $807.848 million in supplemental appropriations, net of increases and reversions, were provided to major and non-major governmental funds to enhance various programs. The General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund received $657.075 and $11.550 million, respectively, and those amounts are included in the Budgetary Comparison Schedules.

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

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

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

All expenditure of the State's money must be authorized by law. Authorization can be granted directly by law or contingent upon appropriation from the State Legislature. Periodically, the State Legislature may appropriate monies for program expenditures already authorized by law, resulting in duplicate spending authority. In appropriating monies, the State Legislature has, in some cases, included external funding sources as a portion of an agency's total program expenditure authorization (budget) and has identified the external funding sources as an offset against the program appropriations total in order to reflect the State funding amount. An example of this is found in the $178.434 million Department of Health Services Children's Behavioral Health State Match for Title XIX on page 138. Accordingly, sometimes program expenditures may not exhaust specific legislative appropriations. To properly present the total budget (appropriation) information, in relationship to "actual" expenditure amounts, duplicate expenditure authorizations have been eliminated from general fund budget (appropriation) totals on page 145.

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), the State of Arizona reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,922 center lane miles (18,668 travel lane miles) of roads and 4,676 bridges that the State is responsible to maintain.

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

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

As adopted by the State Transportation Board on an annual basis, the Five-Year Transportation Facilities Construction Program (Program) contains estimated expenditures for highway system improvements and the preservation of existing roadways and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2007 and beyond was adopted by the Transportation Board on June 23, 2006.

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

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

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

Roads

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

The PMS has developed performance goals for the condition level of the pavement in the State's highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called "Serviceability", which can be defined as the ability of a pavement to serve the traveling public (as documented in 1961 after AASHTO Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement and many surveys since the original road test have shown that these measurements closely track the subjective opinion of the traveling public. Most commonly, this

number is called "Present Serviceability Rating" (PSR). PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

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

The goal of the State is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the State's highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2006, an overall rating of 3.52 was achieved, as shown in the following graph:

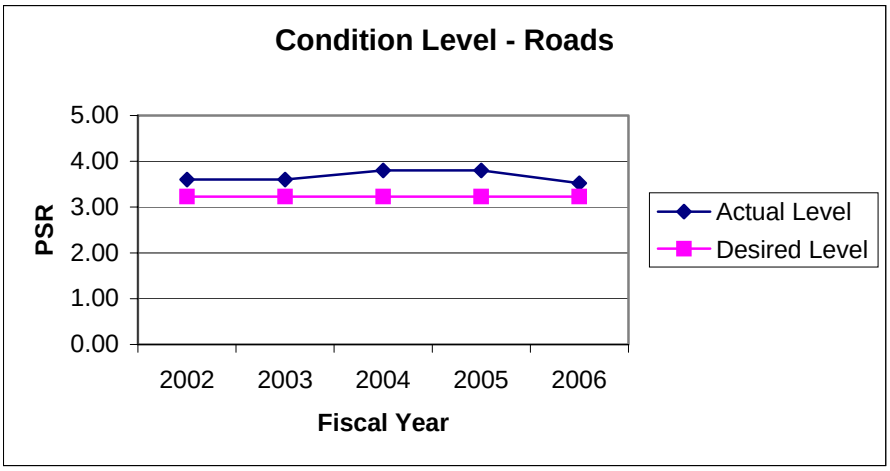


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT PMS, as well as other units within ADOT. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2002 through 2006 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	$227.4	$234.8
2003	$243.5	$220.8
2004	$198.5	$215.5
2005	$235.7	$196.0
2006	$218.5	$214.5

Bridges

Bridges constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2006, the State owns and maintains 4,676 bridges with an approximate total deck area of 44,212,631 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assist bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

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

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

Management of the bridge inventory is a major function of ADOT's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of the State to maintain State highway bridges so that the CRI exceeds 92.5%. In fiscal year 2006, the CRI was computed at 93.8%.

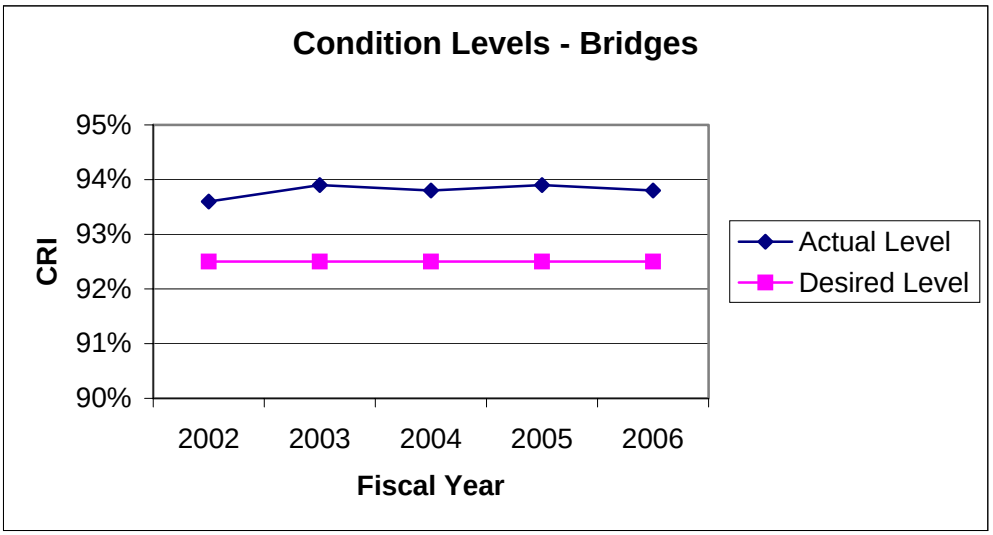


Figure 2

Bridges represent a major public investment and their inspection and maintenance is an essential function of the State in its mission of products and services for a safe, efficient, and cost effective transportation system. Figure 3 indicates that approximately 62% of the bridges in the State were constructed prior to the 1970s while only 16% have been constructed in the last two decades.

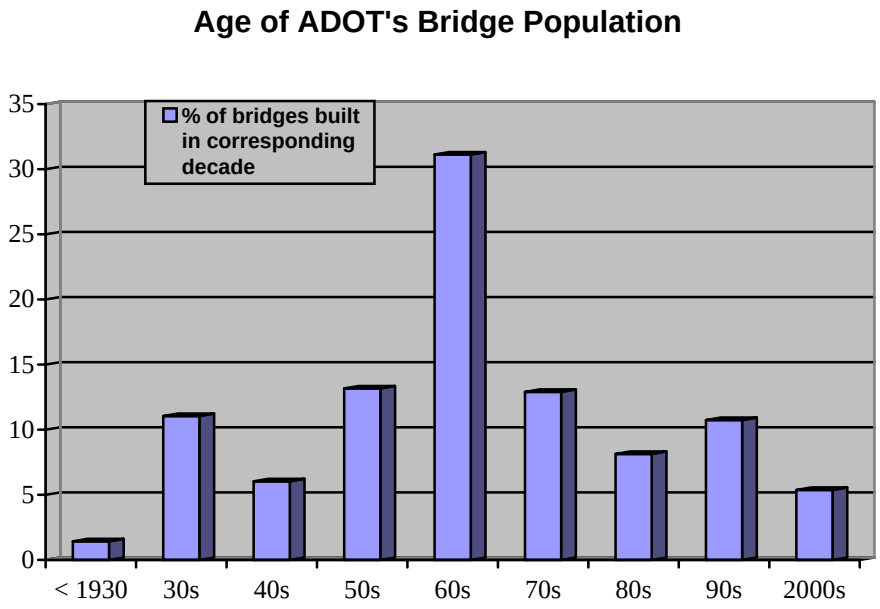


Figure 3

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2002 through 2006 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	$14.4	$18.2
2003	$13.6	$15.8
2004	$12.1	$12.2
2005	$ 9.4	$10.0
2006	$ 8.8	$ 8.3

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
AGENT RETIREMENT PLANS' FUNDING PROGRESS
JUNE 30, 2006

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

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	(Unfunded)/ Funding Excess	Funded Ratio	Annual Covered Payroll	(Unfunded)/ Funding Excess as Percentage of Covered Payroll
PSPRS	6/30/2006	$ 569,832	$ 764,616	$ (194,783)	74.5%	$ 80,887	(240.8)%
	6/30/2005	573,536	718,353	(144,817)	79.8%	73,779	(196.3)%
	6/30/2004	588,237	635,120	(46,883)	92.6%	69,576	(67.4)%
CORP	6/30/2006	703,316	743,593	(40,277)	94.6%	311,118	(12.9)%
	6/30/2005	674,749	696,396	(21,647)	96.9%	295,772	(7.3)%
	6/30/2004	649,029	618,373	30,656	105.0%	296,028	10.4%

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
ASSETS				
Cash	$ 5,814	$ -	$ -	$ 5,814
Cash and pooled investments with State Treasurer	814,349	35,467	2,555	852,371
Receivables, net of allowances:				
Taxes	19,592	-	-	19,592
Interest	2,450	315	81	2,846
Other	25,353	-	-	25,353
Due from others	1	-	-	1
Due from other Funds	59,665	-	-	59,665
Inventories, at cost	369	-	-	369
Restricted assets:				
Cash and pooled investments with State Treasurer	1,295	1,997	20,363	23,655
Cash held by trustee	-	13	3,746	3,759
Other	1	-	-	1
Total Assets	$ 928,889	$ 37,792	$ 26,745	$ 993,426
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	$ 33,057	$ -	$ 45	$ 33,102
Accrued liabilities	77,983	-	-	77,983
Due to local governments	50,977	-	-	50,977
Due to others	51	-	-	51
Due to other Funds	28,941	-	-	28,941
Unavailable deferred revenue	1,389	-	-	1,389
Unearned deferred revenue	959	-	-	959
Total Liabilities	193,357	-	45	193,402
Fund Balances:				
Reserved for:				
Highway construction	-	-	20,444	20,444
Other construction	-	-	6,256	6,256
Continuing appropriations	38,341	-	-	38,341
Debt service	-	37,792	-	37,792
Other fund balance reservations	140	-	-	140
Unreserved	697,051	-	-	697,051
Total Fund Balances	735,532	37,792	26,700	800,024
Total Liabilities and Fund Balances	$ 928,889	$ 37,792	$ 26,745	$ 993,426

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
REVENUES				
Taxes:				
Sales	$ 503,081	$ 65,805	$ -	$ 568,886
Income	38	-	-	38
Tobacco	184,044	-	-	184,044
Property	232	-	-	232
Motor vehicle and fuel	24	-	-	24
Other	108,518	-	-	108,518
Intergovernmental	33,881	-	-	33,881
Licenses, fees, and permits	182,646	-	-	182,646
Earnings on investments	17,633	17,207	2,949	37,789
Sales and charges for services	43,992	13,520	-	57,512
Fines, forfeitures, and penalties	120,267	-	-	120,267
Gaming	78,786	-	-	78,786
Other	144,333	-	-	144,333
Total Revenues	1,417,475	96,532	2,949	1,516,956
EXPENDITURES				
Current:				
General government	111,353	-	-	111,353
Health and welfare	331,367	-	-	331,367
Inspection and regulation	103,979	-	-	103,979
Education	538,590	-	-	538,590
Protection and safety	112,277	-	-	112,277
Transportation	-	-	3,169	3,169
Natural resources	111,940	-	-	111,940
Debt service:				
Principal	196	243,220	-	243,416
Interest and other fiscal charges	5	134,147	694	134,846
Capital outlay	13,666	-	235,998	249,664
Total Expenditures	1,323,373	377,367	239,861	1,940,601
Excess (Deficiency) of Revenues Over Expenditures	94,102	(280,835)	(236,912)	(423,645)
OTHER FINANCING SOURCES (USES)				
Transfers in	234,582	295,262	200	530,044
Transfers out	(206,259)	(359)	(2,216)	(208,834)
Refunding bonds issued	-	596,160	-	596,160
Payment to refunded bond escrow agent	-	(646,689)	-	(646,689)
Bonds issued	-	-	118,250	118,250
Premium on bonds issued	-	52,261	7,450	59,711
Total Other Financing Sources (Uses)	28,323	296,635	123,684	448,642
Net Change in Fund Balances	122,425	15,800	(113,228)	24,997
Fund Balances - Beginning	613,107	21,992	139,928	775,027
Fund Balances - Ending	$ 735,532	$ 37,792	$ 26,700	$ 800,024

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

The School Facilities Revenue Bond Proceeds Fund accounts for the receipt of the Education Transaction Privilege Revenue Bond proceeds. Funds are restricted to be expended to (1) pay the costs of correcting existing deficiencies in public school facilities for grades K-12, (2) pay bond related expenses, and (3) fully or partially fund any reserves or sinking fund accounts established by the bond resolution.

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

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

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

The Tobacco Tax and Healthcare Fund accounts for the receipt of monies levied on tobacco products. The monies are used for health education programs; research, prevention and treatment of tobacco related diseases; and medically needy healthcare programs.

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

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

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

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

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

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

The Groundwater Protection and Conservation Fund accounts for statewide water protection planning; storage of Colorado River water; statewide water and groundwater conservation; county and metropolitan areas water use and dam repairs. All of these programs are the responsibility of the Department of Water Resources.

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

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	SCHOOL FACILITIES PROCEEDS	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES
ASSETS						
Cash	$ -	$ 5,741	$ 14	$ -	$ -	$ -
Cash and pooled investments with State Treasurer	-	97,057	109,872	43,039	24,476	43,066
Receivables, net of allowances:						
Taxes	-	4,440	-	528	14,624	-
Interest	-	265	429	63	100	105
Other	-	7	1	7,867	-	-
Due from others	-	1	-	-	-	-
Due from other Funds	-	7,908	7,190	2,726	-	2,591
Inventories, at cost	-	369	-	-	-	-
Restricted assets:						
Cash and pooled investments with State Treasurer	-	-	-	1,295	-	-
Other	-	-	-	-	-	-
Total Assets	$ -	$ 115,788	$ 117,506	$ 55,518	$ 39,200	$ 45,762
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	$ -	$ 6,831	$ 5,567	$ 3,052	$ 2,148	$ 2,318
Accrued liabilities	-	565	59,177	12,783	43	742
Due to local governments	-	-	-	-	-	-
Due to others	-	31	-	-	-	-
Due to other Funds	-	10	10,225	337	16,726	446
Unavailable deferred revenue	-	-	-	1,389	-	-
Unearned deferred revenue	-	48	-	906	-	-
Total Liabilities	-	7,485	74,969	18,467	18,917	3,506
Fund Balances:						
Reserved for:						
Continuing appropriations	-	2,980	1,334	711	-	132
Other fund balance reservations	-	81	-	-	-	-
Unreserved	-	105,242	41,203	36,340	20,283	42,124
Total Fund Balances	-	108,303	42,537	37,051	20,283	42,256
Total Liabilities and Fund Balances	$ -	$ 115,788	$ 117,506	$ 55,518	$ 39,200	$ 45,762

REGULATING & LICENSING	GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
$ 26	$ 30	$ 3	$ -	$ -	$ -	$ -	$ 5,814
109,724	35,268	63,089	59,493	107,350	89,608	32,307	814,349
-	-	-	-	-	-	-	19,592
143	179	310	353	43	460	-	2,450
2,649	1,920	-	21	12,888	-	-	25,353
-	-	-	-	-	-	-	1
61	606	340	26,915	10,859	-	469	59,665
-	-	-	-	-	-	-	369
-	-	-	-	-	-	-	1,295
-	-	-	1	-	-	-	1
$ 112,603	$ 38,003	$ 63,742	$ 86,783	$ 131,140	$ 90,068	$ 32,776	$ 928,889
$ 3,166	$ 1,776	$ 2,119	$ 284	$ 5,686	$ 110	$ -	$ 33,057
2,632	1,449	178	190	151	49	24	77,983
-	-	-	-	50,977	-	-	50,977
20	-	-	-	-	-	-	51
840	346	5	3	2	1	-	28,941
-	-	-	-	-	-	-	1,389
-	-	-	5	-	-	-	959
6,658	3,571	2,302	482	56,816	160	24	193,357
5,033	4,723	2,435	6	20,987	-	-	38,341
26	30	3	-	-	-	-	140
100,886	29,679	59,002	86,295	53,337	89,908	32,752	697,051
105,945	34,432	61,440	86,301	74,324	89,908	32,752	735,532
$ 112,603	$ 38,003	$ 63,742	$ 86,783	$ 131,140	$ 90,068	$ 32,776	$ 928,889

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	SCHOOL FACILITIES PROCEEDS	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES
REVENUES						
Taxes:						
Sales	$ -	$ 26,406	$ -	$ 4,877	$ -	$ -
Income	-	-	-	-	-	-
Tobacco	-	7,157	-	-	176,887	-
Property	-	-	-	-	-	-
Motor vehicle and fuel	-	-	-	-	-	-
Other	-	50,360	2,404	13,034	-	-
Intergovernmental	-	1,904	268	7,508	-	1,629
Licenses, fees, and permits	-	15,639	45,777	6,214	-	6,728
Earnings on investments	1	2,251	3,189	550	599	800
Sales and charges for services	-	31,851	62	518	-	8,800
Fines, forfeitures, and penalties	-	56,973	1,563	11,341	-	38,641
Gaming	-	-	-	21,029	-	-
Other	-	5,726	(88)	4,344	113	815
Total Revenues	1	198,267	53,175	69,415	177,599	57,413
EXPENDITURES						
Current:						
General government	-	28,403	1,206	4,067	485	45,511
Health and welfare	-	-	100,279	66,909	164,091	-
Inspection and regulation	-	-	1,261	-	-	37
Education	-	-	-	-	-	-
Protection and safety	-	112,277	-	-	-	-
Natural resources	-	16,727	590	-	-	-
Debt service:						
Principal	-	28	-	-	-	-
Interest and other fiscal charges	-	-	-	-	-	5
Capital outlay	-	3,306	90	125	-	167
Total Expenditures	-	160,741	103,426	71,101	164,576	45,720
Excess (Deficiency) of Revenues Over Expenditures	1	37,526	(50,251)	(1,686)	13,023	11,693
OTHER FINANCING SOURCES (USES)						
Transfers in	-	125,231	63,630	6,757	-	3,183
Transfers out	(5,387)	(144,179)	(9,414)	(3,527)	(6,607)	(6,696)
Total Other Financing Sources (Uses)	(5,387)	(18,948)	54,216	3,230	(6,607)	(3,513)
Net Change in Fund Balances	(5,386)	18,578	3,965	1,544	6,416	8,180
Fund Balances - Beginning	5,386	89,725	38,572	35,507	13,867	34,076
Fund Balances - Ending	$ -	$ 108,303	$ 42,537	$ 37,051	$ 20,283	$ 42,256

REGULATING & LICENSING	GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
$ 2	$ -	$ -	$ -	$ 471,796	$ -	$ -	$ 503,081
-	-	-	-	38	-	-	38
-	-	-	-	-	-	-	184,044
-	232	-	-	-	-	-	232
-	-	-	-	24	-	-	24
42,720	-	-	-	-	-	-	108,518
1,592	17,442	-	1,951	1,587	-	-	33,881
70,967	26,567	2,753	2,861	75	5,065	-	182,646
1,036	1,302	2,330	2,176	409	2,990	-	17,633
658	348	-	303	1,368	84	-	43,992
2,978	149	-	-	-	-	8,622	120,267
7,272	6,008	-	-	44,477	-	-	78,786
4,246	3,315	248	27,337	18,254	74,594	5,429	144,333
131,471	55,363	5,331	34,628	538,028	82,733	14,051	1,417,475
1,192	-	-	26,675	-	-	3,814	111,353
88	-	-	-	-	-	-	331,367
102,681	-	-	-	-	-	-	103,979
283	-	-	-	538,307	-	-	538,590
-	-	-	-	-	-	-	112,277
-	54,311	18,000	196	-	22,116	-	111,940
79	89	-	-	-	-	-	196
-	-	-	-	-	-	-	5
763	7,428	1,763	4	14	6	-	13,666
105,086	61,828	19,763	26,875	538,321	22,122	3,814	1,323,373
26,385	(6,465)	(14,432)	7,753	(293)	60,611	10,237	94,102
406	10,883	19,916	4,027	47	500	2	234,582
(24,789)	(1,800)	(878)	(2,549)	(394)	-	(39)	(206,259)
(24,383)	9,083	19,038	1,478	(347)	500	(37)	28,323
2,002	2,618	4,606	9,231	(640)	61,111	10,200	122,425
103,943	31,814	56,834	77,070	74,964	28,797	22,552	613,107
$ 105,945	$ 34,432	$ 61,440	$ 86,301	$ 74,324	$ 89,908	$ 32,752	$ 735,532

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OTHER GOVERNMENTAL FUNDS		
Board of Accountancy		
Operating Lump Sum Appropriation	$ 2,219,800	$ 1,629,379
Department of Administration		
Administrative Adjustments	1,594	1,594
Administrative Adjustments	4,158	4,158
Archives and History Building	525,882	293,126
Arizona Pioneers' Home Plumbing Renovations	2,590	0
Department of Corrections Fort Grant Landfill Closure	43,123	0
Department of Juvenile Corrections Building Renewal FY01 - 02	0	0
Employee Bus Subsidy	574,100	574,100
Government Building Defibrillators FY01 - 02	16	0
Government Building Defibrillators FY02 - 03	293	0
New Prison Complex FY99 - 00	260,698	0
Operating Lump Sum Appropriation	676,800	619,443
Pioneers' Home Plumbing Renovations	262,957	0
Prison Planning and Sitting	0	0
Radiation Regulatory Agency		
Administrative Adjustments	569	569
MRTB Assistant	11,375	0
Operating Lump Sum Appropriation	259,200	243,618
Attorney General		
Administrative Adjustments	116,972	116,972
Administrative Adjustments	15,745	15,745
Administrative Adjustments	2,410	2,410
Administrative Adjustments	102	102
Operating Lump Sum Appropriation	2,732,100	1,748,865
Operating Lump Sum Appropriation	379,700	307,443
Operating Lump Sum Appropriation	4,341,200	4,339,345
Risk Management Interagency Service Agreement	8,738,500	7,987,286
Victims' Rights Implementation Fund	3,236,100	3,019,798
Victims' Rights/Non Revert HB2427	222,450	90,752
Department of Agriculture		
Administrative Adjustments	228	228
Administrative Adjustments	751	751
Administrative Adjustments	16	16
Administrative Adjustments	9,660	9,660
Administrative Adjustments	54	54
Administrative Adjustments	19	19
Administrative Adjustments	113	113
Operating Lump Sum Appropriation	67,800	67,439
Operating Lump Sum Appropriation	279,900	277,705
Operating Lump Sum Appropriation	681,600	564,422
Operating Lump Sum Appropriation	259,900	259,331
Operating Lump Sum Appropriation	21,400	21,400
Operating Lump Sum Appropriation	51,300	35,694
Operating Lump Sum Appropriation	79,400	57,289
Operating Lump Sum Appropriation	278,300	277,594
Operating Lump Sum Appropriation	972,900	828,124
Operating Lump Sum Appropriation	9,200	6,727
Operating Lump Sum Appropriation	172,000	160,632
Wine Promotion	54,858	0

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Acupuncture Board of Examiners		
Administrative Adjustments	2,314	2,314
Operating Lump Sum Appropriation	101,900	83,275
State Board of Appraisal		
Administrative Adjustments	156	156
Operating Lump Sum Appropriation FY04 - 05	4,922	0
Operating Lump Sum Appropriation FY05 - 06	625,400	550,380
Payment of FY 2001-2002 Expenses	800	775
Automobile Theft Authority		
Auto Theft Authority Grants	4,373,600	4,371,426
Operating Lump Sum Appropriation	619,200	602,240
Reimbursable Programs	25,000	0
Board of Barbers		
Administrative Adjustments	418	418
Operating Lump Sum Appropriation	241,800	201,359
Board of Behavioral Health Examiners		
Administrative Adjustments	3,600	3,600
Operating Lump Sum Appropriation	1,416,200	1,144,175
State Board of Nursing		
Administrative Adjustments	65	65
Operating Lump Sum Appropriation	3,175,900	3,169,752
Board of Cosmetology		
Administrative Adjustments	2,246	2,246
Operating Lump Sum Appropriation	1,635,200	1,554,642
Corporation Commission		
Administrative Adjustments	24,270	24,270
Administrative Adjustments	5,100	5,100
Administrative Adjustments	8,354	8,354
Administrative Adjustments	7,722	7,722
Annual Reversion per ARS 10-122	1,734,871	1,734,871
Annual Reversion per ARS 44-3298	828,734	828,734
Corporations Division Staffing Costs	157,466	157,465
Investigation and Prosecution of Security Fraud	165,599	0
Operating Lump Sum Appropriation	11,844,700	11,690,826
Operating Lump Sum Appropriation	3,547,900	3,118,755
Operating Lump Sum Appropriation	3,156,700	3,056,077
Operating Lump Sum Appropriation	841,600	828,990
Utility Audits, Studies, Investigations, and Rate Hearing FY00 - 01	101,773	101,773
Utility Audits, Studies, Investigations, and Rate Hearing FY01 - 02	369,620	0
Utility Audits, Studies, Investigations, and Rate Hearing FY02 - 03	380,000	1
Utility Audits, Studies, Investigations, and Rate Hearing FY03 - 04	380,000	1
Utility Audits, Studies, Investigations, and Rate Hearing FY04 - 05	380,000	0
Utility Audits, Studies, Investigations, and Rate Hearing FY05 - 06	380,000	0
State Board of Chiropractic Examiners		
Administrative Adjustments	3,504	3,504
Operating Lump Sum Appropriation	483,400	460,259
Department of Corrections		
Administrative Adjustments	52,501	52,501
Administrative Adjustments	731,349	731,349
Administrative Adjustments	278,659	278,659
Administrative Adjustments	872,172	872,172
All Other Operating Expenditures	599,300	193,919
All Other Operating Expenditures	500,000	66,649
All Other Operating Expenditures	10,250,000	10,230,203

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
All Other Operating Expenditures	2,070,000	2,031,361
Drug Treatment Pilot Program	229,372	0
Employee Related Expenditures	47,500	47,500
Operating Lump Sum Appropriation	869,200	534,366
Personal Services	302,500	302,500
Private Prison Per Diem	28,674,300	25,060,888
Relief Bill	94,110	94,110
State Charitable, Penal, and Reformatory Land Earnings	1,014,763	237,033
Department of Economic Security		
ADM Attorney General Legal Services	96,900	28,310
ADM Operating Lump Sum Appropriation	579,800	0
ADM Operating Lump Sum Appropriation	130,000	12,598
ADM Operating Lump Sum Appropriation	87,000	87,000
ADM Public Assistance Collections	251,400	201,922
Administrative Adjustments	1,580,953	1,580,953
Administrative Adjustments	12,845	12,845
Administrative Adjustments	49,728	49,728
Administrative Adjustments	42,029	42,029
Administrative Adjustments	227,581	227,581
Administrative Adjustments	158,582	158,582
DACS Community and Emergency Services	500,000	266,413
DACS Domestic Violence Prevention	1,700,000	1,700,000
DCYF Child Abuse Prevention	820,600	97,894
DCYF Children Support Services	750,000	0
DCYF Operating Lump Sum Appropriation	209,600	52,764
DERS Independent Living Rehabilitation Services	1,707,700	1,435,918
DERS Jobs	1,500,000	656,250
DERS Operating Lump Sum Appropriation	85,000	5,752
DERS Operating Lump Sum Appropriation	516,700	388,974
DERS Vocational Rehabilitation Services	204,700	150,408
Commission for the Deaf and Hard of Hearing		
Administrative Adjustments	8,929	8,929
Interpreters for Certification and Licensure	624,247	135,746
Operating Lump Sum Appropriation	5,315,400	4,202,830
Department of Juvenile Corrections		
Operating Lump Sum Appropriation	585,300	585,300
Operating Lump Sum Appropriation	3,360,000	3,360,000
State Board of Dispensing Opticians		
Administrative Adjustments	1,059	1,059
Operating Lump Sum Appropriation	98,300	98,258
State Board of Dental Examiners		
Administrative Adjustments	6,134	6,134
Operating Lump Sum Appropriation	1,052,900	972,633
Department of Education		
Achievement Testing - Proposition 301 FY04 - 05	2,340,300	2,340,300
Achievement Testing - Proposition 301 FY05 - 06	2,340,300	429,392
Additional School Days - Prop 301 FY05 - 06	86,280,500	79,090,458
Additional School Days- Prop 301 FY 01 - 02	1,275,492	1,275,492
Additional School Days- Prop 301 FY02 - 03	2,267,304	2,267,304
Administrative Adjustments	0	0
Basic State Aid Entitlement	50,295,000	50,295,000
Character Education - Proposition 301 FY05 - 06	200,000	0
Failing School Tutoring Fund FY03 - 04	1,393,695	5,259
Failing School Tutoring Fund FY04 - 05	1,379,250	(8,096)

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Failing School Tutoring Fund FY05 - 06	1,500,000	67,075
School Accountability - Proposition 301 FY01 - 02	649,488	649,488
School Accountability - Proposition 301 FY02 - 03	1,194,733	1,182,206
School Accountability - Proposition 301 FY03 - 04	2,883,968	10,564
School Accountability - Proposition 301 FY04 - 05	1,600,965	875,678
School Accountability - Proposition 301 FY05 - 06	4,698,100	1,325,044
School Acct - School Safety Proposition 301 FY02 - 03	0	0
School Acct - School Safety Proposition 301 FY03 - 04	7,479	7,475
School Acct - School Safety Proposition 301 FY04 - 05	1,049,450	1,009,644
School Acct - School Safety Proposition 301 FY05 - 06	7,800,000	7,475,955
School Improvement Revenue Bond Debt Service Fund	318,000	0
School Safety/Character Education FY04 - 05	129,000	0
Department of Commerce		
Administrative Adjustments	28,584	28,584
Advertising and Promotion	659,200	620,800
Arizona Sonora Economic Development Study	10,000	3,861
Arizona Sonora Trade Office	25,000	25,000
CEDC Commission	260,500	219,102
Economic Development Matching Funds	104,000	71,995
International Trade Offices	966,800	776,313
Lottery 1989	5,001	5,000
Main Street	130,000	123,006
Minority and Women Owned Business	111,900	100,417
National Law Center/Free Trade	200,000	200,000
Oil Overcharge Administration	166,900	108,557
Operating Lump Sum Appropriation	629,600	564,678
REDI Matching Grants	45,000	45,000
Small Business Advocate	109,700	103,570
Williams Gateway Airport Authority	4,000,000	0
Department of Environmental Quality		
Administrative Adjustments	276,434	276,434
Administrative Adjustments	876	876
Administrative Adjustments	5,294	5,294
Administrative Adjustments	360	360
Administrative Adjustments	320,741	320,741
Air Permits Administration Program	5,558,300	4,826,630
Air Quality Program	4,661,300	2,238,856
Air Quality Program - Continuing FY01 - 02	186,035	0
Air Quality Program - Continuing FY02 - 03	182,451	0
Clean Air in Lieu	2,528,300	2,068,040
Department of Administration Travel Reduction Transfer	400,000	400,000
Emissions Cap & Trading Program FY01 - 02	70,576	0
Emissions Cap & Trading Program FY02 - 03	266,582	0
Emissions Control Contractor Payment	31,739,600	29,487,812
Emissions Control Program - Administration	4,042,700	2,346,078
Fuel Formulation	12,272	0
General Fund Transfer 2nd Regular Session Chapter 242	10,000,000	10,000,000
Hazardous Waste Program	752,200	103,963
Hazardous Waste Reserve FY94 - 95	64,000	0
Hazardous Waste Reserve FY95 - 96	29,273	0
Operating Lump Sum Appropriation	500,000	414,959
Pima County Air Quality Program	165,000	165,000
Political Subdivisions Assistance FY01 - 02	18,500	0
Roadside Diesel Emissions Testing Program FY01 - 02	200,000	0

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Roadside Diesel Emissions Testing Program FY02 - 03	200,000	0
Solid Waste Program	2,144,300	956,318
Solid Waste Program	1,205,100	709,193
Solid Waste Program	136,600	8,185
Underground Storage Tank Policy Comm FY00 - 01	1	0
Underground Storage Tank Policy Comm FY99 - 00	18,857	0
Underground Storage Tank Program	22,000	4,188
Underground Storage Tank Technical Appeals FY00 - 01	7,500	0
Visibility Index Development FY01 - 02	80,589	0
Visibility Index Development FY02 - 03	10,099	0
Waste Tire Program	219,800	42,326
Water Quality Program	3,879,300	1,699,973
State Board of Funeral Directors & Embalmers		
Administrative Adjustments	1,415	1,415
Operating Lump Sum Appropriation	317,900	313,753
Game and Fish Department		
Administrative Adjustments	57,173	57,173
Administrative Adjustments	45	45
Bellemont Shooting Range Improvement	800,000	0
Black Canyon Dam Modifications FY05 - 06	500,000	0
Building Renewal FY02 - 03	2,489	2,488
Building Renewal FY03 - 04	78,832	78,711
Building Renewal FY04 - 05	328,558	306,051
Building Renewal FY05 - 06	388,900	141,214
Canyon Creek Hatchery Improvements	148,067	148,067
Facility Improvements FY00 - 01	2,453	2,453
Facility Improvements FY01 - 02	70,891	0
Facility Improvements FY02 - 03	145,982	145,848
Facility Improvements FY99 - 00	1	0
Flagstaff Shooting Range Development FY00 - 01	73,859	0
Flagstaff Shooting Range Development FY99 - 00	11,584	0
Flagstaff Shooting Range Planning FY01 - 02	460,711	1,532
Flagstaff Shooting Range Planning FY02 - 03	499,900	0
Headquarters Expansion and Renovation FY02 - 03	800,000	336,715
Headquarters Paving	49,254	49,253
Headquarters Security System FY03 - 04	186,067	186,000
Lake Havasu Shooting Range Development FY03 - 04	298,464	0
Mesa Office Security System	29,898	14,403
Migratory Waterfowl Development FY00 - 01	99,025	8,049
Migratory Waterfowl Development FY01 - 02	80,000	3,500
Migratory Waterfowl Development FY02 - 03	87,378	1,447
Migratory Waterfowl Development FY03 - 04	97,486	0
Migratory Waterfowl Development FY99 - 00	42,694	24,964
Migratory Waterfowl Habitat FY05 - 06	100,000	0
Migratory Waterfowl Habitat FY93 - 94	1,302	0
Operating Lump Sum Appropriation	21,634,100	18,835,120
Operating Lump Sum Appropriation	2,224,600	1,885,976
Operating Lump Sum Appropriation	313,500	156,125
Operating Lump Sum Appropriation	43,400	18,286
Operating Lump Sum Appropriation	16,000	0
Performance Based Incentives Program FY00 - 01	13	0
Performance Based Incentives Program FY01 - 02	2	0
Performance Based Incentives Program FY02 - 03	322	0
Performance Based Incentives Program FY05 - 06	300,000	300,000

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Performance Based Incentives Program FY97 - 98	0	0
Performance Incentive Pay Program FY03 - 04	1,076	0
Performance Incentive Pay Program FY05 - 06	46,800	46,800
Pinetop Warehouse and Paving FY03 - 04	294,661	293,888
Pittman - Robertson/Dingell - Johnson Act	2,808,000	2,080,000
Shade Canopies	149,490	64,807
Shooting Range Development FY01 - 02	26,460	23,859
Shooting Range Development FY02 - 03	13,783	0
Shooting Range Development/Grants Program FY03 - 04	16,088	7,683
Shooting Range Development/Grants Program FY04 - 05	97,920	27,427
Shooting Range Development/Grants Program FY05 - 06	100,000	7,750
Sierra Vista Shooting Range Improvement	31,883	299
Silver Creek Hatchery Improvement	79,728	3,024
Statewide Preventive Maintenance FY04 - 05	358	(566)
Statewide Preventive Maintenance FY05 - 06	30,000	29,999
Tonto Creek Hatchery Improvements	199,927	15,119
Tri-State Shooting Range Development	300,000	0
Department of Gaming		
Casino Operation Certification	1,921,000	1,920,829
Operating Lump Sum Appropriation	8,000,000	7,686,270
Problem Gambling	300,000	300,000
Problem Gambling	1,512,800	1,482,100
Arizona Health Care Cost Containment System		
Administrative Adjustments	490,172	490,172
Capitation	61,772,100	61,772,100
Children's Health Insurance Program - Children	69,699,700	69,491,321
Children's Health Insurance Program - Parents	33,095,300	32,942,803
Kidscare Administration	6,761,700	6,656,438
Proposition 204 - Capitation	17,356,700	17,356,700
Proposition 204 - Capitation	15,389,500	15,389,500
Proposition 204 - County Hold Harmless	4,825,600	4,825,600
Proposition 204 - Medicare	7,707,800	7,707,800
Arizona Department of Housing		
Operating Lump Sum Appropriation	697,300	697,300
Homeopathic Medical Examiners		
Administrative Adjustments	500	500
Operating Lump Sum Appropriation	82,100	81,691
Department of Health Services		
Administrative Adjustments	201,796	201,796
Administrative Adjustments	49,676	49,676
Administrative Adjustments	13,344	13,344
Administrative Adjustments	2,801	2,801
Administrative Adjustments	21,921	21,921
Alzheimer Disease Research	1,000,000	1,000,000
Alzheimer Research - Biotechnology	3,000,000	3,000,000
Assurance and Licensure	38,000	0
Assurance and Licensure	200,000	196,201
Attorney General Legal Services	50,000	50,000
Child Fatality Review Team	100,000	99,583
County Poison Control Center	31,250	0
EMS Operations	3,026,220	2,875,879
Folic Acid	200,000	185,548
High Risk Prenatal Services	450,000	345,893
Laboratory Services	895,900	842,086

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Loan Repayment	150,000	32,625
Loan Repayment Services	100,000	66,229
Mental Health Research Institute Grant	638,776	0
Newborn Screening Fund - Indirect Costs	478,600	258,016
Newborn Screening Program	3,262,200	3,009,250
Operating Lump Sum Appropriation	199,500	169,719
Operating Lump Sum Appropriation	808,465	685,325
Operating Lump Sum Appropriation	350,000	300,944
Poison Control Center Funding	750,000	518,750
Rural Medical Services FY01 - 02	71,377	71,377
Seriously Mentally Ill Non-Title XIX	30,424,800	30,371,862
Statewide Emergency Medical Trauma System	100,000	55,315
Substance Abuse - Non-Title XIX	2,500,000	2,500,000
Trauma Advisory Board	373,015	341,164
University of Arizona Poison Control Center	1,100,000	1,100,000
University of Arizona Poison Control Center	56,250	0
Industrial Commission of Arizona		
Operating Lump Sum Appropriation	17,998,100	17,386,627
Arizona Criminal Justice Commission		
Administrative Adjustments	1,628	1,628
Crime Victim Compensation Special AG Transfer FY00 - 01	8,202	0
Drug and Gang Prevention Resource Center	278,000	278,000
Operating Lump Sum Appropriation	601,000	578,321
State Aid to County Attorneys	847,800	847,800
State Aid to Indigent Defense	805,000	805,000
Victim Compensation and Assistance	3,900,000	3,457,646
Land Department		
Natural Resource Conservation Districts	266,100	266,100
Division of Emergency Management & Military Affairs		
Operating Lump Sum Appropriation	132,700	78,000
Medical Examiners Board		
Administrative Adjustments	91,544	91,544
Operating Lump Sum Appropriation	5,387,200	5,226,594
Performance Based Incentive Program	155,501	108,717
Medical Student Loans Board		
Medical Student Loans	283,400	283,400
Naturopathic Physicians Board of Medical Examiners		
Administrative Adjustments	5,297	5,297
Operating Lump Sum Appropriation	515,100	483,487
Nursing Care Examiners Board		
Administrative Adjustments	4,070	4,070
Operating Lump Sum Appropriation	388,400	232,719
State Board of Optometry		
Administrative Adjustments	200	200
Operating Lump Sum Appropriation	198,200	146,858
Arizona Board of Osteopathic Examiners		
Administrative Adjustments	16,904	16,904
Operating Lump Sum Appropriation	670,900	576,535
Board of Occupational Therapy Examiners		
Administrative Adjustments	1,933	1,933
Operating Lump Sum Appropriation	227,100	180,684
Commission for Postsecondary Education		
Arizona College and Career Guide	21,200	19,142
Arizona Minority Educational Policy Analysis Center	150,300	39,273

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Family College Savings Program	86,900	74,050
Leveraging Educational Assistance Partnership	2,143,700	1,568,943
Operating Lump Sum Appropriation	361,500	349,729
Twelve Plus Partnership	119,600	117,538
Arizona Pioneers' Home		
Employee Related Expenses	1,044,157	1,044,154
Employee Related Expenses	498,443	498,409
Equipment	12,000	12,000
Food	202,200	173,218
Other Operating Expenditures	421,976	404,078
Other Operating Expenditures	94,824	94,824
Personal Services	2,277,021	2,271,620
Personal Services	970,479	964,946
Prescription Drugs	294,700	238,554
Professional and Outside Services	129,300	74,678
Travel - In State	25,000	21,518
State Board of Pharmacy		
Operating Lump Sum Appropriation	1,544,600	1,446,507
State Board of Podiatry Examiners		
Administrative Adjustments	3,773	3,773
Operating Lump Sum Appropriation FY03 - 04	3,000	0
Operating Lump Sum Appropriation FY05 - 06	116,200	101,358
State Parks Board		
FY88 - 89 Pass Thru Grants	10,436	0
FY89 - 90 Pass Thru Grants	40,191	0
FY90 - 91 Pass Thru Grants	2,067,639	0
Land, Buildings and Improvement Control FY89 - 90	4,388	0
Land, Buildings and Improvement Control FY89 - 90	258,697	0
Land, Buildings and Improvement Control FY90 - 91	1,500	0
Land, Buildings and Improvement Control FY90 - 91	19,258	0
Land, Buildings and Improvement Control FY90 - 91	32,684	0
Off Highway Vehicle Parks Operations	692,100	679,711
Operating Lump Sum Appropriation	489,500	324,537
Operating Lump Sum Appropriation	2,063,992	2,063,992
Department of Public Safety		
DNA Testing FY02 - 03	1,423,518	80,669
DNA Testing FY03 - 04	994,119	0
Operating Lump Sum Appropriation	42,197,600	42,197,600
Operating Lump Sum Appropriation	20,041,400	19,282,673
Operating Lump Sum Appropriation	1,372,000	1,372,000
Operating Lump Sum Appropriation	4,527,900	4,527,900
Operating Lump Sum Appropriation	2,454,400	2,190,487
Operating Lump Sum Appropriation	2,613,100	2,613,100
Operating Lump Sum Appropriation	60,999,300	60,999,300
Operating Lump Sum Appropriation	2,636,900	2,636,900
Patrol Officers FY02 - 03	41,570	0
Remote Officer Housing	271,158	249,847
Sworn Officer Salary Adjustments	3,000,000	3,000,000
Physical Therapy Examiners Board		
Administrative Adjustments	1,866	1,866
Operating Lump Sum Appropriation	280,500	269,930
Private Postsecondary Education		
Administrative Adjustments	1,935	1,935
Operating Lump Sum Appropriation	294,200	273,083

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Board of Respiratory Care Examiners		
Administrative Adjustments	3,677	3,677
Operating Lump Sum Appropriation	198,000	197,941
Department of Racing		
Administrative Adjustments	0	0
Operating Lump Sum Appropriation	45,000	44,999
Operating Lump Sum Appropriation	300,000	298,885
Registrar of Contractors		
Incentive Pay	113,500	113,500
Office of Administrative Hearings	882,200	882,200
Operating Lump Sum Appropriation FY03 - 04	0	0
Operating Lump Sum Appropriation FY05 - 06	9,035,600	8,603,382
Department of Revenue		
Administrative Adjustments	515	515
Operating Lump Sum Appropriation	476,100	474,975
Structural Pest Control Commission		
Administrative Adjustments	24,604	24,604
Operating Lump Sum Appropriation	2,021,500	1,955,165
Schools for the Deaf and the Blind		
Administrative Adjustments	96,146	96,146
Administrative Adjustments	53,000	53,000
Operating Lump Sum Appropriation - Administration	331,895	187,106
Operating Lump Sum Appropriation - Administration	2,787,533	2,656,923
Operating Lump Sum Appropriation - Phoenix	139,437	114,163
Operating Lump Sum Appropriation - Phoenix	5,740,332	5,145,003
Operating Lump Sum Appropriation - Tucson	520,068	520,068
Operating Lump Sum Appropriation - Tucson	5,289,035	4,976,076
School Facilities Board		
Building Inspections	0	0
Supreme Court		
Case Processing - State Aid	3,099,100	1,387,527
Community Punishment	1,830,400	594,250
Community Punishment	500,000	500,000
Confidential Intermediary FY02 - 03	175,744	27,904
Court Appointed Special Advocate	3,255,800	3,073,627
Drug Study	38,514	0
Foster Care Review Board	236,600	229,861
Juvenile Crime Reduction	5,172,700	3,256,922
Model Court	514,300	508,813
Operating Lump Sum Appropriation	494,800	327,415
State Aid to the Courts	2,445,600	2,444,710
State Board of Psychologist Examiners		
Administrative Adjustments	1,210	1,210
Operating Lump Sum Appropriation	360,500	298,952
State Board of Technical Registration		
Administrative Adjustments	32,556	32,556
Operating Lump Sum Appropriation	1,451,300	1,392,772
Residential Utility Consumer Office		
Administrative Adjustments	528	528
Operating Lump Sum Appropriation	1,074,500	1,034,638
Professional Witnesses FY00 - 01	2,270	0
Professional Witnesses FY01 - 02	32,293	0
Professional Witnesses FY02 - 03	9,943	0

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Professional Witnesses FY03 - 04	40,564	11,510
Professional Witnesses FY04 - 05	137,091	0
Professional Witnesses FY05 - 06	145,000	16,627
Professional Witnesses FY97 - 98	10,604	10,604
Professional Witnesses FY98 - 99	11,977	9,782
Professional Witnesses FY99 - 00	49,324	8,262
Department of Veterans' Services		
Administrative Adjustments	31	31
Operating Lump Sum Appropriation	690,800	659,155
Veterinary Medical Examiners Board		
Administrative Adjustments	12,440	12,440
Operating Lump Sum Appropriation	421,400	386,359
Weights and Measures Department		
Administrative Adjustments	3,229	3,229
Operating Lump Sum Appropriation	68,500	63,085
Operating Lump Sum Appropriation - Oxygenated Fuel	830,500	774,860
Operating Lump Sum Appropriation - Vapor Recovery	507,000	456,411
Total Other Governmental Funds Budgetary Expenditures	$ 939,003,994	$ 851,904,174

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

NON-MAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS

The Department of Transportation Fund administers the payment of principal and interest on the Highway Revenue Bonds issued by the Arizona Department of Transportation Board and the retirement of previously issued revenue bonds.

The Maricopa Regional Area Road Fund (RARF) administers the payment of principal and interest on the Arizona Transportation Excise Tax Revenue Bonds issued by the Arizona Department of Transportation Board and the retirement of previously issued revenue bonds.

The Certificates of Participation Fund administers the payment of principal and interest on the certificates of participation issued by the State of Arizona (acting by and through the Director of the Department of Administration) and the retirement of previously issued certificates of participation.

The School Facilities Debt Instrument Fund administers the payment of principal and interest on revenue bonds issued by the State of Arizona's School Facilities Board and the retirement of previously issued revenue bonds.

The Grant Anticipation Notes Fund administers the payment of principal and interest on grant anticipation notes issued by the Arizona Department of Transportation Board and the retirement of previously issued grant anticipation notes.

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	GRANT ANTICIPATION NOTES
ASSETS					
Cash and pooled investments with State Treasurer	$ -	$ -	$ 3,192	$ 32,275	$ -
Interest receivable	162	-	-	153	-
Restricted assets:					
Cash and pooled investments with State Treasurer	1,898	-	-	-	99
Cash held by trustee	-	-	13	-	-
Total Assets	$ 2,060	$ -	$ 3,205	$ 32,428	$ 99
FUND BALANCES					
Reserved for debt service	$ 2,060	$ -	$ 3,205	$ 32,428	$ 99
Total Fund Balances	$ 2,060	$ -	$ 3,205	$ 32,428	$ 99

TOTAL
$ 35,467
315
1,997
13
$ 37,792
$ 37,792
$ 37,792

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	GRANT ANTICIPATION NOTES
REVENUES					
Taxes:					
Sales	$ -	$ -	$ -	$ 65,805	$ -
Earnings on investments	1,862	396	20	14,845	84
Sales and charges for services	-	-	-	13,520	-
Total Revenues	1,862	396	20	94,170	84
EXPENDITURES					
Debt service:					
Principal	54,830	80,375	21,555	47,920	38,540
Interest and other fiscal charges	62,828	1,581	10,001	43,257	16,480
Total Expenditures	117,658	81,956	31,556	91,177	55,020
Excess (Deficiency) of Revenues Over Expenditures	(115,796)	(81,560)	(31,536)	2,993	(54,936)
OTHER FINANCING SOURCES (USES)					
Transfers in	115,421	81,450	33,424	9,947	55,020
Transfers out	(180)	(179)	-	-	-
Refunding bonds issued	147,400	-	-	448,760	-
Payment to refunded bond escrow agent	(161,726)	-	-	(484,963)	-
Premium on bonds issued	14,957	-	-	37,304	-
Total Other Financing Sources (Uses)	115,872	81,271	33,424	11,048	55,020
Net Change in Fund Balances	76	(289)	1,888	14,041	84
Fund Balances - Beginning	1,984	289	1,317	18,387	15
Fund Balances - Ending	$ 2,060	$ -	$ 3,205	$ 32,428	$ 99

TOTAL
$ 65,805
17,207
13,520
96,532
243,220
134,147
377,367
(280,835)
295,262
(359)
596,160
(646,689)
52,261
296,635
15,800
21,992
$ 37,792

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

NON-MAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS

The Department of Transportation Financed Fund administers the proceeds from the Highway Revenue Bonds issued by the Arizona Department of Transportation Board. These monies are expended for the construction of federal, state, and local highways.

The Grant Anticipation Notes Financed Fund administers the proceeds from the grant anticipation notes issued by the Arizona Department of Transportation Board. These monies are expended for the acquisition of right-of-way purchases or the construction of certain controlled access highways within Maricopa County.

Certificates of Participation Financed Fund administers the proceeds from the certificates of participation issued by the State of Arizona (acting by and through the Director of the Department of Administration). These monies are expended on various projects including new building construction and the development of the Human Resource Information System.

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	GRANT ANTICIPATION NOTES FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	TOTAL
ASSETS				
Cash and pooled investments with State Treasurer	$ -	$ -	$ 2,555	$ 2,555
Interest receivable	81	-	-	81
Restricted assets:				
Cash and pooled investments with State Treasurer	20,363	-	-	20,363
Cash held by trustee	-	-	3,746	3,746
Total Assets	$ 20,444	$ -	$ 6,301	$ 26,745
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	$ -	$ -	$ 45	$ 45
Total Liabilities	-	-	45	45
Fund Balances:				
Reserved for:				
Highway construction	20,444	-	-	20,444
Other construction	-	-	6,256	6,256
Total Fund Balances	20,444	-	6,256	26,700
Total Liabilities and Fund Balances	$ 20,444	$ -	$ 6,301	$ 26,745

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	GRANT ANTICIPATION NOTES FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	TOTAL
REVENUES				
Earnings on investments	$ 2,521	$ 289	$ 139	$ 2,949
Total Revenues	2,521	289	139	2,949
EXPENDITURES				
Current:				
Transportation	56	3,113	-	3,169
Debt service:				
Interest and other fiscal charges	683	-	11	694
Capital outlay	192,790	41,829	1,379	235,998
Total Expenditures	193,529	44,942	1,390	239,861
(Deficiency) of Revenues Over Expenditures	(191,008)	(44,653)	(1,251)	(236,912)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	200	200
Transfers out	(1,333)	(883)	-	(2,216)
Bonds issued	118,250	-	-	118,250
Premium on bonds issued	7,450	-	-	7,450
Total Other Financing Sources (Uses)	124,367	(883)	200	123,684
Net Change in Fund Balances	(66,641)	(45,536)	(1,051)	(113,228)
Fund Balances - Beginning	87,085	45,536	7,307	139,928
Fund Balances - Ending	$ 20,444	$ -	$ 6,256	$ 26,700

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

NON-MAJOR ENTERPRISE FUNDS

Enterprise Funds account for operations (a) financed and operated in a manner similar to private business enterprises, where the State intends that the cost of providing goods or services to the general public be financed or recovered primarily through service charges, or (b) where the State decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Arizona Industries for the Blind Fund accounts for the manufacturing, sale, distribution, and marketing of products manufactured by employees at training centers, workshops, business enterprises and home industries programs for the training and employment of adaptable visually impaired persons.

The Arizona Correctional Industries Fund employs prison inmates in its manufacturing, service, and agricultural operations for the sale of goods and services primarily to other State agencies (including the Arizona Department of Corrections) and political subdivisions.

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

The Coliseum & Exposition Center Fund provides rental space to a variety of entertainment and promotional lessees, and sponsors the annual State Fair.

Highway Expansion & Extension Loan Program provides the State and communities in Arizona a new financing mechanism to stretch limited transportation dollars and bridge the gap between needs and available revenues.

The Healthcare Group of Arizona administers prepaid medical coverage primarily to small, uninsured businesses with 2 to 50 employees and employees of political subdivisions. The Healthcare Group of Arizona processes premium billing, collections and fund disbursements, and data analysis and is responsible for the regulatory oversight of the health plans.

The Other Enterprise Funds consist of the State Hospital Revolving Fund, the State Home for Veterans Trust Fund, and the Arizona Beef Council.

STATE OF ARIZONA
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
ASSETS					
Current Assets:					
Cash	$ 182	$ 168	$ -	$ 21	$ -
Cash and pooled investments with State Treasurer	2,753	3,052	2,324	6,084	-
Restricted cash and pooled investments with State Treasurer	-	-	-	-	88,486
Short-term investments	-	-	-	-	-
Receivables, net of allowances:					
Interest	3	14	10	-	431
Loans and notes	-	-	-	-	7,486
Other	917	3,120	371	68	-
Due from U.S. Government	71	-	-	-	-
Due from local governments	-	-	-	-	120
Due from other Funds	3	-	-	-	131,305
Inventories, at cost	2,375	3,655	1,024	-	-
Other current assets	-	81	299	252	-
Total Current Assets	6,304	10,090	4,028	6,425	227,828
Noncurrent Assets:					
Restricted assets:					
Cash and pooled investments with State Treasurer	-	-	-	872	-
Loans and notes receivable, net of allowances	-	-	-	-	10,107
Capital assets:					
Infrastructure, land, and other non-depreciable	182	716	8	2,436	-
Depreciable buildings, property and equipment, net of accumulated depreciation	1,371	2,364	241	3,335	-
Total Noncurrent Assets	1,553	3,080	249	6,643	10,107
Total Assets	7,857	13,170	4,277	13,068	237,935
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	860	2,069	239	458	-
Accrued liabilities	184	117	107	128	5
Due to others	-	-	-	-	-
Due to other Funds	-	-	-	-	170,494
Unearned deferred revenue	-	-	3,592	-	-
Current portion of other long-term liabilities	167	263	122	229	13
Total Current Liabilities	1,211	2,449	4,060	815	170,512
Noncurrent Liabilities:					
Contracts Payable	-	-	-	-	-
Long-term debt	-	-	-	40	-
Other long-term liabilities	68	-	-	-	-
Total Noncurrent Liabilities	68	-	-	40	-
Total Liabilities	1,279	2,449	4,060	855	170,512
NET ASSETS					
Invested in capital assets, net of related debt	1,553	3,080	249	5,731	-
Restricted for:					
Loans and other financial assistance:					
Expendable	-	-	-	-	67,423
Other	-	-	-	-	-
Unrestricted (deficit)	5,025	7,641	(32)	6,482	-
Total Net Assets	$ 6,578	$ 10,721	$ 217	$ 12,213	$ 67,423

HEALTHCARE GROUP OF ARIZONA	OTHER	TOTAL
$ -	$ 297	$ 668
14,310	570	29,093
-	-	88,486
-	42	42
-	5	463
-	-	7,486
15	1,768	6,259
-	-	71
-	-	120
-	2	131,310
-	-	7,054
-	-	632
14,325	2,684	271,684
-	-	872
-	-	10,107
-	980	4,322
152	9,244	16,707
152	10,224	32,008
14,477	12,908	303,692
456	244	4,326
7,378	376	8,295
-	135	135
65	1	170,560
8,097	-	11,689
52	-	846
16,048	756	195,851
2,125	-	2,125
-	-	40
-	-	68
2,125	-	2,233
18,173	756	198,084
152	10,224	20,989
-	-	67,423
62	-	62
(3,910)	1,928	17,134
$ (3,696)	$ 12,152	$ 105,608

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
OPERATING REVENUES					
Sales and charges for services	$ 14,390	$ 26,547	$ 7,579	$ 12,371	$ -
Intergovernmental	588	-	-	-	-
Licenses, fees, and permits	-	-	-	-	-
Earnings on investments	-	-	-	-	3,281
Other	95	-	433	1,691	-
Total Operating Revenues	15,073	26,547	8,012	14,062	3,281
OPERATING EXPENSES					
Cost of sales and benefits	8,866	21,988	4,866	2,042	1
Interest on notes payable	-	-	-	-	4,040
Personal services	4,364	2,207	2,364	5,241	134
Contractual services	1,096	90	444	3,371	96
Depreciation and amortization	397	444	256	879	-
Insurance	-	-	-	347	-
Other	769	1,251	241	1,024	3
Total Operating Expenses	15,492	25,980	8,171	12,904	4,274
Operating Income (Loss)	(419)	567	(159)	1,158	(993)
NON-OPERATING REVENUES (EXPENSES)					
Gain (Loss) on sale of capital assets	-	184	(2)	-	-
Investment income	15	88	86	293	3,541
Other non-operating revenue	10	-	-	399	-
Interest expense	(1)	-	-	-	-
Total Non-Operating Revenues (Expenses)	24	272	84	692	3,541
Income (Loss) Before Contributions and Transfers	(395)	839	(75)	1,850	2,548
Transfers in	110	-	-	-	-
Transfers out	-	(988)	-	-	-
Change in Net Assets	(285)	(149)	(75)	1,850	2,548
Total Net Assets - Beginning	6,863	10,870	292	10,363	64,875
Total Net Assets - Ending	$ 6,578	$ 10,721	$ 217	$ 12,213	$ 67,423

HEALTHCARE GROUP OF ARIZONA	OTHER	TOTAL
$ 50,392	$ 11,187	$ 122,466
-	-	588
-	723	723
-	-	3,281
-	338	2,557
50,392	12,248	129,615
51,354	377	89,494
-	-	4,040
2,462	10,162	26,934
2,019	240	7,356
26	320	2,322
-	156	503
668	2,288	6,244
56,529	13,543	136,893
(6,137)	(1,295)	(7,278)
(96)	-	86
310	48	4,381
188	-	597
-	-	(1)
402	48	5,063
(5,735)	(1,247)	(2,215)
-	-	110
-	-	(988)
(5,735)	(1,247)	(3,093)
2,039	13,399	108,701
$ (3,696)	$ 12,152	$ 105,608

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$ 15,276	$ 26,022	$ 7,687	$ 12,326	$ 7,090
Receipts from federal and local governments	621	-	-	-	-
Receipts from other Funds	-	-	40	-	19,192
Payments to suppliers or insurance companies	(7,610)	(22,137)	(5,318)	(6,499)	(31)
Payments to employees	(4,443)	(2,401)	(2,366)	(5,186)	(131)
Payments to other Funds	-	-	-	-	(35,921)
Other receipts (payments)	(1,769)	-	429	1,691	(2)
Net Cash Provided (Used) by Operating Activities	2,075	1,484	472	2,332	(9,803)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers from other Funds	93	-	-	-	-
Transfers to other Funds	-	(988)	-	-	-
Grants and contributions received	9	-	-	-	-
Other receipts	-	-	-	399	-
Net Cash Provided (Used) by Non-capital Financing Activities	102	(988)	-	399	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(47)	(781)	(8)	(2,685)	-
Principal paid on capital debt, installment purchase contracts, and capital leases	-	-	-	(18)	-
Net Cash (Used) by Capital and Related Financing Activities	(47)	(781)	(8)	(2,703)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends from investments	12	90	86	293	3,383
Purchase of investments	-	-	-	-	-
Net Cash Provided by Investing Activities	12	90	86	293	3,383
Net Increase (Decrease) in Cash and Cash Equivalents	2,142	(195)	550	321	(6,420)
Cash and Cash Equivalents - Beginning	793	3,415	1,774	6,656	94,906
Cash and Cash Equivalents - Ending	$ 2,935	$ 3,220	$ 2,324	$ 6,977	$ 88,486
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	$ (419)	$ 567	$ (159)	$ 1,158	$ (993)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	397	444	256	879	-
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	886	(525)	124	(45)	-
Decrease in due from U.S. Government	33	-	-	-	-
Decrease in due from local governments	-	-	-	-	83
(Increase) decrease in due from other Funds	-	-	(4)	-	(12,936)
Decrease in inventories, at cost	1,020	73	113	-	-
(Increase) decrease in other assets	-	59	(8)	(38)	-
Increase in accounts payable	275	1,060	128	323	-
Increase (decrease) in accrued liabilities	(32)	(94)	-	27	-
Increase in due to others	-	-	-	-	-
Increase in due to other Funds	-	-	-	-	4,040
Increase in deferred revenue	-	-	24	-	-
Increase in contracts payable	-	-	-	-	-
Increase (decrease) in other liabilities	(85)	(100)	(2)	28	3
Net Cash Provided (Used) by Operating Activities	$ 2,075	$ 1,484	$ 472	$ 2,332	$ (9,803)
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES					
Change in fair value of investments	$ -	$ -	$ -	$ -	$ 109
Total Noncash Investing, Capital and Non-capital Financing Activities	$ -	$ -	$ -	$ -	$ 109

HEALTHCARE GROUP OF ARIZONA	OTHER	TOTAL
$ 51,769	$ 11,625	$ 131,795
-	-	621
-	-	19,232
(48,493)	(2,900)	(92,988)
(2,491)	(10,070)	(27,088)
-	-	(35,921)
-	338	687
785	(1,007)	(3,662)
3,480	-	3,573
-	-	(988)
188	-	197
-	-	399
3,668	-	3,181
(82)	(1)	(3,604)
-	-	(18)
(82)	(1)	(3,622)
310	46	4,220
-	(1)	(1)
310	45	4,219
4,681	(963)	116
9,629	1,830	119,003
$ 14,310	$ 867	$ 119,119
$ (6,137)	$ (1,295)	$ (7,278)
26	320	2,322
-	(326)	114
-	-	33
-	-	83
-	41	(12,899)
-	2	1,208
-	-	13
121	119	2,026
3,302	92	3,295
-	40	40
-	-	4,040
1,377	-	1,401
2,125	-	2,125
(29)	-	(185)
$ 785	$ (1,007)	$ (3,662)
$ (3)	$ -	$ 106
$ (3)	$ -	$ 106

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided by one State department or agency to other State departments or agencies on a cost-reimbursement basis.

The Risk Management Fund provides insurance coverage to all State agencies using an optimal combination of self-insurance and private excess insurance. It includes the Workers' Compensation section that receives monies from State agencies and uses these monies to pay for insurance and risk management services including loss control services and self-insured liability losses.

The Transportation Equipment Fund administers the purchase, storage and distribution of supplies, equipment and furniture for other Department of Transportation Funds.

The Employee Benefits Fund (HITF) administers the State's benefits program available to State employees and retirees.

The Telecommunications Fund receives monies from State agencies for services related to administering the State's contracts for the installation and maintenance of telecommunications equipment through the telecommunications program office.

The Technology Fund receives monies from State agencies for services related to the implementation and operation of automation programs throughout the State.

The Retiree Accumulated Sick Leave Fund (RASL) accounts for monies paid out to retirees for their accumulated sick leave.

The Motor Pool Fund receives monies from State agencies for the use of State vehicles and uses these monies for operation of the State Motor Pool.

STATE OF ARIZONA
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE-COMMUNICATION	TECHNOLOGY
ASSETS					
Current Assets:					
Cash and pooled investments with State Treasurer	$ 33,936	$ 5,157	$ 47,021	$ 1,601	$ 7,731
Receivables, net of allowances:					
Interest	-	11	-	-	-
Other	57	-	3,886	353	1,880
Due from other Funds	474	-	-	-	2,141
Inventories, at cost	-	2,925	-	-	13
Other current assets	4,920	-	72	-	2,178
Total Current Assets	39,387	8,093	50,979	1,954	13,943
Noncurrent Assets:					
Capital assets:					
Depreciable buildings, property and equipment, net of accumulated depreciation	93	53,382	27	1,268	2,057
Total Noncurrent Assets	93	53,382	27	1,268	2,057
Total Assets	39,480	61,475	51,006	3,222	16,000
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	2,626	234	49,372	134	3,223
Accrued liabilities	197	1,130	77	-	-
Due to other Funds	29	-	1,011	1,076	2
Current portion of accrued insurance losses	53,366	-	-	-	-
Current portion of long-term debt	-	2,579	-	-	-
Current portion of other long-term liabilities	247	-	119	53	499
Total Current Liabilities	56,465	3,943	50,579	1,263	3,724
Noncurrent Liabilities:					
Accrued insurance losses	313,834	-	-	-	-
Long-term debt	-	8,551	-	-	-
Other long-term liabilities	-	-	-	-	-
Total Noncurrent Liabilities	313,834	8,551	-	-	-
Total Liabilities	370,299	12,494	50,579	1,263	3,724
NET ASSETS					
Invested in capital assets, net of related debt	93	42,252	27	1,268	2,057
Unrestricted (deficit)	(330,912)	6,729	400	691	10,219
Total Net Assets	$ (330,819)	$ 48,981	$ 427	$ 1,959	$ 12,276

RETIREE SICK LEAVE	MOTOR POOL	TOTAL
$ 8,132	$ 10,848	$ 114,426
-	-	11
-	723	6,899
-	852	3,467
-	35	2,973
-	6	7,176
8,132	12,464	134,952
-	12,884	69,711
-	12,884	69,711
8,132	25,348	204,663
-	560	56,149
-	-	1,404
-	-	2,118
-	-	53,366
-	-	2,579
6,940	33	7,891
6,940	593	123,507
-	-	313,834
-	-	8,551
4,455	-	4,455
4,455	-	326,840
11,395	593	450,347
-	12,884	58,581
(3,263)	11,871	(304,265)
$ (3,263)	$ 24,755	$ (245,684)

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE-COMMUNICATION	TECHNOLOGY
OPERATING REVENUES					
Sales and charges for services	$ 94,633	$ 37,790	$ 547,167	$ 1,972	$ 19,937
Other	-	626	-	55	-
Total Operating Revenues	94,633	38,416	547,167	2,027	19,937
OPERATING EXPENSES					
Cost of sales and benefits	-	16,421	552,406	97	8,402
Personal services	4,956	12,584	-	855	8,629
Contractual services	27,693	222	-	165	608
Depreciation and amortization	71	8,013	-	924	1,471
Insurance	114,553	605	-	26	187
Other	903	1,516	-	1,334	1,939
Total Operating Expenses	148,176	39,361	552,406	3,401	21,236
Operating Income (Loss)	(53,543)	(945)	(5,239)	(1,374)	(1,299)
NON-OPERATING REVENUES (EXPENSES)					
Gain on sale of capital assets	-	199	-	-	-
Investment income	-	188	-	-	-
Interest expense	-	(356)	-	-	-
Other non-operating revenue	139	-	-	-	-
Total Non-Operating Revenues (Expenses)	139	31	-	-	-
Income (Loss) Before Contributions and Transfers	(53,404)	(914)	(5,239)	(1,374)	(1,299)
Capital grants and contributions	-	3,903	-	-	-
Transfers out	(814)	-	-	(4)	(1)
Change in Net Assets	(54,218)	2,989	(5,239)	(1,378)	(1,300)
Total Net Assets - Beginning	(276,601)	45,992	5,666	3,337	13,576
Total Net Assets - Ending	$ (330,819)	$ 48,981	$ 427	$ 1,959	$ 12,276

RETIREE SICK LEAVE	MOTOR POOL	TOTAL
$ 12,149	$ 11,084	$ 724,732
-	-	681
12,149	11,084	725,413
11,219	5,164	593,709
98	696	27,818
2	158	28,848
-	2,511	12,990
4	1,429	116,804
-	613	6,305
11,323	10,571	786,474
826	513	(61,061)
-	154	353
-	-	188
-	-	(356)
-	-	139
-	154	324
826	667	(60,737)
-	793	4,696
-	(2)	(821)
826	1,458	(56,862)
(4,089)	23,297	(188,822)
$ (3,263)	$ 24,755	$ (245,684)

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE-COMMUNICATION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services / premiums	$ 94,203	$ 37,790	$ 552,214	$ 4,374
Payments to suppliers or insurance companies	(84,449)	(18,706)	(554,940)	(750)
Payments to employees	(4,758)	(12,542)	-	(1,349)
Payments to retirees	-	-	-	-
Other receipts	-	626	-	67
Net Cash Provided (Used) by Operating Activities	4,996	7,168	(2,726)	2,342
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from other Funds	-	-	-	859
Interest paid	-	(356)	-	-
Transfers to other Funds	(814)	-	-	(10,874)
Other receipts	139	-	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	(675)	(356)	-	(10,015)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	-	748	10	-
Acquisition and construction of capital assets	(18)	(6,152)	-	(697)
Net Cash Provided (Used) by Capital and Related Financing Activities	(18)	(5,404)	10	(697)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends from investments	-	188	-	-
Net Cash Provided by Investing Activities	-	188	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	4,303	1,596	(2,716)	(8,370)
Cash and Cash Equivalents - Beginning	29,633	3,561	49,737	9,971
Cash and Cash Equivalents - Ending	$ 33,936	$ 5,157	$ 47,021	$ 1,601
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ (53,543)	$ (945)	$ (5,239)	$ (1,374)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	71	8,013	-	924
Net changes in assets and liabilities:				
(Increase) decrease in receivables, net of allowances	-	-	5,047	1,103
(Increase) decrease in due from other Funds	(430)	-	-	1,573
(Increase) in inventories, at cost	-	(128)	-	-
(Increase) decrease in other assets	(3,340)	-	(72)	562
Increase (decrease) in accounts payable	(3,566)	84	(2,900)	(979)
Increase in accrued liabilities	197	713	77	-
Increase (decrease) in due to other Funds	6	-	350	1,071
Increase in accrued insurance losses	65,600	-	-	-
Increase (decrease) in other liabilities	1	(569)	11	(538)
Net Cash Provided (Used) by Operating Activities	$ 4,996	$ 7,168	$ (2,726)	$ 2,342
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES				
Assets acquired under capital leases	$ -	$ 5,220	$ -	$ -
Contribution of capital assets from other funds	-	3,903	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	$ -	$ 9,123	$ -	$ -

TECHNOLOGY	RETIREE SICK LEAVE	MOTOR POOL	TOTAL
$ 17,320	$ 12,149	$ 11,381	$ 729,431
(11,321)	-	(7,471)	(677,637)
(8,091)	(98)	(696)	(27,534)
-	(9,785)	-	(9,785)
-	-	-	693
(2,092)	2,266	3,214	15,168
10,010	-	-	10,869
-	-	-	(356)
(10)	-	(2)	(11,700)
-	-	-	139
10,000	-	(2)	(1,048)
-	-	-	758
(177)	-	(2,996)	(10,040)
(177)	-	(2,996)	(9,282)
-	-	-	188
-	-	-	188
7,731	2,266	216	5,026
-	5,866	10,632	109,400
$ 7,731	$ 8,132	$ 10,848	$ 114,426
$ (1,299)	$ 826	$ 513	$ (61,061)
1,471	-	2,511	12,990
(1,656)	-	8	4,502
(2,141)	-	289	(709)
(13)	-	(14)	(155)
(2,178)	-	-	(5,028)
3,223	-	(91)	(4,229)
-	-	-	987
2	-	(2)	1,427
-	-	-	65,600
499	1,440	-	844
$ (2,092)	$ 2,266	$ 3,214	$ 15,168
$ -	$ -	$ -	$ 5,220
-	-	-	3,903
$ -	$ -	$ -	$ 9,123

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

PENSION TRUST FUNDS

Pension Trust Funds account for transactions of the four public employee retirement systems for which the State acts as trustee.

The Arizona State Retirement System is a cost-sharing, multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions.

The Public Safety Personnel Retirement System is an agent multiple-employer pension system that benefits fire fighters and police officers employed by the State and its political subdivisions.

The Elected Officials' Retirement Plan is a cost-sharing, multiple-employer pension plan that benefits all elected State and county officials and judges and certain elected city officials.

The Corrections Officer Retirement Plan is an agent multiple-employer pension plan that benefits town, city and county detention officers and certain employees of the State's Department of Corrections and Department of Juvenile Corrections.

STATE OF ARIZONA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	STATE RETIREMENT	PUBLIC SAFETY	ELECTED OFFICIALS'	CORRECTIONS OFFICER	TOTAL
ASSETS					
Cash	$ 27,066	$ 584	$ 915	$ 84	$ 28,649
Prepaid benefits	120,076	-	-	-	120,076
Receivables, net of allowances:					
Accrued interest and dividends	57,466	19,980	1,315	3,582	82,343
Securities sold	371,018	-	-	-	371,018
Forward contract receivable	1,889,592	-	-	-	1,889,592
Contributions	31,388	6,149	240	1,909	39,686
Court fees	-	-	341	-	341
Due from other Funds	-	-	320	-	320
Miscellaneous receivables	4,571	214	-	-	4,785
Total receivables	2,354,035	26,343	2,216	5,491	2,388,085
Investments, at fair value:					
Temporary investments	1,876,609	-	-	-	1,876,609
Temporary investments from securities lending	2,265,754	-	-	-	2,265,754
U.S. Government securities	3,858,714	449,168	27,927	75,553	4,411,362
Corporate bonds	1,972,262	592,358	41,363	107,348	2,713,331
Corporate notes	-	235,731	13,343	44,788	293,862
Corporate stocks	16,743,086	3,436,622	230,181	600,804	21,010,693
Real estate mortgages and contracts	245,787	-	-	-	245,787
Collateral investment pool	-	912,039	72,192	137,547	1,121,778
Other investments	-	162,164	11,013	27,531	200,708
Total investments	26,962,212	5,788,082	396,019	993,571	34,139,884
Property and equipment, net of accumulated depreciation	-	3,582	239	626	4,447
Total Assets	29,463,389	5,818,591	399,389	999,772	36,681,141
LIABILITIES					
Accounts payable and other current liabilitites	1,916,492	153	45	122	1,916,812
Payable for securities purchased	895,749	-	-	-	895,749
Obligation under securities loan agreements	2,265,754	912,039	72,192	137,547	3,387,532
Due to other Funds	-	-	-	320	320
Total Liabilities	5,077,995	912,192	72,237	137,989	6,200,413
NET ASSETS					
Held in Trust for Pension Benefits	$ 24,385,394	$ 4,906,399	$ 327,152	$ 861,783	$ 30,480,728

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	STATE RETIREMENT	PUBLIC SAFETY	ELECTED OFFICIALS'	CORRECTIONS OFFICER	TOTAL
ADDITIONS:					
Member contributions	$ 612,121	$ 75,616	$ 3,811	$ 37,134	$ 728,682
Employer contributions	612,121	127,219	7,625	24,028	770,993
Member purchase of service credit	124,024	9,409	2,430	994	136,857
Court fees	-	-	3,855	-	3,855
Investment income:					
Net increase in fair value of investments	1,758,899	237,239	14,718	39,303	2,050,159
Interest income	271,299	86,613	5,883	15,359	379,154
Dividends	232,692	55,502	3,781	9,514	301,489
Real estate	8,150	-	-	-	8,150
Other investment income	6,062	-	-	-	6,062
Securities lending income	89,084	972	87	190	90,333
Total investment income	2,366,186	380,326	24,469	64,366	2,835,347
Less investment expenses:					
Investment activity expenses	51,957	814	61	168	53,000
Security lending expenses	83,290	-	-	-	83,290
Net investment income	2,230,939	379,512	24,408	64,198	2,699,057
Other additions	1,727	1,125	1,704	1,234	5,790
Total Additions	3,580,932	592,881	43,833	127,588	4,345,234
DEDUCTIONS:					
Retirement and disability benefits	1,686,090	284,028	27,909	36,709	2,034,736
Death benefits	17,125	-	-	-	17,125
Refunds to withdrawing members, including interest	60,313	7,225	7	15,741	83,286
Administrative expense	32,145	2,980	248	674	36,047
Other deductions	7,250	291	11	1,555	9,107
Total Deductions	1,802,923	294,524	28,175	54,679	2,180,301
Change in net assets held in trust for pension benefits	1,778,009	298,357	15,658	72,909	2,164,933
Net Assets - Beginning	22,607,385	4,608,042	311,494	788,874	28,315,795
Net Assets - Ending	$ 24,385,394	$ 4,906,399	$ 327,152	$ 861,783	$ 30,480,728

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

INVESTMENT TRUST FUNDS

Investment Trust Funds account for assets held by the State in a trustee capacity for local governments and political subdivisions of the State of Arizona which have elected to invest idle cash with the State Treasurer's Office. The Treasurer acts as trustee for the deposits made by participants.

Central Arizona Water Conservation District is an Investment Trust Account composed of corporate debt and United States Government securities. The Central Arizona Water Conservation District is the only participant in the account.

Local Government Investment Pool is an Investment Trust Account composed of corporate debt, negotiable certificates of deposit and United States Government securities.

Local Government Investment Pool-Government is an Investment Trust Account composed of repurchase agreements and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

STATE OF ARIZONA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL-GOVERNMENT	TOTAL
ASSETS				
Receivables, net of allowances:				
Accrued interest and dividends	$ 817	$ 4,463	$ 3,495	$ 8,775
Total receivables	817	4,463	3,495	8,775
Investments, at fair value:				
U.S. Government securities	89,570	544,668	447,646	1,081,884
Corporate bonds	11,535	861,678	-	873,213
Repurchase agreements	-	40,716	1,223,980	1,264,696
Money market mutual funds	3,065	5,638	-	8,703
Total investments	104,170	1,452,700	1,671,626	3,228,496
Total Assets	104,987	1,457,163	1,675,121	3,237,271
LIABILITIES				
Due to local governments	943	2,250	2,041	5,234
Total Liabilities	943	2,250	2,041	5,234
NET ASSETS				
Held in trust for pool participants	$ 104,044	$ 1,454,913	$ 1,673,080	$ 3,232,037
Net assets consist of:				
Participant shares outstanding	104,044	1,454,913	1,673,080	3,232,037
Participants' net asset value (net assets/shares outstanding)	$ 1.00	$ 1.00	$ 1.00	

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL-GOVERNMENT	TOTAL
ADDITIONS:				
Investment income:				
Net increase (decrease) in fair value of investments	$ (1,563)	$ 2,380	$ (833)	$ (16)
Interest income	4,307	67,423	56,854	128,584
Total investment income	2,744	69,803	56,021	128,568
Less: Investment activity expenses	85	1,330	1,178	2,593
Net investment income	2,659	68,473	54,843	125,975
Capital share and individual account transactions:				
Shares sold	161	2,371,828	2,176,554	4,548,543
Reinvested interest income	4,079	61,197	52,474	117,750
Shares redeemed	(5,212)	(2,628,541)	(1,965,428)	(4,599,181)
Net capital share and individual account transactions	(972)	(195,516)	263,600	67,112
Total Additions	1,687	(127,043)	318,443	193,087
DEDUCTIONS:				
Dividends to investors	2,659	68,473	54,843	125,975
Total Deductions	2,659	68,473	54,843	125,975
Change in net assets held in trust for pool participants	(972)	(195,516)	263,600	67,112
Net Assets - Beginning	105,016	1,650,429	1,409,480	3,164,925
Net Assets - Ending	$ 104,044	$ 1,454,913	$ 1,673,080	$ 3,232,037

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

AGENCY FUNDS

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 governmental units or organizations.

The Treasurer Custodial Securities Fund consists of securities held by the State Treasurer for various State agencies as required by statute.

The Other Treasurer Funds account for other various deposits that are required to be made by other governmental units or organizations with the State Treasurer.

The Other Funds consist of various funds where the State acts as an agent for distribution to other governmental units or organizations.

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

STATE OF ARIZONA
COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES FUND	OTHER TREASURER FUNDS	OTHER FUNDS	TOTAL
ASSETS				
Cash	$ -	$ -	$ 41,132	$ 41,132
Cash and pooled investments with State Treasurer	-	38,059	338,740	376,799
Short-term investments	-	-	5,906	5,906
Receivables, net of allowances:				
Accrued interest and dividends	-	111	675	786
Due from others	-	-	92,983	92,983
Custodial securities in safekeeping	2,578,150	-	63,426	2,641,576
Other assets	-	-	4,072	4,072
Total Assets	$ 2,578,150	$ 38,170	$ 546,934	$ 3,163,254
LIABILITIES				
Accounts payable and other current liabilities	$ -	$ 392	$ 187,882	$ 188,274
Accrued liabilities	-	-	8,112	8,112
Due to local governments	-	18,210	845	19,055
Due to others	2,578,150	19,568	350,095	2,947,813
Total Liabilities	$ 2,578,150	$ 38,170	$ 546,934	$ 3,163,254

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	BALANCE JULY 1, 2005	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2006
TREASURER CUSTODIAL SECURITIES FUND				
Assets:				
Custodial securities in safekeeping	$ 2,486,435	$ 2,765,190	$ 2,673,475	$ 2,578,150
Total Assets	$ 2,486,435	$ 2,765,190	$ 2,673,475	$ 2,578,150
Liabilities:				
Due to others	$ 2,486,435	$ 2,765,190	$ 2,673,475	$ 2,578,150
Total Liabilities	$ 2,486,435	$ 2,765,190	$ 2,673,475	$ 2,578,150
OTHER TREASURER FUNDS				
Assets:				
Cash and pooled investments with State Treasurer	$ 18,412	$ 512,745	$ 493,098	$ 38,059
Interest receivable	36	111	36	111
Total Assets	$ 18,448	$ 512,856	$ 493,134	$ 38,170
Liabilities:				
Accounts payable and other current liabilities	$ 301	$ 60,722	$ 60,631	$ 392
Due to local governments	5,377	410,295	397,462	18,210
Due to others	12,770	46,246	39,448	19,568
Total Liabilities	$ 18,448	$ 517,263	$ 497,541	$ 38,170

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	BALANCE JULY 1, 2005	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2006
OTHER FUNDS				
Assets:				
Cash	$ 43,439	$ 668,283	$ 670,590	$ 41,132
Cash and pooled investments with State Treasurer	298,106	5,498,223	5,457,589	338,740
Short-term investments	2,353	5,906	2,353	5,906
Receivables, net of allowances:				
Interest	267	671	263	675
Other	207	-	207	-
Due from others	90,945	92,983	90,945	92,983
Custodial securities in safekeeping	57,118	63,426	57,118	63,426
Other assets	3,609	4,072	3,609	4,072
Total Assets	$ 496,044	$ 6,333,564	$ 6,282,674	$ 546,934
Liabilities:				
Accounts payable and other current liabilities	$ 159,493	$ 7,648,836	$ 7,620,447	$ 187,882
Accrued liabilities	5,512	8,112	5,512	8,112
Due to local governments	741	1,933	1,829	845
Due to others	330,298	959,303	939,506	350,095
Total Liabilities	$ 496,044	$ 8,618,184	$ 8,567,294	$ 546,934
COMBINED TOTAL ALL AGENCY FUNDS				
Assets:				
Cash	$ 43,439	$ 668,283	$ 670,590	$ 41,132
Cash and pooled investments with State Treasurer	316,518	6,010,968	5,950,687	376,799
Short-term investments	2,353	5,906	2,353	5,906
Receivables, net of allowances:				
Interest	303	782	299	786
Other	207	-	207	-
Due from others	90,945	92,983	90,945	92,983
Custodial securities in safekeeping	2,543,553	2,828,616	2,730,593	2,641,576
Other assets	3,609	4,072	3,609	4,072
Total Assets	$ 3,000,927	$ 9,611,610	$ 9,449,283	$ 3,163,254
Liabilities:				
Accounts payable and other current liabilities	$ 159,794	$ 7,709,558	$ 7,681,078	$ 188,274
Accrued liabilities	5,512	8,112	5,512	8,112
Due to local governments	6,118	412,228	399,291	19,055
Due to others	2,829,503	3,770,739	3,652,429	2,947,813
Total Liabilities	$ 3,000,927	$ 11,900,637	$ 11,738,310	$ 3,163,254

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

NON-MAJOR
UNIVERSITIES – AFFILIATED COMPONENT UNITS

Component units affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate Boards of Directors that meet the criteria established in GASB 39, with the exception of the Collegiate Golf Foundation and University of Arizona Campus Research Corporation (CRC). The Collegiate Golf Foundation is included because it is a legally separate organization that the State believes would be misleading to exclude due to its financial relationship to the State. The CRC is included because the U of A appoints a majority of the board of directors and approves the budget; the U of A can thus impose its will on the CRC.

The Northern Arizona University Foundation receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of the NAU for advancement of its mission.

The Northern Arizona Capital Facilities Finance Corporation was established for the purpose of acquiring, developing, constructing, maintaining and operating student housing and other capital facilities and equipment for the use and benefit of the NAU's students.

Mesa Student Housing, LLC provides facilities for either the use by students of ASU or ASU itself.

Sun Angel Foundation receives funds primarily through donations and dues, and contribute funds to ASU for support of various programs.

Sun Angel Endowment receives funds primarily through donations and dues, and contribute funds to ASU for support of various programs.

The Collegiate Golf Foundation operates an ASU-owned golf course.

Arizona State University Research Park, Inc. is developing a research park to promote and support research activities in coordination with ASU.

The Arizona State University Alumni Association receives funds primarily through donations and dues, and contribute funds to ASU for support of various programs.

The University of Arizona Law College Association was established to provide support and financial assistance to the College of Law at the U of A. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships.

The University of Arizona Campus Research Corporation was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park (Park) and related properties. The CRC currently leases from the U of A the remaining 32% of building space of the Park not leased to the Arizona Research Park Authority. The CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices and programs.

The University of Arizona Alumni Association was established to serve the U of A and its graduates, former students, and friends by attracting, organizing and encouraging them to advance the U of A's missions - teaching, research, and public service.

STATE OF ARIZONA
COMBINING STATEMENT OF FINANCIAL POSITION
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORP.	MESA STUDENT HOUSING	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT
ASSETS					
Cash and cash equivalent investments	$ 2,726	$ -	$ 684	$ 1,278	$ -
Receivables:					
Pledges receivable	3,013	-	-	2,145	-
Other receivables	233	450	-	36	-
Total receivables	3,246	450	-	2,181	-
Investments:					
Investments in securities	49,536	-	3,317	-	11,136
Investments held in trust for Universities	1,359	3,662	-	-	-
Other investments	-	-	-	-	-
Total investments	50,895	3,662	3,317	-	11,136
Net direct financing leases	-	13,110	-	-	-
Property and equipment, net of accumulated depreciation	1	17,201	14,869	4,536	-
Other assets	467	2,450	919	14	26
Total Assets	57,335	36,873	19,789	8,009	11,162
LIABILITIES					
Liability under Universities' endowment trust agreements	5,441	-	-	-	-
Bonds payable	-	35,391	19,880	-	-
Unearned revenue	-	-	95	-	-
Other liabilities	665	347	1,375	2,497	52
Total Liabilities	6,106	35,738	21,350	2,497	52
NET ASSETS					
Permanently restricted	26,666	-	-	-	1,792
Temporarily restricted	15,668	-	-	1,800	567
Unrestricted	8,895	1,135	(1,561)	3,712	8,751
Total Net Assets	$ 51,229	$ 1,135	$ (1,561)	$ 5,512	$ 11,110

COLLEGIATE GOLF FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	TOTALS
$ 415	$ 484	$ 823	$ 2,237	$ 2,155	$ 1,168	$ 11,970
-	-	-	29,445	-	-	34,603
79	5,485	30	-	801	1,541	8,655
79	5,485	30	29,445	801	1,541	43,258
-	1,493	13,371	4,341	-	4,073	87,267
-	-	-	-	-	-	5,021
-	-	-	229	-	-	229
-	1,493	13,371	4,570	-	4,073	92,517
-	-	-	-	-	-	13,110
161	8,179	-	121	11,378	57	56,503
175	2,570	342	-	5,382	156	12,501
830	18,211	14,566	36,373	19,716	6,995	229,859
-	-	-	-	-	-	5,441
-	12,975	-	-	11,076	29	79,351
74	13,991	2,163	-	412	3,432	20,167
670	526	128	31	1,376	56	7,723
744	27,492	2,291	31	12,864	3,517	112,682
-	-	-	3,052	-	-	31,510
-	-	96	32,081	-	-	50,212
86	(9,281)	12,179	1,209	6,852	3,478	35,455
$ 86	$ (9,281)	$ 12,275	$ 36,342	$ 6,852	$ 3,478	$ 117,177

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORP.	MESA STUDENT HOUSING	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT
REVENUES					
Contributions	$ 7,014	$ -	$ -	$ 9,333	$ 197
Rental revenue	-	93	5,234	-	-
Sales and services	-	-	162	980	-
Net investment income	2,763	828	154	326	1,286
Capital lease revenue	-	92	-	-	-
Other revenues	1,253	864	115	1,796	1
Total Revenues	11,030	1,877	5,665	12,435	1,484
EXPENSES					
Program services:					
Payments to Universities	-	-	-	7,415	-
Leasing related expenses	-	-	-	-	-
Payments on behalf of Universities	-	-	-	-	-
Other program services	4,386	-	-	-	382
Personal services, operations, and administrative expenses	270	189	3,432	1,663	108
Fundraising expenses	1,311	-	-	1,067	-
Interest	-	820	1,241	-	-
Other expenses	-	25	947	40	-
Total Expenses	5,967	1,034	5,620	10,185	490
Increase (Decrease) in Net Assets	5,063	843	45	2,250	994
Net Assets - Beginning, as restated	46,166	292	(1,606)	3,262	10,116
Net Assets - Ending	$ 51,229	$ 1,135	$ (1,561)	$ 5,512	$ 11,110

COLLEGIATE GOLF FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	TOTALS
$ -	$ -	$ 1,548	$ 2,800	$ -	$ 216	$ 21,108
-	5,057	-	-	7,331	-	17,715
4,455	-	2,377	-	-	657	8,631
4	312	1,002	400	32	357	7,464
-	-	-	-	-	-	92
-	71	33	64	815	2,725	7,737
4,459	5,440	4,960	3,264	8,178	3,955	62,747
-	-	-	-	-	-	7,415
-	-	-	-	6,265	-	6,265
-	-	-	4,140	1,249	2,627	8,016
-	-	-	-	-	-	4,768
4,278	1,421	3,881	171	1,056	761	17,230
-	-	-	116	-	173	2,667
12	657	-	-	-	-	2,730
65	1,566	-	36	-	-	2,679
4,355	3,644	3,881	4,463	8,570	3,561	51,770
104	1,796	1,079	(1,199)	(392)	394	10,977
(18)	(11,077)	11,196	37,541	7,244	3,084	106,200
$ 86	$ (9,281)	$ 12,275	$ 36,342	$ 6,852	$ 3,478	$ 117,177

GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912